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EG

GRAY

London

Dated May 25, 1939

Rec'd 2:25 p.m.

Secretary of State,
Washington.

740, May 25, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. In the course of a conversation with Sir Frederick Phillips he asked about the ticker report from Paris which states that Van Zeeland lunched at the American Embassy in Paris and continues "it is understood that M. Van Zeeland's project for an international loan for the Spanish Government will not be discussed as it is stated here that the Washington Government's policy regarding Spain is to provide goods on an easy payment basis but to advance no capital. But on the other hand M. Van Zeeland may place before the American diplomats his ideas for the calling of a world economic conference late this year or early in 1940. It is understood that President Roosevelt would favor such a conference."

I stated I knew nothing of the matter. Phillips expressed surprise that Van Zeeland should be considering any such project after the failure of his last

economic

-2- #740, May 25, 6 p.m. from London

economic appeasement endeavors and added that for his part he did not feel that the time was propitious for any such move.

In commenting on the British outlook, Phillips said that the British Treasury's information indicated that the reduction of unemployment was continuing unchecked and would of course be further stimulated when consumption was put into effect. Prices have remained reasonably steady. Likewise wages have not gone up except for the recent slight increase in the rates paid to skilled engineering labor. Phillips said that it was too early to prognosticate on the revenue returns but he felt that British industry was getting back to the position it was in some fifteen months ago and therefore he was hopeful of buoyant revenue yields.

He went on to comment on the gold losses of recent months and characterized the drain as moderate in the circumstances but very steady. But he added that the movement of funds to France and more recently to Belgium was of course a natural and desirable condition.

Incidentally Phillips seemed anxious to know what Nash had been doing in Washington and he also asked who was coming from the United States for the finance committee meeting.

(Nash is Finance Minister of New Zealand) Two.

-3- #740, May 25, 6 p.m. from London

Two. The exchange market was very quiet on the approach of the Whitsun holiday when the exchange will be closed from Saturday noon until Tuesday morning. The Bank of France was again selling francs at 176.73 and buying dollars at 37.74 3/4, a fair amount of this business having taken place. The British fund was not operating today in the spot dollar market but continued to offer three months dollars at 1 7/16 premium without much business. 89 bars of gold were sold at the fixing, 25 of which were married. Samuel Montagu was again the buyer and was pro-rated at 50% of requirements. The Bank of England is believed to have given something between 20 and 50 bars.

KENNEDY

CSB

RECEIVED

MAY 26 1940

THE UNITED STATES DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 25, 1939, 5 p.m.

NO.: 1010

FOR THE TREASURY DEPARTMENT.

More active exchange market today in Paris. A moderate amount of dollars was bought by the City Bank for the fund. Almost no change in the belga, slight improvement in the florin, and a little ground was lost by the Swiss franc. Firm undertone for the security market. A rise of about 50 centimes in rentes, and from one to two percent in various revenue securities.

The statement of the Bank of France for May 18 which came out today shows that commercial advances decreased 213,000,000; there was a decrease of 1,612 millions in note circulation. There was an increase of 1,726 millions in deposits. Rates of gold reserve 64.14 versus 64.19.

The French financial press reports that the recent commercial arrangement made between Poland and France has the provision for an immediate exchange of merchandise between the two countries of a value of 500,000,000 francs for each, which the state export credit system is to finance. Automobiles and electrical supplies will be delivered by France for the most part, and raw material, mainly coal, will be delivered by Poland.

BULLITT.

EA:LWW

PRESS CONFERENCE, MAY 25, 1939
(EXCERPTS WHICH RELATED TO TAXES.)

Q. Mr. Secretary, you conferred yesterday with Mr. Doughton and Mr. Cooper.

A. Yes.

Q. Concerning taxes. Was any date set for the beginning of the tax hearings. Have you been invited up?

A. No, but I can report that more progress has been made in the last couple of days than there has been in the last couple of months.

Q. In what direction, Mr. Secretary?

A. Towards a solution.

Q. What's responsible for the progress, Mr. Secretary?

A. Good will all around.

Q. Does this progress embrace shelving of the undistributed profits tax?

A. Sorry; that's as far as I can go.

Q. Are they going to begin hearings next week?

A. That's up to

Q. Was that some understanding? Can you tell us whether the thing might go on next week?

A. You will have to get that from Chairman Doughton.

Q. Well, for background, without saying it came from the Treasury, we can write it was understood hearings will begin

A. No, I can't because I don't know.

Q. Looks like it will be after the Holiday.

A. I don't know. I am not stalling. I just don't know.

Q. Are there any further White House conferences on the tax matter scheduled?

A. Not that I know of.

Q. Does that mean, Mr. Secretary, the fact that there are no White House conferences scheduled so far as you know, does that mean as of today the thing is set to go?

A. Yes.

Q. You discussed procedure for the hearings yesterday?

A. Again, you gentlemen are very successful. I was left with the understanding it was supposed to have been confidential meeting. Now evidently they don't think so, but I think I had better stick to my part.

Q. Can you tell me this? Are you going to appear first for the Treasury?

A. Always have.

Q. And then Mr. Hanes?

A. Well, after I make my appearance, Mr. Hanes will do just what Mr. Magill did. He will be in charge. I have always made my appearance and then the Under-Secretary has taken over the job of managing it, but the introductory remarks with respect to George Washington, Alexander Hamilton, from that down to date, will be made by me, but then it will be handled just the way Magill did. It will be done the same way.

Q. Not meaning at all to be facetious, Mr. Secretary, but being very serious, was the set-up that was agreed to yesterday contribute to recovery?

A. The answer is definitely yes.

Q. Mr. Secretary, to return to this tax business. The President has indicated, time and again,

answer has insert 2

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that if there is going to be any revision of taxes he wants to be assured that they continue to get at least the same amount of revenue. Do the alternatives which you have in mind, will they all produce that same result or hoped for result?

A. I can't add anything to what I have said. I think I have said plenty.

* * *

May 25, 1939

10:45 am

Present:

Mr. Hanes
Mr. Gaston
Mr. McReynolds
Mr. Blough
Mrs. Klotz

HM, Jr: What I was going to suggest, John, that you and Herbert and Roy Blough go in your room and start this thing going, getting the thing in shape the way the President said it.

You see, the main thing on this thing is he does not want us to raise suggestions on how to get additional money and the only thing he did not object to before was that corporation income tax rate should be increased.

Mr. Hanes: He said this: provided you pay the amount should not be shifted from one group to another.

HM, Jr: Then we leave out those other suggestions for increased revenue. Then the last part, which I think is so strong, in connection with all these matters where I go into this whole business, he did not make a change. And the only other thing that he said was he knocked out Herbert's pet, the double taxation. He said it isn't up this year. And on the undistributed profits thing, he wants us to say there were two purposes instead of one. And he wants us to fight for two years, instead of three, on carry-over losses. That's the whole thing.

Mac, if you will tell this to Bell: the President wants us to get in touch with Henry Wallace and the Director of the Budget preparing him a veto message on the Agricultural Bill and he said he wanted to get it to Wallace today, so I thought Bell could carry that ball. You will have to get in touch with Wallace and Smith.

Mr. Hanes: I have some comments on what he said to include in that veto message.

HM, Jr: The other thing that I want to do is I want to be a little canny. I want to do everything possible in order to get up there Saturday morning. Of course, it has changed a little bit. I can't go Friday. It's too quick, but I could go Saturday. We get the papers Saturday afternoon and Sunday and the editorials Monday and the President in Hyde Park won't see the press until Monday and he does have a press conference Friday, so if I went up Friday he would see them Friday and I don't know if he will be in as good humor as

Mr. Gaston: Press conference on Friday is in the morning.

HM, Jr: I want to play fair with these fellows and why don't I call Old Man Doughton and say that we are in agreement and will he do everything possible to get me up there Saturday.

Mr. McR: I would do it right away.

HM, Jr: I want to tell him this: -- it will be on the ticker -- I did not put it just the way you did; they asked me whether this plan you are in agreement on does it contribute to recovery and I said positively yes. I think you (Hanes) will like what I said. We will see in a minute.

Now, what do you gentlemen think? Should we also talk to MacCormack, or will that get back?

Mr. Hanes: Let's see how we get along with Doughton. Maybe we won't have to talk with MacCormack.

Mr. Gaston: I don't see any reason to talk to MacCormack.

HM, Jr: The only thing is MacCormack is so keen on this thing that if he knew that we were in agreement, he would push to get me up there Saturday.

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Mr. McR: If you don't want to offend Doughton or Cooper, why don't you let me call John (MacCormack)? Be's one of my buddies. Let me call him, entirely informally. I will call him after a while. He wants a guy appointed and I can tell him there is agreement on a very satisfactory plan without telling him anything about it and it seems important to you that arrangements be made for you to be up there Saturday. I am just giving him this information for his information so he can be helpful when the question is raised. I think you can depend on him that way and if that came back to Doughton or Cooper

Mr. Gaston: I think that's all right.

Mr. McR: they would not have any complaint against you.

HM, Jr: I think that's all right. But, you see, the point is that there is a militant group that does not want this to happen and before they can get to the President and have him change his mind again, I want to go up there and spill this thing.

Mr. McR: I should say so!

HM, Jr: He changed from Friday to Monday.

Mr. McR: I will call John.

HM, Jr: I don't think the President spoiled my statement much.

Mr. Hanes: No, I don't think he did. I like leaving out these recommendations, as a matter of fact. Leave it to the Congress.

HM, Jr: (Reading ticker report of his press conference, which follows this page.)

Press Conf. T

SECRETARY MORGENTHAU SAID TODAY THAT CONGRESSIONAL LEADERS AND HE
 HAVE AGREED ON A TAX PROGRAM THAT "DEFINITELY" WILL CONTRIBUTE TO
 RECOVERY.

5/25--R1046A

ADD MORGENTHAU T

THE SECRETARY, WHO MET YESTERDAY WITH CHAIRMAN DOUGHTON OF THE HOUSE
 WAYS AND MEANS COMMITTEE AND REP. JERE COOPER, RANKING DEMOCRAT ON THE
 COMMITTEE, TOLD REPORTERS THAT MORE PROGRESS TOWARD A SOLUTION OF TAX
 PROBLEMS HAS BEEN MADE WITHIN THE LAST FEW DAYS THAN IN THE PREVIOUS
 SEVERAL MONTHS.

"WHAT REASON CAN YOU ASCRIBE THAT TO?" HE WAS ASKED.

"THE ANSWER IS," HE REPLIED, "THAT THERE IS GOOD WILL ALL
 AROUND."

5/25--R1051A

ADD MORGENTHAU

THE SECRETARY SAID HE DID NOT EXPECT ANY FURTHER CONFERENCES ON TAXES TO BE HELD AT THE WHITE HOUSE.

"DOES THAT MEAN THAT YOU ARE READY TO GO WITH TAXES?" HE WAS ASKED.

"YES."

"DOES THE SETUP AGREED TO YESTERDAY CONTRIBUTE TO RECOVERY?"

"THE ANSWER IS DEFINITELY YES."

MORGENTHAU SAID THAT IN THE COMMITTEE HEARINGS, HE WOULD APPEAR FIRST, AND THEN UNDERSECRETARY HANES WOULD TAKE CHARGE OF THE PRESENTATION.

MORGENTHAU WOULD NOT DISCUSS THE DETAILS OF THE PROGRAM.

5/25--R1102A

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HM, Jr: What I would suggest you do, Herbert, would you call up Steve Early and say I did not say I had been to the White House because I did not know whether they wanted me to, but we could still add it.

Mr. Gaston: I think I would let it ride.

HM, Jr: I don't feel comfortable about it. I am going to ask Steve myself.

(Called Mr. Early, but he was at press conference and could not be reached.)

Mr. Gaston: There's only one thing they say -- you and Congressional leaders have agreed on a program. That's not what you told them.

HM, Jr: I did not say agreement between congressional leaders and myself.

I think, Herbert, you had better take a transcript of my press conference and go over and see Steve Early.

oOo-oOo

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Treasury Department
Division of Monetary Research

Date May 25, 1939 1938

To: Secretary Morgenthau

Appended is a corrected copy of
the statement read this morning at the
meeting of the Fiscal and Monetary
Advisory Board.

MR. WHITE
Branch 2058 - Room 208

July
5-25-39

1. It is almost the unanimous opinion among Administration officials and technicians in Washington who are on, or are cooperating with the Fiscal and Monetary Advisory Board, that there is little if any prospect for marked recovery during the next two years.

2. They also recognize the possibility of a downturn in business activity before the end of 1940.

3. With a moderate improvement in business the unemployment situation will not be substantially different from what it is now. With no improvement in business the number of unemployed will increase because of the annual accretion to the labor supply of more than half million a year, and because of continued technological change.

4. Even under favorable circumstances an improvement in business could, in the first place, be only moderate and, in the second place, could not be continued long enough to sustain an \$80 billion income. The inability of our economy to maintain even the modest objective of \$80 billion is due to the existence of certain fundamental maladjustments which have been developing. It is more and more apparent that a profound change in our economy has taken place since the 20's. We have for the first sustained period in our history a volume of savings which at a high level of national income is considerably in excess of the profitable outlets for such savings.

5. Some of the basic changes which are partly responsible for the lower level of business activity during the 30's are as follows:

- (a) Certain large industries experienced the major portion of their expansion during the 20's. These have now reached a degree of maturity which eliminates them as potential outlets for large amounts of new savings. Though we expect a continued growth of most of these industries the rate of expansion and the absolute volume of new savings they will absorb will be much less than it was in the 20's.

- (b) Basic difficulties in certain important industries which for special reasons do not provide nearly so important an outlet for capital as they did in prior decades.

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(c) The rate of population increase has been cut in half as compared with the 20's.

(d) The virtual cessation of foreign investment which in the 20's accounted for roughly from one half billion to a billion dollars a year.

(e) State and local bodies instead of providing an outlet for savings of nearly a billion dollars a year in the 20's have actually in recent years added to the current volume of savings through a net reduction in outstanding indebtedness.

(f) Sharply curtailed expenditure on non-profit private building, i.e., churches, clubs, universities, etc. In the 20's these accounted for from a half billion to a billion dollars a year and they now are less than 200 million.

(g) The slack created by the over-production of commercial buildings which took place in the late 20's will not be taken up for several years at least.

(h) The trend of technological change over much of industry in the direction of reduced amount of capital investment required per unit of output.

(i) The tax structure now derives a greater proportion of its total revenue from taxes that curtail consumption than was true in the 20's. This has occurred in the State and local government as well as in the Federal tax structure.

(j) The serious reduction of certain foreign markets for important export crops, e.g., cotton, wheat, tobacco and hog products. The curtailment of these markets is not due to temporary factors.

6. The situation is further aggravated by the fact that those who have or control the nation's savings are definitely more timid in undertaking business risk ventures. Moreover, the increasing uncertainty, both economic, political and social, which has characterized the past decade has made people more conservative in expenditure on consumer goods and likewise in the investment of their savings.

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In addition, the tax burden has increased as compared with the 20's, thus reducing the net profits left to the investor or business entrepreneur that he can expend as he wishes.

7. The experience of the United States is not unique with regard to the changed nature of the economy. The advanced European countries have experienced the same contraction of outlets for their savings. Some of them, however, have temporarily solved their problems by a new industry greater than all the new industries of the past period combined, i.e., armaments. In some of them, also, the problem has been rendered less acute by the fact that their tax program has resulted in a diversion of a larger portion of potential savings back into consumption.

8. As a consequence of these basic changes we are faced with the inevitability of a low national income unless either or both of the following happen:

(a) The development of sufficient investment outlets to absorb the savings of a high national income, and/or

(b) An increased proportion of the national income is spent on consumers goods, thereby reducing the volume of idle funds and increasing the profitable outlets for savings.

9. Turning to the immediate situation there are numerous indications that the prospects for substantially increased national income in 1939 and 1940 are not good.

There are only two elements in the picture which are bullish:

(a) Inventory reduction has been proceeding for some months and a cessation or reversal of this trend would be a stimulus to production.

(b) Expenditure on consumers goods has been maintained despite the decline in business activity.

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On the other side of the picture are the following:

(a) The upturn which began in 1938 reached its peak in December and since that time the level of business activity has been downward.

(b) No significant increase in the net contribution to buying power by the Federal Government under the existing program will occur this year and a reduction is anticipated in the fourth quarter.

(c) There is little basis for the expectation that our exports in 1939 and 1940 will exceed the 1938 level despite the increased armament programs abroad.

(d) Housing activities appear to have reached a plateau and there does not seem to be any prospect of a further marked increase of home construction.

(e) No substantial increase in railroad equipment buying can be anticipated in the balance of the year.

(f) There is little prospect of an expansion in public utilities. The present capacity of the industry is adequate to meet the needs of the country even with a moderate increase in the level of business activity.

(g) Despite the increase in orders for armaments both domestic and from abroad, the heavy industries are still depressed.

(h) There is nothing in the prospects of the agricultural situation to justify the expectation that it will supply a stimulating influence on business activity.

(i) There is a further political factor, namely, there will probably develop a strong tendency on the part of certain groups to forego the prospects of immediate profits by postponing any investments or plant expansion until after the election.

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10. Even if there is a moderate increase in business activity next year the unemployment situation will be substantially the same in 1940 as it is now.

In 1937, 35 million persons were employed in non-agricultural pursuits. Today less than 35 million are so employed. During 1940 we shall be doing well if we again reach the volume of employment of 1937.

The non-agricultural working population in 1940 will be about 2 million greater than in 1937 totaling somewhere between 33 and 35 million persons. We should have fully 8 million or more unemployed in 1940 (compared with less than 2 million in 1929).

In addition to this unemployment situation in non-agricultural lines, there is known to be a surplus labor supply on farms perhaps as large as 1.5 million working persons that need to shift from farming into industrial opportunities.

In view of the fact that there is no expectation for more than a moderate rise in national income for the next fifteen months, and in view of the further fact that a decline in business activity some time during the next fifteen months is a possibility, and, most important, in view of the conviction that a sustained full recovery is impossible unless action is taken to correct basic maladjustments:

There is general agreement among the persons referred to above that a comprehensive program of action should be initiated at once, such action to be designed to accomplish two things:

1. Make some important contribution toward the elimination of the basic maladjustments which stand in the way of a sustained full recovery. Though the full effects of this program will not be felt for several years, it is vitally important that such a program be initiated at once for two reasons:

(a) It will take a long time before such a program could be worked out and put into effect.

(b) It is important to make clear to the public that this Administration intends to push toward a further extension of New Deal principles

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and will adopt measures designed to insure long-term and sustained prosperity, and that this Administration recognizes the existence of basic maladjustments and will take steps to correct them.

2. A program of immediate action designed to insure a substantially increased national income in 1940 and to protect us against a sharp downturn in business during the next fifteen months.

Some of the measures which can be undertaken to correct basic maladjustments can be initiated with sufficient rapidity to raise the national income in 1940.

If to the increase in national income that would result from measures undertaken to correct basic maladjustments there be added the further increases to the national income which would result from measures specifically designed to increase in 1940 investment and expenditures, then an increase in the national income of \$5 billion or so can be assured for next year.

There appears to be general agreement in the group mentioned above that Congress should not adjourn until an adequate program has been inaugurated. Or, if Congress is to adjourn, it should do so only with the distinct understanding that it would reconvene after a short vacation prepared to deal with these major problems, some of which have been before us for a long time.

Conference in the Secretary's office, Thursday,
May 25, 1939, 4:10 P.M. to 5:40 P.M.

(These notes on the conference were requested by Secretary Morgenthau and written up by Mr. Blough. They were written from memory and there are undoubtedly omissions and errors, especially in the names of persons to whom statements are attributed.)

Present at the conference, which was held around the large round table, were Secretary Morgenthau, with his back to the South, and proceeding counter-clockwise around the table, Under Secretary Hanes, Chairman Doughton, Mr. Cooper, Mr. Boehne, Mr. Buck, Mr. Duncan, Mr. Disney, and Mr. McCormack. All Democratic members of the Subcommittee on Internal Revenue Taxation of the House Ways and Means Committee were present. Mr. Gaston and Mr. Blough sat on the sofa.

After introductions and small-talk, Mr. Doughton suggested that Mr. Cooper discuss the purpose of the conference. Mr. Cooper said that the Democratic members of the Subcommittee had met yesterday (or it may have been the day before) and agreed that there should be some tax revision and had come to an agreement on what it should include. It was desired now to talk the question over with the Secretary and see what he had in mind to tell the Ways and Means Committee. Furthermore, they wanted to know whether the President agreed with what he had to say. One thing the Subcommittee had agreed on was not to separate the resolution continuing the excise taxes from the corporation bill, but to try to send through a consolidated bill in time so that the excises would be continued before they expired. However, it was the intention that if for some reason the measure was delayed, the Subcommittee would see that a resolution continuing the excises was sent to the Senate in time. This is highly confidential.

The Secretary then said he would like to read them his statement but before reading it he wanted to say that the President had read it and approved every word of it. He was authorized to tell the Committee, in case he was questioned, that the statement had

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Presidential approval. The members of the Committee expressed their gratification that such was the case and said they would be very glad to hear the statement. The Secretary had his own ribbon copy. Mr. Hanes had another ribbon copy which he shared with Chairman Doughton. There were no other copies.

The Secretary asked that his statement be kept in confidence. Everyone said that of course it would be. The Secretary said he didn't expect to see it out until tomorrow's paper. Someone said he should remember that this is not the Senate. There were reassurances that no one would say a word. The Secretary urged them to ask questions at any time they desired to do so. He then read through the first two paragraphs and paused for the reaction. All expressed themselves as pleased. He then continued reading and reached the end of page 2 without further comment. At this point he was asked (I think by Mr. Boehne) whether the one-fourth expenses due to national defense and past wars for the United States corresponded to the percentages given for other countries. The Secretary said he thought it was, and Mr. Gaston remarked that the amounts spent on pensions in the United States were much greater proportionately than in other countries. Members of the Committee echoed this idea. The Secretary repeated that he thought the figures were comparable but he would have them checked and if they were not, they would be made so. He asked Mr. Blough to make a note to have them checked. Members of the Committee said they thought the figures would be more useful if they were comparable.

Someone made a vague reference about increases in armament expenses over the years that the writer did not get clearly. Someone, perhaps Mr. Boehne, then asked if it could not be shown that outside of emergency and armament expenditures the budget is now balanced. The Secretary said he would have Mr. Bell get the figures. Mr. Blough remarked that we have them already.

The Secretary then continued to read with little or no interruption until he reached the middle of page 4 and the sentence beginning: "It is not the prerogative..." Someone, perhaps Mr. McCormack, asked him if it was not the prerogative of the departments to make suggestions, but other members pointed out that this sentence referred to "suggestions to the legislative branch...for the conduct of its work..."

The Secretary then continued reading through the first paragraph on page 5 about the joint committee. Everyone seemed very well pleased and there were remarks that this was a very constructive proposal. Chairman Doughton remarked that he had

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been wanting something like it for a long time. Mr. Cooper expressed his strong approval. There was no dissent. Someone, possibly Mr. Duncan, mentioned the fact that prior to the Civil War the Ways and Means Committee also served as the Appropriations Committee.

The Secretary then read the paragraph about the Department of Agriculture appropriation bill. When he had finished, Mr. Disney remarked that he was in thorough accord with the views expressed and thought them entirely applicable but wondered if their application to the specific Agricultural appropriation bill might not arouse the resistance of members of the House who are strongly in the favor of Agricultural legislation. Others joined in agreement. It was remarked that if this was the only measure passed outside the budget without source of new revenue, it would be all right to refer to it but that there are others. The writer thinks he heard some say that this was not the most important one. The Secretary said that Mr. Bell said that this was the most important one and that outside of it the Congress is about even-Stephen with the budget. Mr. McCormack said there were no farmers in his district, but that he thought the effect of mentioning the bill was to weaken the previous statement since the example tended to limit the applicability of the broad principle. The Secretary inquired of Mr. Hanes and Mr. Gaston and found them in agreement with members of the Committee. Mr. Blough nodded agreement in response to an inquiring look. The Secretary agreed to take out the paragraph.

Someone suggested that the Secretary might say that bills are often passed without provisions for revenue. The paragraph might be redrafted to give that general idea. The Secretary repeated that the existing paragraph would come out and that we would try our hand at writing a paragraph along the lines of the suggestions.

The Secretary then read the next paragraph about continuous life for the Joint Committee. Members of the Committee expressed pleasure at it and there was no dissent.

The Secretary then read the two paragraphs on the commission to study overlapping taxes. No objection was raised to the proposal and there was favorable comment. Chairman Doughton expressed skepticism, which was reflected by others. He told of the Committee on Double Taxation set up under Mr. Vinson's chairmanship some years ago and added that nothing had come from it.

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The Secretary asked if it was not time to have a study made again. All agreed that it was. Someone else suggested that when the states are in need of funds they take what they can just as the Federal Government does, regardless of the effects of the action on other governments. The Secretary asked if it would not help to allay the criticisms that might be raised that the Administration had been in office six years and had not done anything about the problem. There were approving comments. Mr. Gaston suggested that a constitutional amendment might be one of the commission's recommendations. One of the members said it might be, but it was doubtful if the states would pass it. The reaction to the proposal, however, seemed to be generally cordial if without much hope of large accomplishment.

Someone, perhaps Mr. McCormack, said he might ask the Secretary about the increase in state and local debts during the past few years. Someone else pointed out that the Secretary's statement did not refer to debts. The first speaker then said he did not mean it was part of the statement but that he might ask a question about it.

The Secretary then read his tax recommendations. There was no comment on the first three but considerable controversy on the fourth, which included oil well and mine depletion and the community property right in certain states. Mr. Boehne thought it was an excellent idea and that it was quite proper for the Secretary to repeat the recommendations and complete his record. Mr. Buck felt that it would be very unwise indeed to mention them as it would very much irritate members from the southwest. Furthermore, he did not consider community property a method of tax avoidance. He, or someone else, said that the Supreme Court had upheld it in eight cases and everyone knew that an attempt to get around it through the tax law would be unconstitutional. Mr. Disney said that depletion certainly was not tax avoidance. Mr. McCormack, perhaps, suggested that the recommendations should be included if it was expected to act on them but since such was not the case it would do no good. This sentiment was echoed by Mr. Cooper and Mr. Doughton. There was some sentiment that since the Secretary had made them before there was no need to make them again, while others thought that since he had made them before they should be repeated to complete the record. Someone pointed out to Mr. Buck that the statement was in pretty mild form and that the emphasis was placed later, but he was afraid that even to bring it up was bad. Someone pointed out that it would be brought up anyway as soon as it was known the Committee was working on a bill. As the matter threatened to take up too much time it was agreed to lay it over until the rest of the statement was completed.

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The Secretary then continued reading. About this time Mr. Doughton suggested that he continue reading until someone asked a question. The Secretary urged them to ask questions freely. Someone, perhaps Mr. Duncan, said they always did. There was no further comment until the discussion of tax-exempt securities and the surtax rates on page 10. Someone mentioned the fact that the two had been tied together in the statement. The Secretary reiterated that that was what he had done and that it had the approval of the White House.

There was considerable praise of the manner in which the undistributed profits tax had been handled. Someone, perhaps Mr. Cooper, suggested that it placed the problem before Congress, which was what they desired. Someone else asked if the statement meant it would be all right if Congress decided just to let the undistributed profits tax lapse at the end of the present year. The Secretary indicated that such would be the case and that this language had the approval of the President. Someone else said it was very much the same as the President's language in his speech the other night.

The Secretary then read the statement to the end with little or no further interruption. After the Secretary had finished, Mr. Doughton said that he observed the Secretary was not giving them any revenue suggestions. The Secretary said no, he was not. Mr. Cooper looked thoughtful but remained silent. Someone pointed out that the Secretary had said that the revenue loss should be made up, leaving the method to Congress and that that was a satisfactory way of doing it.

Discussion then returned to the depletion and community property recommendations. Mr. Buck said that if depletion is mentioned Mr. Treadway will start asking questions and the first thing one knows it will be a real issue. Mr. Disney added that people will say that if the matter is so important, why has not the Treasury been able to convince anybody but itself? They all agreed that if the Secretary felt he had to do it to keep his record straight it would be all right but all but Mr. Boehne (I am not sure if Mr. Duncan was in the room at the time) were for leaving it out. Mr. Boehne thought it ought to go in. The Secretary passed a note to Mr. Hanes who wrote on it and passed it back, and who later said that the Secretary knew how he felt about it, but did not say how that was. The Secretary said he was about 60-40 to leave it out but he wanted to think it over and would then let them know tomorrow morning. Mr. Cooper said they could handle it either way. Then the Secretary said if they felt strongly about it he would agree to leave it out now.

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Mr. Boehne thought he should not and it was left that the Secretary would let Mr. Cooper and Mr. Doughton know tomorrow.

There was then general comment. The sentiment generally expressed was that it was a very good statement. Someone expressed the idea that it was very cleverly done so as to avoid hurting anyone's feelings. Mr. McCormack agreed with the general view but spoke to the effect that of course he thought the statement was too weak and that it did not go far enough. Others defended it as covering the subjects that should be taken up and on which there was agreement. The idea was expressed that giving a statement that represented an agreement was quite a contribution. Mr. McCormack amended his remarks by indicating that he understood the difficulties involved, that he realized that the Secretary had a bear by the tail, and that he did not mean to indicate that he disagreed with the statement, that he was glad that it went as far as it did, that he would, of course, like to see more done, that he would withdraw some of his ideas, for example, the higher surtax brackets at this session, although others, perhaps the question of consolidated returns he might urge on the Committee. Someone, perhaps Mr. Cooper, repeated several times that Mr. McCormack was not withdrawing his ideas, just reserving them. Mr. McCormack (perhaps) then said of course he wanted the Subcommittee to go on studying the subject between now and the next session with a view to doing more then, and there was general agreement, especially by Mr. Doughton and Mr. Cooper, that of course this would be done.

The question next turned to the time when the statement should be presented. Mr. Cooper explained that the usual practice was for the Subcommittee to work out what it wanted to do and to report to the main Committee which would then hold public hearings on the proposals of the Subcommittee. This limited the public hearings to specific proposals, and at the end of the hearings the Committee would be in position to make a quick report. If this practice were followed the main Committee would have the Subcommittee's report and be ready for the Secretary about Wednesday of next week.

The Secretary said he had been carrying his quintuplets around a long time and he would like to get them born and it would be a great favor to him to be able to get the statement off his mind. He said that furthermore, after six weeks or two months of pulling and hauling and crosscurrents, there was finally agreement on the statement and a program, but he could not guarantee how long that would continue. The sooner he appeared before the Committee the

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less risk that something would happen to spoil everything. He said that if possible he would like to come up Saturday. Mr. Cooper said that of course the Joint Committee staff with Mr. Stam had been working on this and that it would probably not take the Subcommittee very long but that of course they could not be ready by Saturday. He wondered about Monday. The Secretary said that after six years he had agreed to speak at the Coast Guard graduating exercises at New London, Connecticut, on Monday, and that he would like to keep that appointment which was made over two months ago, although he would break it if they thought he ought to come up Monday. They all insisted he should not do that.

Someone (perhaps Mr. Doughton -- at any rate he took up the idea) then suggested that the main Committee hear the Secretary on Saturday and hold the hearings open for several days until after Tuesday and that the Subcommittee then set to work. Mr. Cooper thought there would be criticism at the short notice given. Mr. Doughton said he had been telling the press that the Committee would take up taxes as soon as possible and that he thought there had been a good deal of notice already that the Committee might meet at any time. Someone suggested that there had been such a long delay, that if there was much more of a wait before the Secretary came up, the Republicans and the country would come to the conclusion no one intended to do anything, and that this was especially important since it was getting so late. Someone suggested that the Subcommittee might invite the members of the full Committee but hold the hearing as a Subcommittee hearing. Someone said that the Secretary's statement would sound as if it had been modeled after the Subcommittee report if he did not make it until after the Subcommittee reported. Someone said that the statement limited the hearings to the subjects that were to be included anyway and that it would work just as well for the Subcommittee to start to work immediately after the hearings were completed, and that it need not take long. Mr. Doughton said he thought that even if there were not sufficient notice to hear all persons wanting to be heard before Wednesday, that it would be sufficient notice for them to say they wanted to be heard and that if necessary, the Committee could meet even after the Subcommittee had started to work. The discussion was general and it was finally agreed that Mr. Doughton would return to the Capitol, inform his Committee members and the press that the Secretary would appear Saturday at 10:00 A.M., and that hearings would continue through Tuesday.

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Someone, perhaps Mr. Hanes, mentioned that they still had the tax-exempt security question to deal with. Someone, perhaps Mr. Duncan, asked if he thought anything would be done. Mr. Hanes said there was a promise to have a bill. Someone said it is one thing to have a bill and another to get anywhere with it. The general atmosphere seemed to be that nothing would be done about the tax exemption of securities. Mr. Doughton said something about the program at this session being for the Ways and Means Committee to take up Social Security first, then taxation, then tax-exempt securities.

The meeting then broke up, rather gradually. Mr. Cooper chatted for several minutes, describing his conference with the President. I missed part of this but the part I heard was to the effect that he was very much surprised to be called to the White House. When he arrived, the President indicated that he preferred to have only the miscellaneous excise taxes extended. Mr. Cooper then said to the President that his Subcommittee had gotten together and decided that there should be some tax revision. The President then urged that the continuation of the excises be placed in a separate measure from the revisions of corporation taxes. Mr. Cooper said they had decided to combine them in one measure, but that if the measure was held up too long they would send through a resolution continuing the excises. The President then said that in that case it was quite all right.

While the men were leaving, the Secretary asked Mr. Blough to write up all he could remember of the meeting. After the men from the Capitol were gone those remaining chatted briefly. The Secretary seemed a bit disturbed at Mr. McCormack's remarks about the statement being weak. Mr. Gaston and Mr. Hanes pointed out that what Mr. McCormack meant was not that the tone of it was weak but that it did not go far enough, that Mr. McCormack is an extremist in tax revision and that he wanted a lot of other subjects taken up.

- 8 -

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Roy Blough

May 25, 1939

Hanes came in to see me very much upset, to say that the day before Jimmie Roosevelt had tried to reach him on the phone all day and he had refused to talk to him. At night Jimmie Roosevelt called Hanes from the White House inquiring about the tax case against Schenck. Hanes asked me what to do about it and I dictated the attached letter to him. It seems that Hanes gave Jimmie some kind of a promise that he would let him know when the case came to a head and would give Jimmie's friends an opportunity to discuss it with the Treasury before we went any further in the matter.

May 25, 1939

Dear Jimmy:

Please do not telephone me anymore about any tax cases, as I am not at liberty to discuss them. If any taxpayer should contact you, may I suggest that if he feels that he has a complaint that he put it in writing and forward it to the Commissioner of Internal Revenue who will give it the usual careful and courteous consideration.

Sincerely yours,

(Signed) John W. Hanes

John W. Hanes
Under Secretary of the Treasury

Mr. James Roosevelt
c/o Samuel Goldwyn Incorporated
Los Angeles, California

Mailed 5-25-39

JWH:jr

May 25, 1939
11:50 a.m.

HMJr: Hello. *Rankis M.*

Operator: Senator Brown of Michigan.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Brown: Hello.

HMJr: Morgenthau.

B: Yes. This is Senator Brown.

HMJr: How are you?

B: Before Mr. Farley went away he asked me if I would talk with you regarding, I guess, the gold devaluation bill.

HMJr: That -- that's right.

B: Yeah. Go right ahead.

HMJr: Well, it's just like -- if you've still got an open mind on all the features of it.

B: Well, I'll tell you just how I feel. I'll be perfectly frank.

HMJr: Yeah.

B: I am satisfied with the bill and am satisfied that I am going to vote to report it out in all particulars except the devaluation power.

HMJr: Yeah.

B: On that I'll -- I'll say that my mind is still open.

HMJr: I see.

B: But my inclination is that we ought not to continue the power.

HMJr: Well, I wondered this week that if -- when are they going to vote on it, Senator?

B: Well now, it looks to me -- off the record and confidentially -- as if the old gentleman was delaying as late as he possibly could.

HMJr: Right.

B: He and I are very good friends, but I can't help but come to that conclusion.

HMJr: Well now, Senator, I'm appearing before you tomorrow.

B: Are you?

HMJr: On this -- listing the petition and the debts, you know.

B: Oh, that's before the Finance Committee.

HMJr: Aren't you on that?

B: Yes, I'm on that too.

HMJr: Yes.

B: In fact, I -- I helped run the legislators in with your activities down there in both ways.

HMJr: I know.

B: (Laughter) Banking and.....

HMJr: Well, I wondered if maybe after that you and I could have a little chat.

B: All right.

HMJr: How would that be?

B: That would be fine.

HMJr: And -- because you're interested and.....

B: Yeah. We probably will get through about twelve o'clock and just as soon as it's over with we'll get together.

HMJr: Right!

B: All right, I'll be very glad to do it.

HMJr: I appreciate your calling me.

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B: Yeah, and I just wanted you to know what my inclination was....

HMJr: I see.

B:so that you would know.

HMJr: Well, I don't know how good an advocate I am, but I.....

B: Well, that's all right. I -- I certainly -- if my mind hadn't been open, I -- I'll certainly reopen it because I want to go along with the Administration as far as I can.

HMJr: Thank you so much.

B: All right.

HMJr: Thank you.

B: Good bye.

May 25, 1939
11:57 a.m.

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HMJr: Hello.

Robert

Doughton: All right, Mr. Secretary; this is Doughton. I was busy with the -- on the witness stand when you -- when I got your message.

HMJr: Yes. Well, I thought you'd be as pleased to know as I am that the President and I are in complete agreement now.

D: Well, I'm happy to know it and I -- it's just what I expected. I -- you know, that's what I've been working for all the time, isn't it?

HMJr: I know. You've been most helpful.

D: Thank you.

HMJr: Now, Bob, do you suppose there would be any chance to get me up there Saturday morning and let me get this out before somebody else tries.....

D: Did which?

HMJr: Do you suppose there would be a chance to get me up there Saturday morning?

D: Saturday morning?

HMJr: Yeah.

D: It should be -- I don't know -- I tell you what I'd suggest about that.

HMJr: Yeah.

D: I'd suggest that you take that up with Jere.

HMJr: Well.....

D: You especially want to and I'll tell him too.

HMJr: Well, I called.....

D: You move quicker on that.

HMJr: I called you first....

D: Yes.

HMJr:when I couldn't get you, I spoke.....

D: He's grateful to you -- he -- Jere.....

HMJr: I spoke to Jere after I called you.

D: Yeah.

HMJr: And I made the same suggestion to him.

D: You have. Well.....

HMJr: And he kind of liked it.

D: Well now, that's just fine. Now that'll give him -- you to come before the full committee.

HMJr: Full committee.

D: Saturday morning. Nothing in the world would please me better than that.

HMJr: Well then, we'll -- we'll get it out of the way before....

D: I'll see him just -- I'll tell him that you called me; you said you had talked with him.

HMJr: Yeah.

D: And that I'm in full accord and very anxious for that course to be pursued.

HMJr: Well, it makes me very happy.

D: All right. Well, everything is looking -- I had a talk with Pat last evening.

HMJr: Yeah.

D: And Pat had gotten the matter confused and was in distress about one phase of it.

HMJr: What's that?

D: And that was that the President had told him -- of course, he got the wrong understanding -- that in this program, that we'd go along with it, this corporation taxes expiring -- excise taxes and the corporation taxes and the changes. That bill is also to go the matter of tax -- tax-exempt.

HMJr: No.

D: That would never do. It wouldn't get -- that -- you wouldn't know whether it would get through all summer or not.

HMJr: No. The President said this morning he -- he'd like that in a separate bill.

D: Yeah. Well, Pat got that wrong then.

HMJr: No, he.....

D: Pat was shedding great drops of blood; after I told him that was a mistake why then he seemed greatly relieved and seemed to be in finer shape than he ever felt.

HMJr: No. That's to be in a separate bill.

D: Well I knew that. Well, that's -- everything looks fine now to me.

HMJr: The President mentioned that particularly this morning.

D: Yeah, well I'm -- well now, Pat just got that wrong from him.

HMJr: Yeah.

D: Because he called me in and was greatly worried over it. When I told him that he had that wrong why he seemed to be greatly relieved.

HMJr: Well, let's see if you can get.....

D: Well now I'll tell Jere that just suits exactly -- to get you up here Saturday.

HMJr: Righto!

D: I'll do my best to have that come to pass.

HMJr: Thank you.

D: Well, thank you. Did the girl come down?

HMJr: Yes, she's being taken care of now.

D: How's that?

HMJr: She's in there with McReynolds now. I told him to take care of her.

D: Well that's mighty fine and I thank you, because she's got -- she -- her man has left her, and she's a woman of fine character and she's just worried to death. And her Daddy is old and he's been worrying me about it, and that's awfully -- that's awfully kind of you. And I'll try not to burden you about things like that.

HMJr: Well, it's like the story, the fellow wrote me a letter. He said a man had run off with his wife in his new Chevrolet car.

D: Yeah.

HMJr: Could I help him get his car back.

D: (Laughter)

HMJr: See?

D: You help him get his car back?

HMJr: Yeah.

D: Well, he is sensible.

HMJr: Yeah.

D: He was right.

HMJr: All right.

D: All right. Thank you, Mr. Secretary.

HMJr: Good bye.

May 25, 1939
2:02 p.m.

HMJr: Hello.

Operator: Mr. Sproul. Go ahead.

HMJr: Hello.

Allan
Sproul: Hello, Mr. Secretary.

HMJr: How are you?

S: All right.

HMJr: Danny Bell is sitting here and he tells me there's only about -- (aside: how many?) -- six hundred and sixty-five of those Home Owners' Loan that have come in.

S: Six sixty-five.

HMJr: Yeah, there may be another five or ten.

S: Yeah.

HMJr: So they're short around two forty.

S: Yeah.

HMJr: Now, they say on the first of August they'll have a hundred and seventy million dollars on hand.

S: Yeah.

HMJr: Now, what we're thinking of doing is this, issuing a hundred million of these Home Owners' LOan to Postal Savings.

S: I see.

HMJr: See?

S: Yeah.

HMJr: And they'll put them away, and they can hold them, and if the market looks good in a week or two -- if it should go across a hundred and two or something like that, maybe they might sell a few.

S: Yeah.

- 2 -

- HMJr: But they wouldn't be putting anything on the market until this was completely digested.
- S: Yeah.
- HMJr: What do you think of that?
- S: I think that will work all right. I think it would be a good idea.
- HMJr: You see, they've got over a hundred million of our special twos.
- S: Yeah.
- HMJr: So we can put a hundred million there, and if the market, as I say, looks good in ten days or two weeks, why we can begin to let a few of them dribble out.
- S: Well, I think that much is quite likely to happen because I think this two hundred and forty million must be mostly "sleepers".
- HMJr: Yeah. And.....
- S: There's a good demand for those things in the market.
- HMJr: Well, and they -- Dan doesn't think -- he thinks it'll be months before they come in.
- S: Yes, I think that's right. They'll be dribbling in for months.
- HMJr: Well, if you don't see any objection then, he'll take it up with the Home Owners' Loan and Postal Savings, and chances are they'll do what we say.
- S: Yeah.
- HMJr: Don't you think that would be a nice way?
- S: I think it would be a very neat way to do it.
- HMJr: Yeah. And they don't need more than a hundred million because if their figures are right -- if they have a hundred seventy million cash on hand August 1st, it's ample.
- S: In fact, they need -- they want some use for that money. They don't want to keep it do they?

HMJr: That's right. That's right.

S: Yeah.

HMJr: So I think a hundred million sold to Postal Savings will take care of the situation nicely.

S: Well, I think that's a very neat solution.

HMJr: Well, we -- you know, the President said I'm a wholesaler.

S: What?

HMJr: I'm a wholesaler, you know.

S: (Laughter) Well, that's a wholesale transaction.

HMJr: That's right. All right.

S: I think it's a good solution.

HMJr: Thanks for everything.

S: All right.

HMJr: Good bye.

May 25, 1939
3:50 p.m.

HMJr: Hello.

Operator: Mr. Pierson. Go ahead.
Warren
Pierson: Hello.

HMJr: Yes, Pierson.

P: Good afternoon, Mr. Secretary.

HMJr: How are you?

P: Fine, thank you. Mr. Secretary, we had a meeting yesterday about that Spanish custom matter.

HMJr: Yeah.

P: And I was instructed to get in touch with you to see whether or not your position has changed any or whether it should be taken to the White House, or what?

HMJr: No, I -- I still say as far as the Treasury is concerned I'm going to -- as far as whatever our influence is worth, I'm going to oppose.....

P: Yes.

HMJr:a loan to this Spanish Government as long as they are suing the United States Treasury.

P: Yeah.

HMJr: Now -- and I can't take any other position.

P: Well now, so far as I'm concerned, what -- what course would you recommend me to take? The State Department wants to give some kind of answer to the Ambassador.

HMJr: Well now, I tell you, I've been up to my neck in a thing called taxes. I don't know whether you ever hear of them.

P: Well, I hear of them once a year.anyway.

HMJr: Well -- and I haven't -- I -- that's the reason I didn't call you and I'm sorry I didn't call you earlier. And -- let me talk with Archie and Ed Foley, see.

P: Yes.

- 2 -

HMJr: And John Hanes, and if you'd be a little generous and give me until nine thirty tomorrow morning, I'll give you an answer.

P: That's fine. Thanks very much.

HMJr: Well I'm sorry, but we've just been up to our neck on this tax program.

P: We'll believe it.

HMJr: But not -- by nine thirty tomorrow we'll have some kind of an answer for you.

P: Thanks a lot.

HMJr: You're welcome.

P: Good bye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
May 25, 1939.

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

For your information -

I have just sent to the Attorney General the following telegram regarding the Movie Cases:

"Hon. Frank Murphy
Attorney General
Ambassador Hotel
Los Angeles, California

"I am wiring at suggestion of Miss Baumgartner Stop Matter you spoke about over telephone on Monday has not been referred formally by Intelligence Unit to Legal Division as yet Stop Chief Counsel for Bureau advises he will need at least a week after formal reference to complete examination of law and prepare report Stop Should Secretary decide to recommend prosecution Monday, June five appears to be earliest we would be able to get matter into your hands. Regards

(Signed) E. H. Foley, Jr."

E. H. Foley

*This should go
in Mr. Morgenthau's
file for his
book* May 25, 1939

To: The Secretary

From: Miss Lonigan *EL*

The Food Stamp experiment in Rochester began with payment of relief checks for May 15th. Activities had quieted down a good deal by the 22nd as most of the relief families who wanted stamps had bought them immediately. The next active period will be June 1st and 2nd when relief checks are again issued.

The Food Stamp plan has so far been received with great enthusiasm. Families, grocers, bankers and the general public are warm in praise of the plan. Only the social workers are less than enthusiastic. It is a fine piece of organization. The excellent preliminary work has stood with virtually no change.

Issue and Redemption

The attached table shows that, from May 16 to May 22nd, orange stamps were issued to 4,507 families, at a value of \$34,818.

Stamps redeemed amounted to \$3,189.25. All stamps offered for payment had been paid at once by the Treasury. All stamps submitted for audit had been cleared by the audit division of FSCG.

Grocers

Many grocers had personally brought their stamp cards to the Treasury auditor for redemption. They seemed unable to believe it was really true that the stamps were as good as money.

These small grocers reported that the stamps had already increased their sales on surplus commodities. They thought it was stimulating purchasing of the same commodities by the general public.

The larger grocers were cooperating equally well. The trade associations are actively interested, and have sent representatives to Rochester to watch the plan and report to their members at their annual meeting.

Banks

I spoke to officers of two banks. Both were wholly in favor of the plan. They said it was too early yet to see what clerical work would be involved.

In one bank the officer said that the instructions forbade them to redeem stamps presented by wholesalers. The other banker said they were redeeming all cards presented by wholesalers without question, so long as the wholesaler indorsed them.

The practice of having the grocers use the stamps in payment to their wholesalers, and permitting wholesalers to redeem them at the banks would seem to be highly desirable. It will not only reduce the clerical

work of the banks but may enable the wholesalers to keep check on their grocers, to be sure there are no substitutions.

Families

About one-half of the families on general relief applied for food stamps.

There is no way of being sure why the percentage is not higher. The third week will tell. One reason is just lack of familiarity. The more venturesome spirits try it first.

The mechanisms are extremely simple. A family on relief elects to come under the Food Stamp plan. The wife or husband goes to the headquarters of the FSCC and presents his or her relief card showing the number of people in the family. This is checked against a similar card in FSCC files, obtained from relief headquarters, which tells how many members there are in the family.

Physical arrangements of aisles, windows and the like are clear and simple. Attendants are extremely courteous. These "minor" factors are of the greatest importance in programs dealing with the unemployed.

After the amount of her food budget has been determined, the housewife goes to another window, pays cash, and receives her books of orange and blue stamps. The stamps are in denominations of 25 cents each, and the books in denominations of \$2 and up.

Families must buy a minimum amount of orange stamps equal to \$1 per person per week, and a maximum of \$1.50 per person per week. They must buy the full amount in cash on the spot.

Families Excluded

The most serious difficulty is this requirement that each family must purchase minimum orange stamps at the rate of \$1 a week a person. The basis for this ruling was the necessity of controlling the normal purchase of food, so that blue stamps would actually mean extra consumption. The effect of it is that families whose need is so great that they cannot spend their entire "food budget" for food get no benefit from the surpluses.

It is well known that many relief families give part of their food budget for rent. Even in Rochester where rent is paid by a separate check, some families probably have understated their rent, and pay part of it themselves in cash. When there remains less than \$1 per person for food they cannot buy any orange stamps or get any blue ones for surplus products.

Families also need to take part of their food budget for carfare to look for work, or for medicine, or to get tools out of the pawnshop, or for many unpredictable reasons. Not all families are willing to go back to relief agencies for every penny.

The same difficulty applies to families getting

partial relief. The money from other sources may not come in, or come in on another day in the week, and the family cannot wait and consolidate funds from the two sources.

It seems virtually impossible to suggest a remedy for this situation, because anything that permits families to use less than their regular food budget to buy orange stamps would also permit families to substitute surplus foods for their normal expenditure. One remedy might be to consider lowering the minimum from \$1 per person, to perhaps \$.75 a person.

Families who begin with the scrip plan must buy stamps every week. Otherwise it would be easy to take one week's food budget for special needs and substitute surplus foods from an earlier week.

Complaints

Complaints were minor and scattered. Some families reported grocers had raised the price of surplus products. These were small grocers. The large one frequently lowered prices.

This is where cooperation of the grocery industry will be invaluable. Also since the stamps are in denominations of 25¢ each the housewife can shop about, as she would with cash, and take her trade to the stores where she is fairly treated.

On the other hand some families feel that the food stamps identify them again as relief families just as the

grocery order did. Rochester has been on cash relief less than a year. The sense of a stigma hurts their pride, and encourages some grocers to impose on them.

This complaint will become less important as more and more families come into the plan. WPA workers are now being drawn in and those receiving old age pensions and mother's aid will also be added. Families on private relief (who had been getting surplus commodities) were excluded at first, but that is being remedied.

Another complaint from grocers was that some families tried to have the grocer exchange their grapefruit for liquor. That again should be handled largely by the grocers themselves. The workers also want tobacco (In time the remedy here might be to include tobacco in the list of surplus farm products).

One other complaint was that families are not permitted to purchase from markets and push-carts, and lose what savings they might have made by buying from very low-cost operators.

Relief Officials

The attitude of relief officials, public and private, was not articulate. Doubt centered chiefly about the change from cash relief, although they agreed the stamp plan was in many ways like cash.

They are cooperating in every way in practical operations.

The whole teaching of professional social work over the last twenty years has been in favor of substituting cash relief for commodity orders. They see their victory slipping from them just as it has been achieved.

From the short view, substitution of cash relief for grocery orders was a step upward, a necessary transition phase. From the long view, commodities and opportunities for production are far more valuable than cash income.

Food Economics

The Food Stamp plan relieves the FSCC from all the work of handling physical commodities and restores it to the normal distribution machinery. It relieves the local relief administration from storage, packaging and distribution of commodities, and returns that to the grocer whose normal function it is. The plan relieves the family of the burden of getting all of its supplies once or twice a month and keeping them, without ice and without storage space. That function also is restored to the grocer, whose equipment and training have prepared him to handle it.

At the purchasing end, the FSCC is relieved of the difficult job of entering the speculative markets to buy foods in just that delicate amount which would raise the price for the farmer without raising the price for the city worker who was trying to support himself.

Purchasing is now also done through normal economic mechanisms, at times, in places, and in amounts, which fit the retail and wholesale marketing of food, and not at the highly speculative end. Purchases will rise and fall as actual demand fluctuates, and various compensating influences will keep the total fluctuations small.

In return for using the normal economic mechanisms, the FSCO will have to have more cash with which to operate a plan at the retail level. In return for this extra cash expenditure, many benefits will follow. Far more food will actually be available for consumption, and therefore effects on health and economic efficiency will be far greater. (When operating on the speculative markets small purchases frequently determined the price, and the supply of actual food for the needy dried up.)

For this extra expenditure also it will be possible to stimulate activity and to some extent employment in all the food-handling industries, retail and wholesale. (This is extremely important)

There is every reason to expect that the demand for this Food Stamp plan will be very great.

Social Economics

Economically the Food Stamp plan as at present restricted to relief families is a form of increased relief payment.

This further increases the relative handicap of

families at the bottom of the self-supporting group in contrast with families who are receiving public aid. This always tends to make relief rolls rise.

In order to prevent encouragement of dependency it will be necessary, as soon as feasible, to open channels for distribution of these foods to low-income families not on relief.

FOOD STAMP PLAN

44-J

Rochester, N. Y.

Number of Families Eligible

City Dept. of Public Welfare	8,500 families certified May 15, 1939
Veterans Relief	1,000 " " " " "
County Dept. Public Welfare	<u>911</u> " " " " "
Total	10,411 " " " " "
County Dept. of Pub. Welfare	3,000 families certified by June 1
WPA	<u>3,371</u> families eligible
Total	16,782

Stamps Issued

Date	Number of Families	Value of Stamps	
		Orange	Blue
May 16	1,585	\$12,368	\$6,184
17	1,354	11,312	5,656
18	694	5,346	2,673
19	411	2,766	1,383
20	207	1,474	737
22	<u>256</u>	<u>1,552</u>	<u>776</u>
Totals	4,507	\$34,818	\$17,404

Stamps Redeemed

Date	Orange	Blue	Total
May 16	-	-	-
17	\$92.25	\$38.00	\$130.25
18	613.00	259.00	872.00
19	1,141.50	509.50	1,651.00
20	1,591.25	760.00	<u>2,351.25</u>

Grand Total Redeemed, May 22 **\$8,189.25**

May 26, 1939

FOR THE SECRETARY:Spending

The Berle testimony before the TNEC has started much agitation about a "double budget" and has been reenforced by some National Resources Committee studies on a double budget. Three newspapermen have been in to ask me about it in the last two days and it is obvious that Berle, Currie, Henderson, etc., are talking to the newspapermen very frequently on the subject. As far as I know, the Treasury has done nothing on this subject since Ed Foley and I last worked on the public works finance bill. In view of all of the agitation, I suggest that the Treasury might want to bring itself down to date on all the arguments pro and con. Incidentally, I think you might find a conversation with Mr. O'Connell who represents the Treasury in the TNEC very interesting. He has been much impressed by the testimony of Hansen and Currie on Government "investment".

ESD

May 26, 1939
12:01 p.m.

G. P. Parker: I'm sorry I was out of town when you called me, but I was in a trustee meeting up there.....

HMJr: Yeah.

P:and I just couldn't make it. And I just want to let you know that I'm back in town and if at any time you want me to call on you, why I'd be delighted.

HMJr: Well, I appreciate it. I wanted a little advice, et cetera, but I've broken the ice as you see.

P: Yes, yes. Well, I've had a kind of a hunch along that line and thought that maybe what you were calling about might have already taken care of itself, and -- but I just wanted to let you know I'm back.

HMJr: Well, I -- I want to see you even though I haven't got a problem, and I'm going away tomorrow noon. Will be gone for three or four days.

P: Yes.

HMJr: But I wanted your advice, to see if you could -- I had several ideas and tried to think how to -- to force the issue, you see?

P: Yes, yes.

HMJr: And then all of a sudden the clouds broke and the sun came out and I'm going up.

P: Well, I can see that, and I thought that probably was the situation and yet I just wanted to let you know that I was available if -- if you still wanted to talk with me. Otherwise, I hope to see you after you get back.

HMJr: Don't you think it's fine that they're going to.....

P: It looks marvelous today.

HMJr: Yeah.

P: I -- I'm just kind of holding my breath if something doesn't break it up, but I can't see the signs at the moment.

HMJr: Well.....

- 2 -

P: The clouds seem still to be gone.

HMJr: The -- the statement isn't going to solve all the problems by any means.

P: Well, it certainly looks as if you're getting somewhere.

HMJr: But at least we -- at least it's a start.

P: Yeah, I'm damn glad of it. It certainly is time.

HMJr: Yeah.

P: Well, I hope to see you soon, and give me a ring.....

HMJr: I'll do that.

P:when -- when you'd like to have a chat with me.

HMJr: Thank you so much.

P: Good bye.

HMJr: Good bye.

May 26, 1939
3:45 p.m.

G. P.
Parker: Yes, how are you?

HMJr: I'm calling you up. I've just read about my patience in your editorial.

P: Well, is that all right?

HMJr: And I want to say "Thank you".

P: Well, that's fine. God knows, times like these -- did you hear that line that was contributed to H. G. Welles?

HMJr: No.

P: Somebody said, "Where are you going to be, Mr. Welles, ten years from now"? He said, "I'm going to be in the asylum for the sane."

HMJr: (Hearty laughter.) Well....

P: I think -- I think anybody who's got any patience nowadays is -- has got a crown coming to him, and that comes from the heart.

HMJr: Well, that's awfully nice. Sometimes they say patience has its own reward. Sometimes.....

P: Well, I know you've been through a hell of a lot.

HMJr: Sometimes you get just a kick in the pants.

P: Yeah, that's right, but you've got to have some of that if you're going to stand and pitch, and I'm awfully glad.....

HMJr: Well.....

P:it's ironed out as well as it is. I don't -- I'm not altogether -- completely.....

HMJr: Oh, no.

P: ...satisfied that we've got all the -- as somebody -- as Sam Goldwyn says, they haven't got the solution solved, but I think you're running in the right direction and making some progress.

HMJr: Well, it's -- it's perfectly true. Certainly there has been a lot of good will all around.

P: Well, I'm certainly glad to hear it.

HMJr: And I -- I hope it's indicative of other things.

P: Well, I hope so too, and many thanks for calling me back and I hope you get a little rest over the.....

HMJr: Well.....

P:Memorial Day.

HMJr: From Saturday noon until Wednesday morning, I'm not going to worry about any taxes.

P: Forget about them.

HMJr: Right!

P: O. K., and have a good time.

HMJr: Thank you.

P: And thanks for calling back.

HMJr: Good bye.

P: Bye-bye.

May 26, 1939
3:56 p.m.

Operator: Go ahead.

HMJr: Hello. Hello.
Fred
Setauer: Hello, Henry.

HMJr: Hello, Fred.

S: Say, I just wanted to report, Henry, on that -- on that Craig house.

HMJr: Please.

S: Mr. Matt's man went over to see Mrs. Betts.

HMJr: Yes.

S: And found that she wanted to get milk from a -- from a single farm where the milk was pasteurized on the farm, the cream was made on the farm, and my understanding is that they are trying to work that out. That they had a very agreeable conversation.

HMJr: Yes.

S: It will probably take some time. If they are able to do it, it will take some time to find someone with a place that will be desirable and who will be willing to do it.

HMJr: Right!

S: But they're working on it.

HMJr: Uh-huh.

S: And I just wanted you to know that the contract had been made and that the boys were working on it.

HMJr: I knew it because this Mrs. Betts saw Mrs. Roosevelt and Mrs. Morgenthau at the Fair on Tuesday.

S: Oh, yes.

HMJr: And Mrs. Betts was very much pleased.

S: Well, I'm -- I'm awfully glad. I wasn't in -- I haven't been in New York until today and I didn't get the full report on it, and that's why I didn't report earlier.

- 2 -

HMJr: Fine!

S: Now, I want to report on something else.

HMJr: Yeah.

S: You know that little thing which I asked you to do....

HMJr: Yeah.

S: My understanding is the Commission --I say this in Subrosa, but I understand that they've taken action.

HMJr: They've taken action?

S: I understand so.

HMJr: No, I think that's wrong.

S: So -- thanks a lot.

HMJr: I think that's wrong.

S: What?

HMJr: I don't think that's true.

S: You don't think that's true?

HMJr: No.

S: Well, I -- I'm glad to get that then. I mean, I'm not glad to get it, but I -- if that's the information, I'm glad to get it.

HMJr: Well, did -- I'd like you to make a note, if you hear by Wednesday that they have taken action, send me a telegram, will you?

S: What's that?

HMJr: If by Wednesday you hear that I'm wrong,....

S: Yes.

HMJr:let me know, because I'll be back here Wednesday.

S: O. K.

HMJr: Right.

- 3 -

S: I'll do that. I'll probably be in -- I think I'll be in Washington that day, but if I hear, I'll let you know.

HMJr: Thank you.

S: O. K. Thanks a lot, Henry.

C 1

Friday, May 26, 1939

At a meeting of the trustees of the Export-Import Bank on May 24th the question of extending credits to Spain to finance the export of cotton was again discussed.

A tentative basis for discussion with the Spanish Government was laid before the Board, and as representative of the Treasury I stated that the Treasury would not approve of any negotiations with the Spanish Government regarding credits until the Spanish Government had withdrawn the suits brought against the U. S. Treasury relative to our purchases of silver.

Dr. Feis of the State Department claimed that it was imperative to take prompt action regarding the credit and appeared to be anxious to have a decision by the Board so that the State Department could speak to the Spanish Ambassador that afternoon.

I pointed out that the Treasury stand was well known to the State Department and the President of the Export-Import Bank and I thought some effort should be made by the State Department to meet the Treasury Department's objections.

The Board of Trustees of the Export-Import Bank did not feel that they wished to vote on entering into negotiations until question of the Treasury's objections had been settled. It was decided to leave it in the hands of Warren Pierson, President of the Export-Import Bank, to get a clearance on this question before negotiations were commenced.

Warren Pierson called Secretary Morgenthau on the afternoon of May 25 and asked if there had been any new developments in this connection, or if the Secretary still held to his previous stand.

The Secretary informed Mr. Pierson that he continued to believe that no negotiations should be entered into until the suits were withdrawn but said that he would discuss the question further with Mr. Hanes, Mr. Foley, and Mr. Loohhead, and advise Mr. Pierson further on May 26.

At the request of the Secretary, Messrs. Hanes, Foley and Loohhead again discussed the situation and advised the Secretary that they could see no reason for withdrawing from the stand which we had already taken.

Mr. Loohhead asked the Secretary whether he wished to personally discuss this question with the President or allow either State Department or Export-Import Bank officials to do so.

The Secretary stated that he was not interested in discussing the question with the President but has no objections if any other Department wished to do so.

Mr. Loohhead telephoned Warren Pierson and advised him of the Secretary's decision and Mr. Pierson stated that he would probably have to clear this with the President before anything further would develop. He promised to keep the Treasury informed of any further developments.



May 26, 1939

To: **The Secretary**

From: **Mr. Hanes**

I have had complaint about an agent of Internal Revenue, J. Mills Newton, Danville, Virginia, that seems to be of such serious nature that we should make an investigation. I would like to send a reliable investigator to Danville, Virginia, to make a complete and thorough report before taking any action in order to insure against doing injustice to the man.

(Initialed) J.W.H.

JWH:ce



THE SUPERINTENDENT AND OFFI-
CERS OF THE UNITED STATES COAST
GUARD ACADEMY REQUEST THE
HONOR OF YOUR PRESENCE AT
THE COMMENCEMENT EXERCISES
MAY TWENTY-SIXTH TO
TWENTY-NINTH NINETEEN
HUNDRED AND THIRTY-NINE
NEW LONDON CONNECTICUT

Commencement Program

FRIDAY, MAY TWENTY-SIXTH

- 10:00 a. m. Interclass Pulling Boat Race
- 10:30 a. m. Interclass Sailing Race
- 2:00 p. m. Tennis Match, Academy vs. American International
- 6:40 p. m. Formal Retreat and Parade
- 7:00 p. m. Band Concert
- 9:00 p. m. Ring Dance*

SATURDAY, MAY TWENTY-SEVENTH

- 10:00 a. m. Competitive Infantry Drill
- 12:00 noon Alumni Association Luncheon for Graduating Class
- 1:00 p. m. Alumni Association Business Meeting
- 3:00 p. m. Baseball Game, Academy vs. Trinity
- 7:00 p. m. Dinner Dance

SUNDAY, MAY TWENTY-EIGHTH

- 2:30 p. m. Band Concert
- 3:15 p. m. Baccalaureate Parade
- 3:30 p. m. Baccalaureate Service
- 6:40 p. m. Formal Retreat

MONDAY, MAY TWENTY-NINTH

- 1:30 p. m. Review of Cadet Battalion
- 2:45 p. m. Commencement Exercises
- 9:00 p. m. Commencement Dance*

All time given in this Program is Eastern Daylight Saving Time.

* Admission cards required.

Henry 57
Tom Chancy

Statement by Secretary Morgenthau Before the
Senate Finance Committee on H. R. 5748,
Friday, May 26, 1939.

The purpose of the bill under consideration is to remove the partition in Section 21 of the Second Liberty Bond Act, as amended, which limits the face amount of bonds which may be issued under authority of that Act and outstanding at any one time to \$30,000,000,000. Enactment of this bill would carry out the recommendation made by the President to Congress on March 20, 1939 (House Document No. 213).

You will recall that Section 1 of the Act of May 26, 1938, placed a limit of \$45,000,000,000 upon the total amount of public debt obligations which may be issued and outstanding at any one time under authority of the Second Liberty Bond Act, as amended, but limited the amount of bonds to \$30,000,000,000 face amount which may be outstanding at any one time under that authority and within the total limitation. Using public debt figures as of April 30, 1939 the Treasury can issue \$5,043,000,000 face amount of additional public debt obligations under authority of the Second Liberty Bond Act. On the basis of the latest Budget estimates, this balance appears to be sufficient to carry the Treasury well into 1940. I do not believe, therefore, that it is necessary to request at this time an increase in the limitation on the total debt that may be issued and outstanding under authority of the Second Liberty Bond Act. The limitation of \$30,000,000,000 on

- 2 -

outstanding bonds presents, however, a different problem. The additional amount of bonds which the Treasury can issue under this authority and within this limitation is \$1,697,000,000. Taking into consideration our cash requirements between now and June 30, 1940, the monthly issuance of United States Savings Bonds, and the refunding operations which the Treasury will have to conduct within the next twelve months, it seems quite clear that the balance of \$1,697,000,000 will not be sufficient to give the Treasury that latitude required in its financial operations up to June 30, 1940.

As pointed out, this does not increase the total limit which Congress has placed on the amount of public debt obligations which can be issued under the Second Liberty Bond Act and outstanding at any one time, but merely removes the limitation placed upon the amount of bonds that may be issued under that authority and within that total limitation. In removing the limitation on the issuance of bonds, Congress will place the Treasury in a position where it can better manage the public debt by taking advantage of any favorable conditions in the bond market and will relieve the Treasury of the necessity of restricting a large part of its financing operations during the next twelve months to short-term obligations.

The following table shows (in millions of dollars) as of April 30, 1939, the total amount of public debt obligations outstanding under the Second Liberty Bond Act, as amended; the

May 26, 1939
9:12 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Pat
Harrison: Hello, Henry.

HMJr: How are you?

H: Pretty good this morning.

HMJr: Pat, I wondered if you'd like to have me come up a half an hour earlier and read you my statement.

H: Well, that would be very nice.

HMJr: Now, what time would you like me at your office?

H: Well, come up -- you've got a short statement, haven't you?

HMJr: It will take me about ten minutes to read it to you. Fifteen minutes.

H: Yeah. Well, get up here at about a quarter after ten.

HMJr: Does that allow enough time?

H: I think so.

HMJr: What?

H: You say it will take about ten minutes?

HMJr: A -- a quarter past ten?

H: Well, either between ten and ten -- ten fifteen.

HMJr: Well.....

H: Suit your own convenience.

HMJr: Well, I'd like to get there about ten.

H: Well, that's all right.

HMJr: I don't want to be rushed.

- 2 -

H: Yeah. I'll be here.
HMJr: At ten o'clock at your office.
H: Yeah.
HMJr: I'll be there.
H: All right.
HMJr: Thank you.

May 26, 1939
9:20 a.m.

HMJr: Hello.

Operator: Go ahead.

Allan T.

Treadway: Mr. Secretary.

HMJr: Talking.

T: Good morning, sir. This is Allen Treadway of Massachusetts.

HMJr: How is Massachusetts?

T: He represents -- represents the best in
Amherst College and Deerfield Academy are located.

HMJr: Well, they are both very good reasons. I don't know
about the rest of your.....

T: (Laughter) Well say, Mr. Secretary, I've just been talk-
ing with Chairman Doughton.....

HMJr: There's a third reason too.

T: Beg pardon?

HMJr: You forgot a third reason.

T: What's that one?

HMJr: Isn't my son in your Fraternity?

T: Absolutely. Yes, sir. A great -- he's carrying on the
best traditions of Alpha Delta Phi.

HMJr: Fine!

T: You know he and -- he and Harlan F. Stone are the ones
I principally look to, you know.

HMJr: Oh, really. Some combination.

T: Yeah, that's a good combination.

HMJr: Yeah.

T: Yeah. We've got -- you'd be surprised at some of the men
here in Washington -- perhaps you know some of them,
you know, but you'd be surprised at some of the outstand-
ing men around. However, you've got -- no, not in your

department, but Mr. Draper is another one, you know.

HMJr: Is he?

T: Oh, yes.

HMJr: Surely -- surely that's right.

T: And then a member of the Federal Reserve now.

Well, what I called you up, Mr. Secretary -- I've just been talking to Doughton. I have on my desk notice of the committee meeting tomorrow morning to hear you.

HMJr: Yes.

T: With vacation coming on next week, Mr. Rayburn and Mr. Martin arranged that it was to be a late week.

HMJr: Yeah.

T: And the members have left town. We -- we would naturally want to be present when you are to testify or when you are to give us your views, but I'm terribly afraid, that as far as my side of the House is concerned, you aren't going to have much of an audience.

HMJr: Well now I'll tell you what I'll do, Mr. Treadway, if this would be agreeable to you. I would greatly appreciate it very much if you'd let me come up and give the statement.

T: Yeah.

HMJr: And if your people aren't there, I'll come back and subject myself to any questions they may want to ask on another day.

T: Well, it isn't a question of interrogating you, particularly, but it's not courteous to you not to be there.

HMJr: Well.....

T: They've made their plans for the holiday.

HMJr: But.....

T: You wouldn't care to come today, would you, Mr. Secretary?

HMJr: Well, here's the point. At ten thirty I'm appearing before Finance on this bill.

T: In the Senate?

HMJr: Yes.

T: Yeah.

HMJr: Would you want me this afternoon?

T: Supposing I consult with Mr. Doughton. Mr. -- I'm talking on Mr. Doughton's authority. I called him up and told him the situation.

HMJr: Yeah.

T: Now, I'll find out whether my associates will be here this after -- I know one or two have gone, positively gone. But if the rest are to be here -- you see, our men live nearer by -- Jersey and New York, and nearby. The Democratic members are more scattered and aren't so liable to leave town. But I thought it was unfair by you not -- or rather, more or less discourteous to you not to be there. We don't want to do that, you know.

HMJr: Well, you'll be there wouldn't you?

T: Well, I had planned myself -- I asked a man yesterday to join me for the three days' driving trip. Whether he -- well, I'll postpone going, under any circumstances if you'll come tomorrow.

HMJr: Of course, I have Cabinet this afternoon.

T: Oh well, if you have Cabinet meeting, then you wouldn't want to come this afternoon.

HMJr: Well, I'm a reasonable fellow, but I -- I could get up there at nine o'clock tomorrow morning, or eight thirty. I don't'.....

T: Well, no, we wouldn't want you to do that.

HMJr: They could start at nine.

T: Yes.

HMJr: But I would very much like to have you there, and if they -- if anybody isn't satisfied and wants me to come back, I'll come back.

T: Sometime next week.

HMJr: Any time that you say.

T: Well, that's very courteous of you, and I'll consult further with Mr. Doughton and if there's any change in the plans from -- let's see, what time is it advertised for? It's advertised for ten.

HMJr: Yes.

T: That's as early as we ever have sessions, so that I don't think that I would suggest to Doughton that he make it any earlier in the morning than that. Ten is as early as we usually meet -- sometimes ten thirty.

HMJr: Well, it's terribly nice of you to call me up.

T: How long will you be, Mr. Secretary?

HMJr: Well, my statement -- to read, is fifteen minutes.

T: Will Mr. Hanes want to appear also tomorrow?

HMJr: No.

T: Just you?

HMJr: Just me.

T: Well then, we would -- see -- aside from interrogating you, you'd be through by eleven -- eleven to eleven-thirty at the outside, wouldn't you?

HMJr: Easily.

T: Yes. Well then, I don't think on the whole -- I imagine that the men that will -- won't be here tomorrow morning have already left town.

HMJr: Yes.

T: I don't believe we'd better try to bury it, Mr. Secretary. Thanks to you for your willingness to do it.

HMJr: Well, thanks for your offer of cooperation.

T: Well, I didn't want you to feel that we were discourteous in not -- not being present.

HMJr: No, but I would very much like to have you there.

T: Thank you very much. I'll endeavor to do it, and if there's any -- idea of any change; if I find my men can be here at -- late this afternoon for instance, and not tomorrow morning, I'll communicate with Doughton, but -- if you don't hear from Doughton, why let it ride as it is.

HMJr: Righto!

T: Thank you very much. Good bye.

GROUP MEETING

May 26, 1939.
9:30 A. M.

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

H.M.Jr: At what time did the proceedings break up last night?

Gibbons: I was there until about quarter after eleven.

H.M.Jr: Was that when they got through with the meeting?

Gibbons: Yes.

H.M.Jr: I was sick; I had to go home. I explained to the Monsignor that I was not feeling well.

Gibbons: It was just the usual dinner.

H.M.Jr: I should not have gone. But it lasted until quarter past eleven?

Gibbons: Yes; until about that time.

H.M.Jr: Mr. Hanes and I will have to leave at a quarter to ten. I have an appointment with them; so if you people will pay attention --

Bell: Will you be up there about ten twenty-five?

H.M.Jr: I want White there, in case they should ask me anything on silver or gold, and Haas on business statistics, and Herbert.

Gaston: At ten-thirty, is it?

H.M.Jr: Yes. Johnny and I are going up at a quarter to ten. And you, Ed. Do you want to come?

Foley: Just whatever you want me to do.

H.M.Jr: You look a little disappointed.

Foley: No; but I have plenty to do.

H.M.Jr: All right; but I am counting on you all to be there. Who has anything important?

Foley: I have one thing.

H.M.Jr: Please.

Foley: Berle called up yesterday and said that they had a message from their representatives at Prague that the Germans were going to attempt to take over the property held in this country by the President of Czechoslovakia within the next week, I wanted to know if we could get up, for purposes of discussion and study, the amendment to the foreign exchange control executive order, to provide regulations to prevent transfers of this country of that property without licenses.

H.M.Jr: You and Archie handle it.

Foley: Yes; I have a draft here.

H.M.Jr: Well, you and Archie handle it.

Foley: I do not think much of the idea.

H.M.Jr: I mean, use your bean. Just because Berle said so, it is so -- he is only an expert on banking.

Lochhead: As to the standard barter arrangement, Mr. Hanes and I do not think there is any reason for changing it. The only question is clearing it through the White House. Do you want me to clear it or you?

H.M.Jr: No. If you fellows sit tight with me, I am opposed to it. I do not think it should go to the White House.

Lochhead: Well, the State Department --

H.M.Jr: Well, let them go.

Lochhead: The Export and Import Bank will not act while the Treasury stands this way, unless the White House --

H.M.Jr: I am not going to the White House.

Lochhead: All right.

H.M.Jr: Let them go and see teacher. I am just sitting tight.

Lochhead: Do you want me to speak to Pearson, then?

H.M.Jr: Yes; tell Pearson.

Hanes: Then, the \$300,000,000 --

H.M.Jr: How much?

Hanes: \$300,000.

H.M.Jr: I was going to say that I did not know that we were going to buy Spain. All right. We will just sit tight.

Hase: That is that Dow-Jones thing. (Handing paper to the Secretary).

H.M.Jr: Yes. I have not the slightest idea what this Committee will ask, -- about business conditions and the rest of that stuff. I never know. We might go into almost anything, and I might as well go up there prepared to answer. Here is a thing you can settle with Eddie Kent. He makes lots of trouble sometimes. Should we ask the new Director of the Budget or not?

Bell: I do not think so.

H.M.Jr: So that settles that argument.

Bell: Certainly not. I am very appreciative of the statement he made. He did very well.

H.M.Jr: You liked it?

Bell: He raised some question, I understand, in your conference on agriculture. From his standpoint, he would like to see you make that.

H.M.Jr: Well, the old neck is tough. They will have to find a sharper blade. I have tried my best to stick it under it, but they do not seem to want to drop the guillotine. But that is out.

- Bell: They have a memorandum on the agricultural situation, as requested by the President from you. It was in draft or final form last night.
- H.M.Jr: Are you also preparing what the President wanted.
- Bell: Yes. I thought if you drew in the other gentleman, within a few hours it would be up on the Hill.
- H.M.Jr: That is undoubtedly what the President wanted.
- Bell: Really?
- H.M.Jr: He said, very clearly, that is what Wallace wanted. I think that is what the President wanted, without his saying so.
- Hanes: That was clearly indicated, I thought.
- H.M.Jr: That is the impression I got. Is that what you got, Johnnie?
- Hanes: It seemed so obvious.
- Bell: They thought they would work on it privately until the enrolled bill came down.
- H.M.Jr: He said particularly about Wallace yesterday.
- Bell: I did not get the "yesterday".
- H.M.Jr: You had better let him know about it today, please -- and this morning. The President was very definite about letting Wallace know at once.
- Bell: I did not get that point. I am sorry.
- H.M.Jr: I think he wants to find out which is Wallace's favorite columnist. It is a great game.
- Hanes: Did you notice that one? It was either Pearson or Allen.
- Bell: (Handing a paper to the Secretary) That is the vote of the Senate Finance Committee members on the agricultural bill. I do not think it is important. I put down the ones not voting, because I thought they would be put in the class of the ones voting for it.
- H.M.Jr: I will keep this in my pocket. Unless somebody

- 5 -

has something else, Johnnie you and I will be there sharp at a quarter to ten.

Hanes:

All right.

(Meeting concluded at 9:40 o'clock, A.M.)

AFG

**FEDERAL RESERVE BANK
OF NEW YORK**

May 26, 1939

Dear Mr. Secretary:

A good deal of what slight activity there has been in public offerings of new corporate securities this month occurred during the present week. The offerings were entirely for refunding. Montana-Dakota Utilities Company first mortgage $4\frac{1}{2}$ per cent bonds of 1954, in the amount of \$9,000,000, were marketed at 101 and were quickly bid up to 104-104 $\frac{1}{2}$. An offering of \$304,000 Newport Electric Corporation first mortgage $4\frac{1}{2}$ s of 1954, priced at 118, was distributed, semi-privately, to insurance companies, according to report. In conjunction with the latter issue, the entire common stock of the company was offered for sale on behalf of a public utility holding company which had been the sole owner. The stock, priced at about ten times recent annual earnings, is reported to have been all sold.

Municipal bond awards totaled about \$12,000,000, during the week, a fairly substantial amount relative to such offerings recently.

The May total of between six and seven million dollars of corporate security issues for new capital purposes is the smallest total of any month in over four years. Refunding reached \$165,000,000, owing largely to the \$114,500,000 Commonwealth Edison Company private sale. The amount of offerings has declined in spite of the fact that prices of outstanding issues have been bid up to new high levels and the fact that offerings which were made were very well received.

There is obviously need for an answer to the question which the Temporary National Economic Committee has posed for itself. Is the difficulty with the borrowers, or the lenders, or the machinery for bringing them together?

Yours faithfully,


Allan Sproul,
First Vice President

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

RECEIVED

73

Return to ROOM 280

May 27, 1939.

Dear Mr. Spraul:

On behalf of the Secretary I am acknowledging your letter of May 26th, which summarizes recent activity in public offerings of new corporate securities. Mr. Morgenthau is much interested to have the figures you give him, as well as your comments upon them.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

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

GEF/dbs

cc to NY

REB

GRAY

London

Dated May 26, 1939

Rec'd 2:30 p. m.

Secretary of State,
Washington.

749, May 26, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

One. With further reference to the second paragraph of Section One of my number 724, May 22, 6 p.m., and the first section of my 729, May 23, 6 p. m. the Chancellor of the Exchequer was again questioned in the House of Commons today regarding the B. I. S. transfer of Czech gold. One of the questioners while stating that he believed the Government was on firm legal ground and that the B. I. S. was bound by statute to hand over funds entrusted to it complained of the "evident lack of liaison between the British directors of the B. I. S. and the Treasury. It seemed almost incredible that the Governor of the Bank of England who was in such close touch with the Treasury and so often acted as their agent should not have mentioned this transfer to the Treasury. The whole position of English directors on the B. I. S. is highly invidious. If the B. I. S. now exists merely for the
transfer

HEB

2-#749, From London, May 26, 6p.m.

transfer of money from democratic countries to totalitarian ones the sooner it was wound up and our representative withdrawn the better."

This criticism was not answered by Sir John Simon's reply in the course of which he said: "It did not happen at the moment when the newspaper wrote its article. It is certainly two months ago that this question was raised -- in March not in May. It was towards the end of March and I only knew very indirectly that information came to us from which it appeared that the Bank for International Settlement was taking steps or intended to take steps to recall this gold. When I got back to the Treasury I found it was a fact that at the end of March a rumor of this had reached my Department. I cannot state from what source it came but we were not so informed by the Bank of England or by the Czechoslovak Legation here."

Simon also stated that the question of British consular representation at Prague was under consideration in consultation with other governments and gave an assurance that no irrevocable action would be taken until Parliament is resumed.

Two.

REB

3-#749, From London, May 26, 6p.m.

Two. Stock Exchange prices again improved today and government loans were firm, war loan closing $5/168$ up at $95-11/168$. The South African loan reported in the second paragraph of my 732, May 24, 6 p. m. was heavily oversubscribed and dealings today closed at a premium of $1-3/168$.

Three. In spite of a reduction in bankers' deposits with the Bank of England this week of nearly pounds twelve million the Treasury bill rate for today's tender was 13 shillings 1.91 pence as compared with 13 shillings 3.63 pence last week.

Four. Today's exchange market was very quiet. 120 bars of gold were dealt in at the fixing, 72 of which were married. The market was pro-rated at 30% and the Bank of England gave a few bars. The franc has been steady all day at $176.73-1/4$ and the Bank of France is reported to have dealt in neither sterling nor dollars. The Paris market will also be closed on Monday.

KENNEDY

CSB

JR

GRAY

Paris

Dated May 26, 1939

Rec'd 3:26 p.m.

Secretary of State,
Washington.

1021, May 26, 6 p.m.

FOR THE SECRETARY OF THE TREASURY.

The following are the essential passages of Reynaud's broadcast last evening:

Firstly, the loan issued on May 15 and closed May 25 had brought in more than any other loan issued in the past eleven years, although it did not carry such exorbitant advantages as exchange guarantees, et cetera. Since 1928 no loan had yielded more than ten billion francs. He was grateful for the response made to the issue. All of the provinces had taken part in the effort, and Alsace was worthy of special mention. The Treasury would not appear on the market for a considerable time. (END SECTION ONE).

BULLITT

WVC:CSB

REB

GRAY

Paris

Dated May 26, 1939

Rec'd 2:28 p. m.

Secretary of State,
Washington.

1021, May 26, 6 p. m. (SECTION TWO)

Secondly, he was able to announce that France had no more short term loans remaining abroad. When he became Minister of Finance the foreign debt of France was a grave menace to the public finances. The majority of the rates of long term loans was a strain on French credit. The conversions of November and January last had removed that strain. Furthermore, short term loans contracted abroad, repayable between June 5 and February 29 next, totalled six billion francs. In view of present circumstances the question of payment of six billion francs gold had been a source of great anxiety to the French Government. This menace had now been removed. Six hundred million francs of the most onerous of the short term credits had been reimbursed by the Treasury. The balance of five billion francs had just been consolidated. Under two contracts signed on May 24 with

Dutch

REB

2-#1021, From Paris, May 26, 6 p.m.

Dutch and Swiss banks the total of the short term bonds had been converted into six year bonds.

The gold clause attached to certain of the short term bonds did not appear in the new securities. Two-thirds of the new securities would be issued at par with an interest rate of 4% and one-third at 97 francs 50 centimes with an interest rate of 3-3/4%.

BULLITT

KLP

WWC

JR

GRAY

Paris

Dated May 26, 1939

Rec'd 3:10 p.m.

Secretary of State,
Washington.

1021, May 26, 6 p.m. (SECTION THREE).

During the past two days Bank of France had received more than 6-1/2 tons of gold. This was proof that France had regained her position. It was now the third financial power of the world. Official trade indices clearly showed the improvement in French economy was not due to armament production as claimed by some.

The Minister concluded his broadcast by stressing belief in the possibility of European prosperity "if the Governments were so disposed".

Immediately following the broadcast it was officially announced that on May 24 the French Government had concluded with a group of Dutch banks (headed by Mendelssohn and the Nederlandsche Handel Maatschappij and embracing the Amsterdamsche Bank) and a group of Swiss banks headed by the Credit Suisse and the Swiss Bank Corporation, an operation insuring the conversion of the French short term debt into a medium term debt.

The

-2- #1021, May 26, 6 p.m. (SECTION THREE) from Paris.

The communique states that the Dutch group has taken firm 155 million florins of six year French Treasury bonds at 4%.

BULLITT

CSB

FS

GRAY

Paris

Dated May 26, 1939

Rec'd 1: 12 p.m.

Secretary of State,
Washington.

1021, May 26, 6 p.m. (SECTION FOUR).

The Dutch and Swiss groups have taken firm a six year 3 3/4 per cent loan of the French Republic of the amount of one hundred million florins which will be issued to the public at the price of 92 1/2%. Half of it is to be issued in Holland and half in Switzerland. In each country 25,000,000 florins have already been placed. The six year treasury bonds may be subscribed in cash or in French treasury bonds already issued in Holland. Such of these latter bonds as are not offered will be re-imbursed at the next date ^{of} maturity.

The 3-3/4% loan can be subscribed in cash or in bonds of the French railways issued in Switzerland in 1937 and matures on October 15 next.

BULLITT

RR

CSB

JR

GRAY

Paris

Dated May 26, 1939

Rec'd 1:40 p.m.

Secretary of State,
Washington.

1021, May 26, 6 p.m. (SECTION FIVE).

It seems that the first of the operations described above consolidates the following issues of French railway bonds: (a) one year credit December 1937 totaling 35 million florins; (b) 15 months credit of 1938 totaling 100 million florins and (c) 18 month credit of 1938 totaling 20 million florins.

The second operation apparently refers to all or part of the French Railway loan issued in Switzerland in 1927 totaling 200 million Swiss francs.

Very little business was transacted on the exchange and security markets, many traders and operators having left town for the Whitsun holiday. No changes of importance took place on either market. The fund bought a few dollars through Morgan. We are told that the Belgian control has obtained a substantial amount of sterling during the past few days.

(END MESSAGE)

BULLITT

WVC:RR



DEPARTMENT OF STATE
WASHINGTON

May 26, 1939.

My dear Mr. Secretary:

I enclose for your confidential information one copy of paraphrase of telegram No. 1006 of May 25 from Paris, giving a report of a conversation which the Ambassador had with Mr. Van Zeeland.

Sincerely yours,

Herbert Feis

Herbert Feis,
Adviser on International
Economic Affairs.

Enclosure:

No. 1006 of May 25
from Paris (paraphrase).

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

RECEIVED
MAY 28 1939
TELETYPE UNIT
U.S. DEPARTMENT OF STATE

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 25, 1939, 4 p.m.

no: 1006

The following is confidential:

Today Van Zeeland had lunch with me, and said that he had not yet reached a decision as to whether he would go on his Spanish mission. He said that his conditions had not yet been accepted by the Spanish governmental authorities. Mannheim had told him, on the other hand, that everything was going along satisfactorily, and that he believed his conditions [reference: my telegram No. 946 of May 15] would be accepted by the Spanish Government.

BULLITT.

EA:LWW

RECEIVED
MAY 25 1939
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270 L2 P4

May 26, 1939

To: The Secretary
From: Mr. Hanes

At our conference with the President on Thursday morning, May 25th, you will remember he requested certain information. Attached hereto is my memorandum to Mr. Blough and his memorandum to me, giving the information requested.

(Initialed) J.W.H.

To Secy at home - 5-26-39

JWH:ce

May 26, 1939

To: Mr. Klough

From: Mr. Hanes

The President has asked the Secretary to supply him with the following data:

- (1) The average per capita tax per annum in Great Britain.
- (2) The average per capita tax per annum, federal, state and municipal, in the United States.
- (3) Has the cost of Great Britain's rearmament program been paid for by (a) increased taxes, or (b) by borrowing?

JMH:jr

MAY 26 1939

Mr. Hanes

Mr. Blough

The following information, from latest available sources, is submitted in connection with the President's request to the Secretary for data on the three questions indicated in your memorandum of May 26:

- (1) The average per capita tax per annum in Great Britain.

Total and Per Capita Taxes, United Kingdom, Fiscal Year 1936-37

(Pound converted at \$5.00)

	(Amounts in millions)	Per Capita 1/ (in dollars)
National 2/	\$ 4,697	\$ 99.32
Local 3/	682	18.66
Total	5,579	117.98

1/ Population estimated at 46,010,500 for England, Scotland and Wales, as of June 30, 1937, and 1,279,753 for Northern Ireland as of February 28, 1937.

2/ Inclusive of \$214,715,000 contributions for unemployment insurance (1936-37).

3/ 1934-35 rates used for England and Wales; 1933-34 rates used for Scotland; 1935-36 rates used for Northern Ireland.

Sources: Financial Statement (1939-40); Statistical Abstract for the United Kingdom, 1936; The Statesman's Year Book, 1938.

Mr. Lanes - 2

- (2) The average per capita tax per annum, Federal, State and municipal, in the United States.

Estimated 1938 Federal, State, and Local Tax Collections

	(Amounts in millions)	Per Capita ^{1/} (in dollars)
Federal	\$ 6,034	\$ 46.34
State	3,857	29.62
Local	4,920	37.78
Total	14,811	113.74

^{1/} Population of continental United States as of July 1, 1938 estimated at 130,215,000. (Bureau of the Census)

- (3) Has the cost of Great Britain's rearmament program been paid for by (a) increased taxes, or (b) by borrowing.

Financing of the Armament Program of the United Kingdom

(In millions of dollars ^{1/})

Fiscal Year	Total expenditure on armament	Borrowing specifically allocated to armament program	Revenue from taxes speci- fically al- located to armament program	Armament expendi- tures financed from General Revenues
1937-38	\$ 1,350	\$ 325	\$ -	\$ 1,025
1938-39	2,000	600	110	1,290
1939-40 (budget)	3,150	1,900	185	1,125

^{1/} Pound converted at \$5.00

JEL:log
5/26/39

NY 10000 - 3

In comparing the United Kingdom and the United States total and per capita tax collections it should be noted that, for the United Kingdom, only unemployment insurance taxes (contributions) while for the United States all social security taxes have been included. Furthermore, with respect to local taxes for the United Kingdom, only property taxes are included. Information on the incidental collections from licenses and fees is not available.

JEM/LOG
5/26/39

MAY 27 1939

Dear Mr. Chairman:

I have your letter of May 24, 1939, requesting our estimates of the future cash expenditures by the Treasury for use by the Executive Committee of the Federal Open Market Committee in its discussions of the June Treasury financing prior to the meeting in the Treasury on Wednesday, May 31.

As you know, I have always been reluctant to permit any copies of the detailed estimates of the cash position of the Treasury to go out of my office. I am glad, however, to furnish you the contemplated balances at the end of each month based upon the cash position estimates, which I believe will serve your purpose.

The estimates of the balances for the end of each month, in millions of dollars, are:

May	\$ 2,176	September	\$1,938
June	1,916	October	1,644
July	1,751	November	1,758
August	1,384	December	1,534

These balances do not provide for any cash financing in June or December, but do provide for the sale of \$200,000,000 in July of the obligations of the Commodity Credit Corporation; the sale of Treasury obligations of \$850,000,000 in September; and the sale of \$300,000,000 in November of Reconstruction Finance Corporation obligations.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Marriner S. Eccles,
Chairman, Board of Governors,
Federal Reserve System,
Washington, D. C.

DWB:SLM
May 27, 1939

*By hand
(file to Thompson)*

GROUP MEETING

May 27, 1939.
9:30 A.M.

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

H.M.Jr: Good morning everybody. I wondered if anybody had an expression to offer. Are you all fixed on the Home Owners Loan?

Bell: Yes. Are you willing to leave that to Gaston and to me?

H.M.Jr: Yes, sir.

Bell: On Monday?

H.M.Jr: Yes, sir.

Bell: We will merely say that so many have been tendered and arrangements have been made to sell not to exceed \$100,000,000 to Government Investment Account, and say nothing about which investment account. The question as to what to do between now and August 1, is a question for future discussion. I have a letter from Mr. Eccles asking for detailed estimates of the cash position. I do not know whether you wanted to give those out or not.

H.M.Jr: I would give them to him to December 31st.

Bell: The whole thing or just the balances?

H.M.Jr: The balances.

Bell: I have written a letter. I do not know whether that will suit you, (handing a letter to the Secretary) or whether I should go over and discuss

it with him.

H.M.Jr: I would do both.

Bell: O.K.

H.M.Jr: Anything else?

Bell: That is all I have, Mr. Secretary.

H.M.Jr: Has anybody else got anything?

Foley: I am going to see Berle at a quarter after ten on that executive order on the exchange control.

H.M.Jr: You are going to be up on the Hill.

Foley: I will call him up.

H.M.Jr: I never know what questions are going to be asked me, and you had better be there.

Foley: All right.

H.M.Jr: Unless you do not want to come.

Foley: No; I would love to come. I did not know you wanted me, but I would like to come. They printed that retraction. (Indicating on document). No comment; just the letter. I have a couple of other things for reference to you.

H.M.Jr: Not just now. You can keep that.

White: What paper?

Foley: Social Justice. I am a subscriber.

H.M.Jr: I do not think I will take it along. (Laughter) Bring it up Wednesday. You can keep it. You can get Social Justice to repeat that retraction.

H.M.Jr: Put it in a fireproof box.

White: The British papers apparently have recently displayed an interest in the Wagner letter. There is an article that appeared in the Financial News commenting at some length on the correspondence.

H.M.Jr: You said Vandenberg?

White: Wagner.

H.M.Jr: You've got your candidates mixed.

Foley: I talked to Wagner yesterday about stabilization and re-valuation. He said Glass is ill, and he said he had an understanding with Glass that unless Glass calls a meeting by Tuesday of next week, then Wagner may call it. I told him about Brown, and he said he would try to bring it up next week.

H.M.Jr: I see.

Foley: He asked me about Miller, and I told him I thought Miller was all right. He said he thought so, too, but he did not want to ask him point blank.

H.M.Jr: Brown called me up and said he wanted to see me, yesterday or the day before. Now, Harry, Herbert tells me he is not quite ready on the coast guard thing.

White: Yes.

H.M.Jr: He said it was an in between point.

White: A paragraph --

H.M.Jr: Does that mean you cannot be up on the Hill?

White: Either way.

H.M.Jr: I will be leaving by twelve; I mean I want my speech.

White: You will have it.

H.M.Jr: I would also like to have you on the Hill.

White: O.K. It is practically taken care of.

H.M.Jr: All right; and I want Dan and Mac to go up, too. You will take the financial stuff down. Mac, would you like to go up.

McReynolds: Surely. We have a committee meeting going on, but it is going on all day. But that is all right.

H.M.Jr: You better go and get up your stuff.

Bell: I am ready.

H.M.Jr: O.K. George, you too, and Gene of course, will
come up.

Bell: Ten o'clock?

H.M.Jr: I am going to leave in about four minutes.
(Meeting concluded at 9:40 o'clock A.M.)

Statement by Secretary Morgenthau Before the
Ways and Means Committee of the House of
Representatives, May 27, 1939.

95-A

I appreciate this opportunity to appear before your Committee to discuss with you certain broad fiscal problems and certain specific tax questions.

Tax proposals cannot be discussed comprehensively except in relationship to our whole national and fiscal position. We are now in the midst of a world situation which imposes on this Government a special responsibility. We must demonstrate that a democratic government has the power and the flexibility to survive a prolonged crisis and chaotic world conditions with the strength of its free institutions unimpaired. Preservation of our democratic form of government over a long period of years requires, in my opinion, a fiscal program which has a fourfold objective: (1) promotion of free enterprise and private investment; (2) attainment of full business recovery; (3) maintenance of our public finances in a sound and unassailable position, and (4) a just distribution of tax burdens and a more equitable distribution of national income.

Successful operation of democracy demands that all four objectives be solidly linked together. When we consider any specific change in our fiscal program we must satisfy ourselves that the change makes for a better and not a worse distribution of tax burdens and of national income, that the change promotes and does not retard business recovery, and that the change makes easier and not more difficult progress toward the establishment of a balanced relationship between revenues and expenditures.

Full attainment of these objectives is difficult at best. It is made more difficult by a new and ominous development in world affairs -- the armament race now gripping the important nations of the world. Great Britain in the present fiscal year is spending \$3 billion on military expenditures, or almost 40 percent of its national budget; France is devoting over 40 percent of its national governmental expenditures to the same purpose; Italy, 50 percent; Ger-

many, probably 60 percent; Japan over 70 percent; and it is reported that Russia has just authorized an increase of about 50 percent in budget allowances for armament. These huge expenditures are being financed largely by borrowing. The race is becoming more intense and there is no end in sight.

In this connection, it is interesting to note that in our budget for this fiscal year expenditures for national defense are about 12 percent of total expenditures. For us these developments present the danger that they may involve us in increased cost for national defense here and that they may result in monetary instability abroad and disruption of our commerce, the consequences of which we cannot fully predict.

No proper solution of any major problem facing this government today can be achieved without full consideration of the impact on our country of the present international crisis. The unmistakable implication of the international situation is that we should give serious attention to our future fiscal position and redouble our efforts to attain full recovery. High national income and a sound fiscal position are essential to adequate national defense. It is against this background that we reexamine our fiscal program.

A fundamental objective of sound finance clearly is a balanced budget. There is, of course, no good reason why taxes must exactly balance expenditures in each specific year any more than in each month, each week or each day. There are periods during which sound fiscal policy calls for an excess of outgo over income, and others when it calls for an excess of income over outgo. In a depression it is inevitable that there will be deficits. Revenues decline at the same time that the Federal Government is called upon to assume inescapable social and economic burdens.

If, however, deficits are too long continued, the depressive effects of uncertainty tend to make recovery more difficult. The sequel to deficits in emergencies should be surpluses during years of prosperity. That was and is one of

the broad purposes of seeking to raise the national income to a high level, thus assuring revenue great enough not only to end the deficits which began in 1931, but also to reduce the public debt.

In carrying out our fiscal policy it would be helpful to have machinery which would more fully coordinate our efforts. It is not the prerogative of any administrative Department to make suggestions to the legislative branch of the Government for the conduct of its work, but I am sure that you would wish me to be frank in suggesting ways of surmounting difficulties which I believe now attend the joint efforts of the Ways and Means and Finance Committees and the Treasury Department.

If, for instance, the Ways and Means and Appropriations Committees of this House and the Finance and Appropriations Committees of the Senate could meet each session as one Joint Committee on Fiscal Policy, to consider the over-all aspects of the expenditure and revenue programs, simplification and greater effectiveness would result. The Budget Act of 1921 set up a procedure for the orderly formulation by the Executive of fiscal proposals and for their submission to the Congress as a unified budget. No comparable procedure has been set up in Congress for considering revenues and expenditures together as two interrelated aspects of a single problem. I hope this Committee will agree with me that some such innovation would improve the efficiency of the Government. By providing for a preliminary legislative consideration of the over-all picture of appropriation and revenue measures it would give Congress a broad perspective of the state of the Government's finances and permit a better ordered coordination between the executive and the legislative branches in this field. This joint committee would in effect be a lens through which all appropriation and revenue measures could be viewed in relationship both to what the nation needs and to what the nation can afford.

This committee should have continuous life for the purpose of actively studying fiscal problems between as well as during sessions of Congress. The Treasury Department would, of course, cooperate in this work to the full extent that the Committee desired.

Thus far I have dealt with the financial problems of the Federal Government alone. We must remember, however, that with the best conceivable Federal fiscal plan in operation, we still would have touched less than half of the tax problem which confronts the nation. Almost 60 percent of the total tax revenues of the country are collected by state and local governments.

In the last five years we have given serious study to the problems created by Federal-State tax conflicts. The same problems had been recognized by our predecessors. It is my belief that we should take steps without delay to make these studies effective. I suggest that Congress create a small temporary national commission to report to Congress as soon as feasible on the various aspects of intergovernmental fiscal policy and propose a plan for the solution of the problems involved. Such a commission should be made up of men of ability who command the highest possible public confidence, who are familiar with fiscal problems, but who will represent the public at large rather than particular governmental units.

Overlapping and competing taxes have grown in number and size as both Federal and state governments have sought new revenue. Grants-in-aid are being demanded of the Federal Government in increasing amounts. The results of this fiscal situation are increasingly unsatisfactory to both state and municipal governments and to the Federal Government, and more and more burdensome to taxpayers. The recommendations of such a commission should assist us in achieving a more orderly relationship between the Federal, State and local fiscal systems.

Thus far I have talked about two fiscal matters of great importance. Let me turn now to more specific questions of Federal taxation.

I desire first to reiterate two tax recommendations which the President has already made and a suggestion which the Treasury has presented:

1. In his Budget Message of January 3, 1939, the President recommended that Congress extend the miscellaneous internal revenue taxes which under existing law will expire in June and July, and maintain the current rates of those taxes which otherwise would be reduced in June.

2. In his message of January 19, 1939, the President recommended legislation making all government salaries hereafter earned and interest on all government securities hereafter issued subject to Federal and state income tax laws. That part of this recommendation dealing with government salaries, I am pleased to note, has already been incorporated into law.

3. In my statement of March 24, 1939, I presented for your consideration four alternative rate plans for old-age insurance contributions during the next three years.

Even though a comprehensive revision of the tax structure probably will not be feasible at this time that fact, in my opinion, should not restrain your Committee from giving serious attention to removing from the tax laws any manifest inequities or other defects.

Before specifying the tax provisions which I believe deserve your special attention at this time I wish to emphasize the importance of maintaining the present revenue in any tax revisions which may be made. We must not forget that one of the important objectives of our fiscal program is to approach a balance between revenues and expenditures. For this reason any tax reductions must be offset by tax increases. If tax revision were confined to tax reductions the resulting uncertainty as to our future fiscal position would injure and not help business. We should take no step which the public may interpret as moving away from the objective of a balanced budget.

In discussing the elements or features of the tax system which you may wish to reexamine, I should like to classify them roughly into three groups.

The first group includes features which have been characterized as likely to hinder business expansion and investment.

One such feature is the absence of provision in our income tax laws for carrying over net business losses to be deducted from business profits of future years. The profits or losses of each year are considered without reference to those of any other year. In consequence a business with alternating profit and loss now pays higher taxes over a period of years than does a business with stable profits although the average income of the two firms may be equal. New enterprises and the capital goods industries are especially subject to wide fluctuations in earnings.

As a second example, I should also like to mention the questions of tax-exempt securities and surtax rates in the higher brackets. These two questions should be considered together. Tax exemption of securities is highly inequitable and tends to nullify our progressive surtax rates. Most persons subject to the high surtaxes have sizable holdings of governmental securities which yield them an income free from Federal income taxation, while other persons entirely escape the high surtaxes in this manner. Tax exemption also operates as a magnet which pulls persons subject to high income taxes away from investments in private business. We should by all means pass legislation to make it impossible in the future to issue any more tax-exempt securities.

This having been accomplished first, it would then be fair and logical to reexamine the question of whether the present surtax rates on very large incomes may not be so high that they discourage the limited number of individuals subject to them from taking normal business risks.

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In a second group are features of our tax system which have been referred to as "tax irritants". As an example I would mention the undistributed profits tax. In its present form, this tax is unimportant and does not accomplish the objectives of the original proposal. The tax produces little revenue and has little effect on business. It has acquired prominence as a psychological irritant largely because of the widespread and emotional criticism which has been directed against it. One of the objectives which the law sought to attain was to prevent the avoidance of the personal income tax through the retention and accumulation of earnings by corporations. This is still an important, and to my mind, a sound objective. The law in its present form does not attain it. Since the income tax on corporations, of which the undistributed profits tax is a minor segment, expires by its own terms at the end of this year, your Committee should deal with this problem. The Treasury, of course, stands ready to work with you on it.

Another example is found in the capital stock tax and the related excess profits tax. Under the present law the capital stock tax is based upon a declared capital stock value which the taxpayer may revise every three years. The declared value may be any figure that the taxpayer desires to submit regardless of the actual value of the stock. The excess profits tax applies to profits in excess of 10 percent of such a declared value. The taxes are thus not really taxes on the value of capital stock or on excessive profits. Their major defect is that they operate very erratically. The tax liability they impose depends on the taxpayer's ability to forecast profits for the next three years as well as upon the amount of profits actually realized during each of the three years. Forecasts of earnings are particularly difficult to make in the case of new businesses and those with unstable incomes such as the capital goods industries, with the result that taxes imposed on such businesses are at times inordinately high.

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There is a third category of tax problems now being widely discussed which raises questions of tax equity. The Treasury has already worked on those problems and, if your Committee desires, our staff could continue these studies in collaboration with the Committee, possibly with a view to action at a later session.

An example is the limitation now placed on the deduction of corporation capital losses. Under the present law an excess of corporate capital losses over capital gains can be deducted from ordinary income only to the extent of \$2,000.

In the consideration of possible changes in the parts of the tax structure just mentioned, it is essential to bear in mind that most of them would result in reductions in the revenue-producing capacity of the tax system. I have already emphasized the importance of not permitting the revenue-producing power of the tax system to be reduced at this time. Accordingly, with the adoption of any such changes involving loss of revenue there should be associated revenue-producing revisions. Although this problem is difficult, it is one that must be faced. The taxes resorted to for replacing any lost revenues should have the least harmful effects on business and should contribute to greater equity. They should not change the relative distribution of the tax burden between broad groups of taxpayers and especially should not place additional burdens upon consumers.

The subjects I have discussed are for the most part confined to a limited segment of the tax system. I do not consider them as constituting an adequate program of tax revision. Such a program can be developed only through long continued study and it cannot be static but must be adapted to changing conditions. But the general lines along which Federal taxation should develop in the future appear to be quite clear. We ought to increase the part played by direct taxes

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that can be made to take account of differences in the abilities of individuals to support Government. This means that we should endeavor to minimize the use of manufacturers' excises and other commodity taxes which tend to be shifted directly to consumers, putting the emphasis on taxes based on capacity to pay. Such revision would facilitate coordination of Federal with State and local taxation.

In conclusion, permit me to say that one of the major tasks we have before us is to do everything we can to promote lasting business recovery. With this still uppermost in my mind I would like to repeat now with the same deep conviction what I said in November, 1937: "The basic need today is to foster the full application of the driving force of private capital. We want to see capital go into the productive channels of private industry. We want to see private business expand."

—oO—

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 27, 1939

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Pros and Cons of Proposal to Reduce Treasury Bill Offerings from \$100 Millions a Week to \$50 Millions a Week and Raise \$500 Millions in New Money through a 5-Year Note Issue in the June Financing

I

Essentially, this is a proposal to refund \$500 millions of outstanding Treasury bills by 5-year notes. The retirement of the bills would take place over a period of ten weeks, whereas the note issue would add \$500 millions to the cash balance at once.

II. Pros

1. The market for Government securities appears to be exceptionally strong and would probably be highly receptive to a new money financing. The Treasury is not in a perfect position to take advantage of this fact because its present working balance is already in excess of \$2.3 billions. It could take some advantage of the strength of the market, however, by adopting the subject proposal; for this would have the effect of converting shorter-dated debt into longer-dated debt, thereby preserving and enlarging short-term borrowing power for emergencies and for relatively tight money markets.

2. The Treasury could obtain 5-year money at an interest rate of about $\frac{3}{4}$ of one percent. While this rate is substantially higher than the rate on Treasury bills at the present time, there is always the possibility that over a 5-year period bill rates could rise above $\frac{3}{4}$ of one percent for a sufficient period to make the average interest cost higher than on notes; whereas the sale of the note issue would assure the Treasury of an interest cost of no more than $\frac{3}{4}$ of one percent over the 5-year period.

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3. The sharpness of the rise in the prices of Government securities during the last few weeks naturally raises the question whether an unhealthy speculative condition might not be built up by further such advances. If the June financing included a new money issue of \$500 millions in addition to the refunding of the September note maturity of \$427 millions, it would tend to exert some restraining influence upon the market; whereas the influence of the note refunding alone would be very much smaller.

III. Cons

1. The present volume of Treasury bills is already exceedingly small in relation to the demand. This is well evidenced by the fact that bill money is now costing the Treasury only .005 percent (five one-thousandths of one percent), despite the fact that the peak of the tax demand has passed. The very highest weekly rate (average of accepted bids) on Treasury bills thus far in 1939 was .025 percent (twenty-five one-thousandths of one percent).

2. A reduction in the volume of Treasury bills would conflict with the legitimate desires of the market. While the demand for the purpose of avoiding State personal property taxes is of some importance, particularly during certain months of the year, the great bulk of the demand for Treasury bills is a legitimate demand that cannot be satisfied as well by 5-year notes. If the amount outstanding were reduced by \$500 millions, it is doubtful that the tax avoidance use of Treasury bills would be diminished at all. It is the banking use that would be most affected.

With the present huge volume of excess reserves, and the small capital-deposit ratios of banks, the banking system needs a large volume of short-term open-market paper. The commercial volume of such paper has been reduced to very small proportions, thereby increasing the demand for Treasury bills, particularly on the part of large metropolitan banks. The Open Market Committee of the Federal Reserve System likewise desires to hold a considerable volume of such bills and welcomes substantial holdings thereof in the market because, in the opinion of the Reserve officials, this promotes the System's ability to achieve a flexible control of bank credit. While short-term notes serve the same purposes as Treasury bills to a limited extent, a 5-year note constitutes a very poor banking substitute for a 90-day bill.

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3. At the present rate of .005 percent, \$500 millions of bill money costs the Treasury about \$25,000 a year. The same amount of 5-year notes at $\frac{3}{4}$ of one percent would cost the Treasury 150 times as much, or \$3,750,000. It is true that bill rates may rise; but it may be noted that even 21 months ago, when the total and excess reserves of the banking system were substantially less than they are today, and when the volume of Treasury bills outstanding was double the present volume, 129-day Treasury bills were being sold at .21 percent.

4. There can be little doubt that the market would welcome a doubling or even larger increase in the existing volume of Treasury bills, whether in an emergency or otherwise; and that a reduction would evoke criticism in banking circles. So long as this need exists and can be met by the Treasury to its own advantage, it would seem to be desirable to maintain an ample volume of Treasury bills as a quasi-permanent part of the public debt.

The advantages to the Treasury of the proposed reduction are of dubious practical importance. Between now and the end of the calendar year, the normal program of the Treasury will call for the raising of a considerable amount of new cash, and, assuming the anticipation by three months of the March note maturity, the refunding of an aggregate of \$2,331 millions of Treasury notes, of which \$1,378 millions represents the March maturity. The use of the present strength of the market to substitute notes for bills would not forward this program. Finally, only a doubtful degree of restraining effect upon the Treasury bond market as a whole can be expected from such an operation under present conditions.

IV. Conclusions

Our conclusion is that this proposal should not be adopted.

May 27, 1939
9:00 a.m.

HMJr: Oh, yes.

Operator: All right. Go ahead.

HMJr: Hello.

P. W. Parker: Hello.

HMJr: Mr. Parker?

P: Good morning, Mr. Secretary.

HMJr: I envy you on Fisher's Island. Is it cold up there?

P: Well, it is. You know, you'd be surprised the -- this morning is just about -- I should say at least two or three weeks behind New York.

HMJr: Oh, for heavens sakes. Could you talk a little louder?

P: Can you hear me?

HMJr: Not very well.

P: I say, I'm calling you in answer to your questions about a month or three weeks at least behind New York city, I should say.

HMJr: For heavens sakes!

P: Well, sir, I -- I must apologize first for not having been able to report any earlier, as I am -- this is still an interim report, we'll call it.

HMJr: Yes?

P: Our people have been in touch with -- with at least ten or a dozen people and I've interviewed three or four men on this China fleet business. And it was only yesterday -- and after I left New York, Mr. John A. Brown the President of the Secony Vacuum, was able to get in touch with this big -- this big transportation company of Chicago, the Keeshin Express Company of Chicago.

HMJr: I -- I -- a man -- I forget the head man's name -- Polinski or something?

P: Jack Keeshin.

HMJr: Jack what?

P: His name is Jack -- Jack Keeshin. Or you mean Mr. J. A. Brown?

HMJr: No, I mean Keeshin. That's the fellow, yes.

P: Jack Keeshin. Well now, we -- we have developed some contacts there and -- and Mr. Brown saw Mr. Jack Keeshin yesterday. That -- that firm, you know, sir, is probably the biggest operators of private fleet plants in the world.

HMJr: Yeah.

P: And he -- Mr. Brown called me last night, and Mr. Keeshin, he -- the romance of the job appeals to him very much and he's asked Mr. Brown to give him two or three days, and he -- he -- he thinks that he possibly can dig up a man.

HMJr: Yeah; well, that's fine.

P: You know that -- that -- I wanted to tell you that first.

HMJr: Yeah.

P: Now, in the meantime, I have -- I have developed two or three other prospects that I think might, at least fit in to the -- to the organization.

HMJr: Good!

P: Keeshin is the number one man.

HMJr: Yeah.

P: But I particularly -- I was particularly impressed by a General Bryce P. Disque. D-I-S-Q-U-E.

HMJr: Yeah.

P: Now General Disque is -- he's 59 years old. I'll give you the -- give you the worst part of him first.

HMJr: Yeah.

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- P: But he -- he's a retired Army officer. He's -- he came up from the ranks.
- HMJr: Yeah.
- P: but he retired in 1919 from the Army as -- as a Brigadier General.
- HMJr: Yes.
- P: And since then he's been -- well, he's -- he wound up his war record. He's the man that organized all of the -- the lumber -- the lumber transport....
- HMJr: Oh, yes.
- P:Out in Oregon during the war.
- HMJr: Yeah.
- P: And he -- he's also been in the Philippine Islands, I understand.
- HMJr: Yeah.
- P: He's been in the Army about twenty years.
- HMJr: Yes.
- P: He's a very vigorous old fellow and he tells me that all of his ancestors died in the nineties when I discussed his age with him.
- HMJr: Yeah.
- P: He -- he's had a lot of experience in just the line that we're looking for.
- HMJr: Good!
- P: Including road experience and that sort of thing.
- HMJr: Good!
- P: And he -- he -- I talked with him just before I left New York yesterday and I was very favorably impressed with him. And he, since then, has been in the private transport business. He was -- he was a director of one of the big transport companies in New York, including the United States Trucking Company.
- HMJr: Oh, yes.

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P: He tells me that he is -- his salary since he got out of the Army has averaged about \$45,000 a year. Of course, I made no mention of salary.

HMJr: Yes.

P: I told him what you had said, but I didn't give him your name.

HMJr: Well now look, I'll be back Wednesday. I don't know, for some reason or other we have a very poor connection.

P: You can't hear me?

HMJr: And I don't hear you terribly well. And could you give me a more full report on Wednesday?

P: Yes, I think I can. Although I don't plan to return to New York until Wednesday myself.

HMJr: Well, could you have somebody dictate me a letter or something? I -- I don't know what's the matter with this phone, but I can't hear you.

P: You can't hear me now?

HMJr: Well, it's very difficult.

P: Well, I'm sorry. I -- I hear you perfectly.

HMJr: Well, isn't that funny.

P: Yeah.

HMJr: I hear you better now.

P: Wait a minute, my phone is that any better?

HMJr: Yes.

P: Well, I'm sorry.

HMJr: Well now, if you want me to contact that General?

P: Well, I -- what I would suggest, Mr. Secretary, that through your Army connections, you could check up on his -- on his record.

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HMJr: Yeah.

P: His Army record.

HMJr: Yeah.

P: And I would -- I would also suggest that you wait until I can get a -- a specific report from this chap Keegan.

HMJr: Yes.

P: Because I -- I'm very hopeful that -- that he could do something.

HMJr: Now what is this General's name?

P: General Bryce P. Disque.

HMJr: Bryce?

P: Bryce P. -- B-R-Y-C-E, Bruce; "P" for Peter.

HMJr: Now wait a minute, I don't -- I get the Fiske. Is that F-I-S-K-E?

P: A-B -- Bryce.

HMJr: Well, what's his last name?

P: D-I-S-Q-U-E -- Disque.

HMJr: F-.....

P: Disque -- D-I-S-Q-U-E.

HMJr: What's the first letter?

P: D -- "D" for

HMJr: "B" like in baby?

P: No, "D" -- A-B-C-D.

HMJr: "D".....

P: D-I-S.....

HMJr: D-I-S.....

P: Q-U-E.

HMJr: Now, see if I've got that right. It's "D" like in Dorothy -- I-S-Q-U-E.

P: Right.

HMJr: Now what's his first name?

P: Bryce.

HMJr: What -- what letter of the alphabet?

P: "B".

HMJr: General "B".....

P: R-Y-C-E.

HMJr: B-R-Y.....

P: C-E.

HMJr: Bryce.

P: Right!

HMJr: General Bryce Disque.

P: That's right.

HMJr: Now what is he doing now?

P: Well, he hasn't any job just at the moment.

HMJr: Well then, I can check up on him through the Army.

P: That's just what I was suggesting. He resigned in 1919 after twenty years' service.

HMJr: Right! I can do that right away. And you think.....

P: I have -- I have two or three others that -- that I have -- that I have interviewed that might be possibilities. Not for the number one job I don't think.

HMJr: But you think this General Disque might do it?

P: I think he might do it. Of those that I have canvassed so far, he's the outstanding man.

HMJr: Right! Well, I'll get in touch with General Craig right away and have him look him up.

P: I think that would be good, because I have no way of checking up his Army record.

HMJr: Right.

P: I -- I'll get in touch with you again, if you so desire, just as early Wednesday as I have anything more on this. I think

HMJr: Well, I'd appreciate it if you'd call me Wednesday afternoon.

P: All right, sir. I'll do that.

HMJr: I'm very much obliged.

P: Well, I know -- I'm delighted to be of some service, but I'm afraid I haven't been much help.

HMJr: Righto!

P: You wouldn't be interested in a Britisher.

HMJr: No, no.

P: I thought not.

HMJr: No.

P: I had -- there's one Britisher been in here who did a similar job in the last war.

HMJr: No.

P: But I don't think -- he wouldn't be any use for the number one job.

HMJr: No, we want a -- we want them U.S., and continue to have them buy U.S. gasoline.

P: Yeah. Well, I'll call you again on Wednesday afternoon then.

HMJr: Thank you so much.

P:

HMJr: Good bye.

May 27, 1939
9:13 a.m.

HMJr: Hello.

Operator: General Craig. Go ahead.

HMJr: Hello.

General
Craig:

Good morning, Mr. Secretary. General Craig.

HMJr: Good morning, General. I'm afraid I'm living up to my reputation that the President has given me, as the most persistent cuss that works for him.

C: As the most what, sir?

HMJr: Persistent.

C: Oh, all right.

HMJr: I have been given the name of General Bryce Disque.
D-I-S-Q-U-E.

C: Yes, sir.

HMJr: Who retired from the Army in 1919.

C: Yes, sir. I know him.

HMJr: As a very likely fellow and a fellow who at this moment does not have employment.

C: He's one whom I have not communicated with, sir.

HMJr: You have not?

C: No, sir.

HMJr: Well, would you think about it.

C: I'll do it -- I'll do it today.

HMJr: And I'll be back Wednesday, and I'd like your recommendations. I understand he handled the lumber transportation in the Northwest during the War and did it very ably.

C: I know him very well and I -- I don't know why I missed him because I've had a letter from him within two or three months asking for something or other.

HMJr: Yes.

C: I'll see what I can do, sir. I don't.....

HMJr: If you know him well, how do you regard him?

C: Well, he -- I know him as a Cavalry Officer. I was in the Cavalry formerly, as a pretty aggressive man who is largely looking after number one.

HMJr: Uh-huh. Well.....

C: At the same time that does not mean that he is not an excellent officer. But I mean -- he -- he came first. But that's long ago, Mr. Secretary, he may have changed.

HMJr: Well.....

C: I'll check that up first thing and you want me to let you know on Wednesday.

HMJr: On Wednesday.

C: Very good, sir.

HMJr: Thank you so much.

C: Thank you, sir.

HMJr: Good bye.

C: Good bye.

May 27, 1939

To: The Secretary

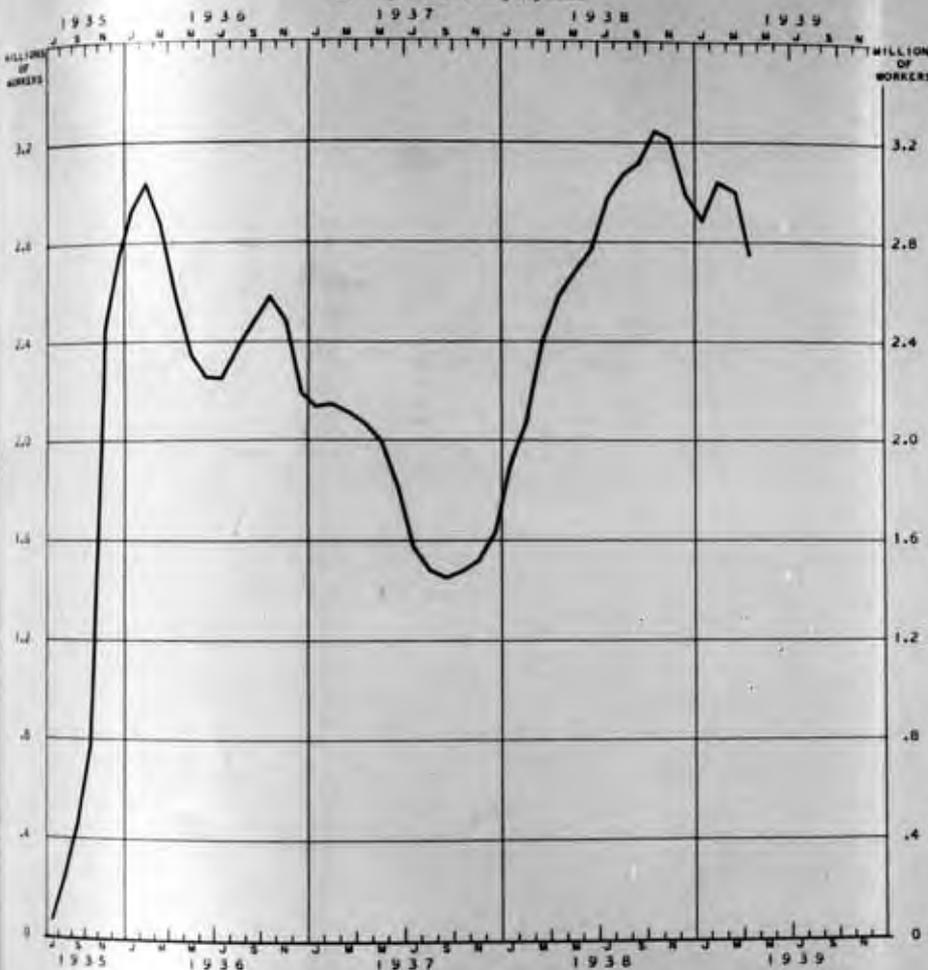
From: Miss Lonigan E.L.

BR
The total number of WPA workers
on May 17, 1939, is 2,619,881

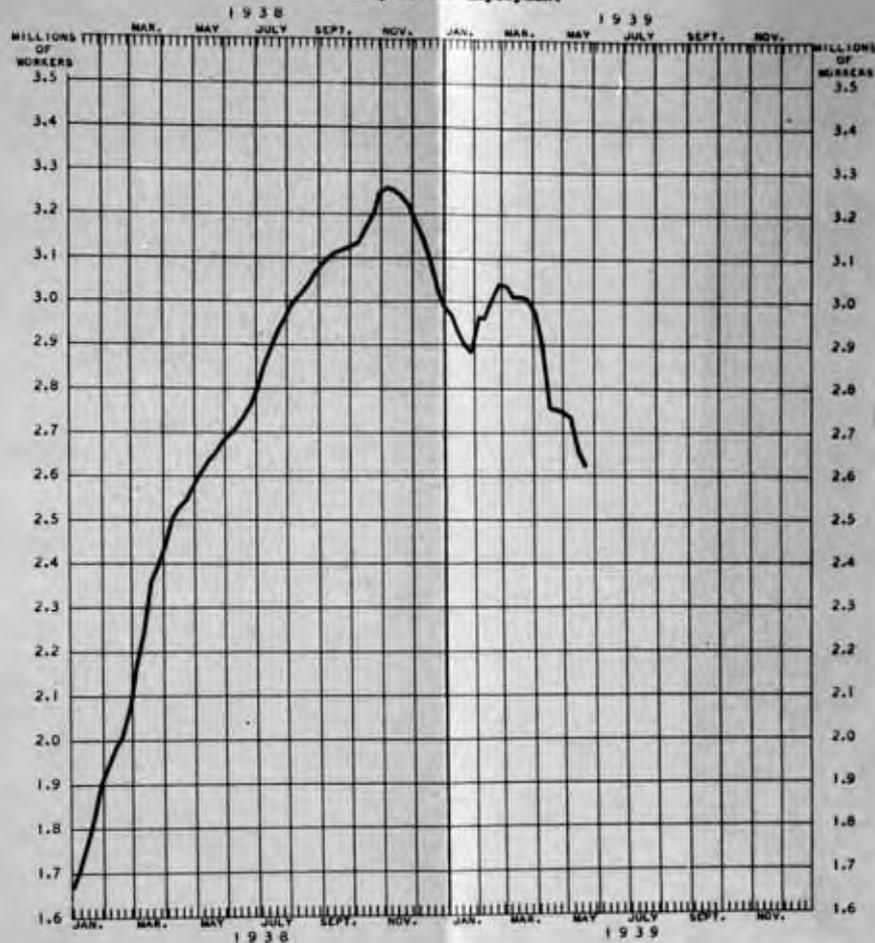
The decrease from the week ending
May 10 to the week ending May 17 was
38,030 workers.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

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

WORKS PROGRESS ADMINISTRATION
 Number of Workers Employed - Weekly
 United States

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Week ending 1938	Number of Workers (In thousands)
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
April 12	2,757
April 19	2,750
April 26	2,749
May 3	2,734
May 10	2,658
May 17	2,620 a/

Source: Works Progress Administration.

a/ Confidential.

WORKS PROGRESS ADMINISTRATION
 Number of Workers Employed - Monthly
 United States

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	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.

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

TREASURY DEPARTMENT

113

INTER OFFICE COMMUNICATION

DATE May 27, 1939

TO Secretary Mergenthau
FROM Mr. Haas
Subject: Setting for the June Financing

HIGHLIGHTS

1. United States securities of all maturities have declined substantially in yield since February. The decline has been greatest for issues with around 10 years to run until maturity or first call date (Chart I).

2. Excess reserves have advanced to new highs during the past three months, probably accounting in large part for the strength in United States securities (Chart II).

3. New York City banks have increased their holdings of Treasury bonds by about one-third during the past three months (Chart IV). This increase in long-term security holdings is merely an accentuation of a trend which has been proceeding since the middle of 1936, and has been caused primarily by the changing composition of the debt itself (Chart III). It illustrates the fundamental dilemma involved in seeking a debt composition suitable to the interests of both the Treasury and the banking system.

4. British Government securities continued to rally sharply during the past week, causing the spread between the yield on Consols and that on long-term United States Treasury bonds to drop 0.10 percent from its peak of the previous week (Chart V).

I. Price Movement of United States Securities

Commencing with the last week in February, United States securities began a strong upward movement, which has continued almost uninterruptedly ever since. This movement has taken the average yield on all Treasury bonds with 12 years or more to run until maturity or earliest call date from 2.43 percent on February 25 to 2.13 percent on Wednesday, a net decline of 0.30 percent during the three-month period. The Wednesday figure is equal to the all-time low for this average first reached on May 18.

Secretary Morgenthau - 2

The decline in yields of United States securities has affected all maturity classes, as is shown in Chart I, where the relationship between the maturities and yields of United States securities as of May 22 is compared with the relationship as of February 21. It will be noted, however, that, although yields have declined all along the line, the decline has been greatest for issues with around 10 years to run until maturity or first call date.

II. Excess Reserves

The most important single factor affecting the price of United States (and other high-grade) securities is the reserve position of member banks of the Federal Reserve System. This position has been constantly strengthening during the past three months, the excess reserves of all member banks and of those in New York City making new highs almost every week (Chart II). Excess reserves of member banks outside of New York City, while not at a new all-time high, have advanced steadily during the period.

III. Composition of the Public Debt

The March financing, consisting entirely of refunding, resulted in shifting approximately \$1.2 billions of debt from notes into bonds. This continued a trend which has been in progress for three years (Chart III). As of June 30, 1936, when the United States security holdings of New York City banks were at their all-time high, a total of \$17.2 billions of Treasury bonds and \$11.4 billions of Treasury notes were outstanding. Between that date and April 30, 1939, the outstanding amount of Treasury bonds increased \$8.0 billions, while the outstanding amount of notes decreased \$4.1 billions. During the same period the outstanding amount of Treasury bills decreased \$1.0 billion, or by nearly half.

IV. Shifts in Bank Holdings of United States Securities

The most important shift in the ownership of United States securities during the past three months has been a sharp increase in the bond holdings of certain New York City banks. The holdings of United States bonds by weekly reporting member banks in New York City increased by \$532 millions between February 21 and May 24 (Chart IV). This represents an increase

Secretary Morgenthau - 3

of approximately one-third in the total holdings of United States bonds by these banks, and is equal to about 45 percent of the total increase in the outstanding amount of Treasury bonds between the two dates.

The increase in the holdings of United States securities by reporting member banks in New York City brought their total holdings (including guaranteed securities) up to \$4,087 millions on May 3. This was the highest amount since December 1936. During the past three weeks these holdings have decreased slightly, and are now \$533 millions under their June 30, 1936, peak. The tremendous change in the character of New York City bank holdings of Governments, however, between the middle of 1936 and the present time is brought out by the following table:

**Holdings of United States Securities
by Weekly Reporting Member Banks in New York City
(Millions of dollars)**

	: June 30 : : 1936 :	: May 24 : : 1939 :	: Net : change :
Treasury bills	1,087	165	- 922
Treasury notes	1,639	727	- 912
United States bonds	<u>1,301</u>	<u>2,121</u>	+ 820
Total direct securities	4,027	3,013	-1,014
Guaranteed securities	<u>549</u>	<u>1,030</u>	+ 481*
Total United States securities	4,576	4,043	- 533

* The increase in holdings of guaranteed securities has been principally in the shorter maturities.

Banks outside of New York City have not participated in the purchasing campaign for United States securities carried on by some of the New York City banks during the past three months. The total holdings of all United States securities, direct and guaranteed, by reporting member banks outside of New York City

Secretary Morgenthau - 4

have, in fact, decreased by \$210 millions since February 21 -- an increase of \$137 millions in bonds being more than offset by net decreases in other categories.

Holdings of United States securities by weekly reporting member banks outside of New York City never declined as much (from their January 1937 peak) as did those of the New York City banks, and reached a new all-time high in February 1939 by a small margin. These holdings were never as much concentrated in short securities as were those of the New York City banks, but they are of much longer average maturity now than they were three years ago.

Longer-term securities are fundamentally much more vulnerable to major changes in the level of interest rates than are shorter-term securities. This principle, which was formerly considered axiomatic, is not vitiated by recent observations, tending to show that medium-term maturities are as vulnerable as long-term ones to sharp breaks in the market, and occasionally more so. While it is true, to take a case in point, that medium-term securities in Great Britain fell as much during the spring war scare as did the longer maturities, the longer bonds have suffered much more in the major increase in interest rates which has been proceeding in the British market since January 1935. Consols, for example, are now about 25 points below their 1935 high.

It would appear, on this basis, that the United States security holdings of banks represent a substantially greater aggregate risk of price fluctuation now than they did three years ago. The capital funds of the banks -- which would be called upon to absorb the shock of a price decline -- are no larger at the present time, however, than they were three years ago.

This, of course, merely illustrates the fact that we are somewhat on the horns of a dilemma in our refunding program -- for, to the extent that the debt is refunded and the position of the Treasury so made better, the outstanding securities are made more subject to price fluctuation and so less suitable for bank holding.

V. Price Movements in Other High-Grade Securities Markets

The spread in yield between Treasury and domestic high-grade corporation bonds, which had been increasing steadily since the end of February and reached its highest level in

Secretary Morgenthau - 5

some years last week, has not changed appreciably since that time.

British Government securities continued their rally during the past week, the yield on the 2-1/2 percent Consols falling from 3.71 percent on Wednesday, May 17, to 3.60 percent on Wednesday, May 24. As the average yield on long-term United States Treasury bonds declined by only 0.01 percent between the same dates, the differential between their yield and that on British Consols dropped from its previous peak of 1.57 percent to 1.47 percent on Wednesday (Chart V).

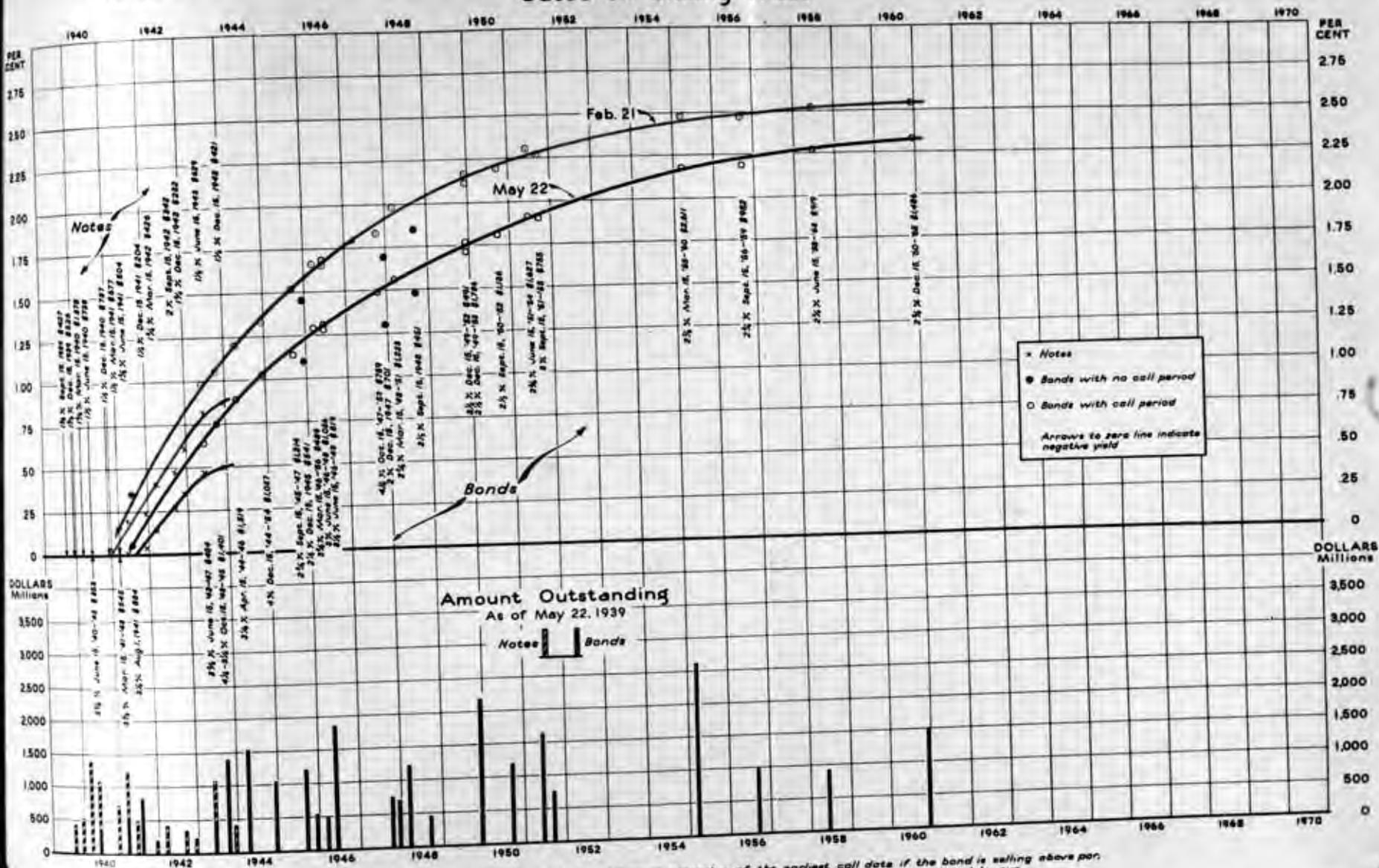
The British market, under present circumstances, is quite thoroughly insulated from ours, and its fluctuations are, therefore, of limited significance in determining the setting for our own financing. Its strength seems important in the present case, however, as an indication that war scares of the character which might upset our own financing are not being taken very seriously at the present time by financial London.

The market for French Government bonds was substantially unchanged during the week.

Attachments

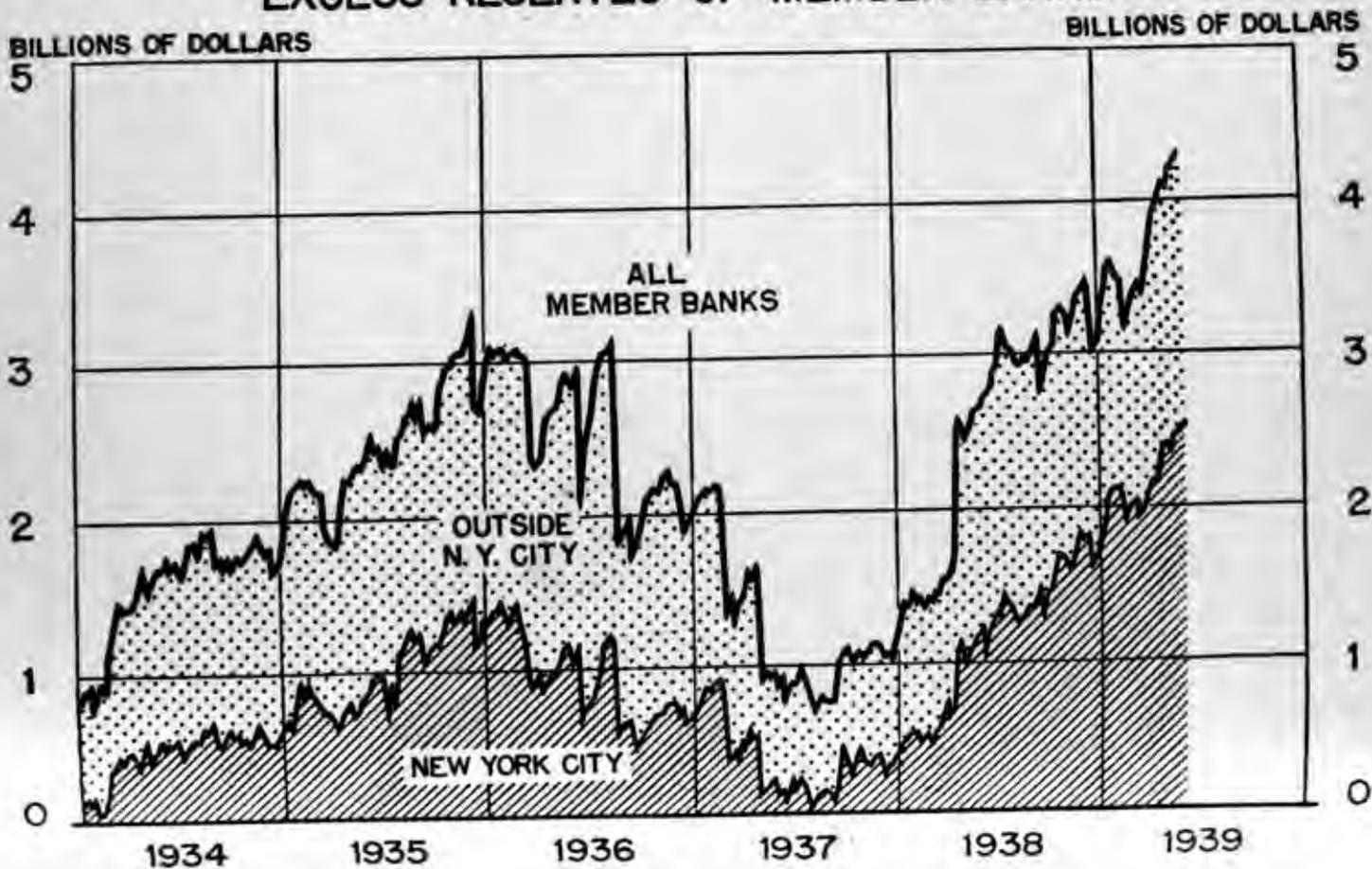
YIELDS OF TREASURY BONDS AND NOTES FEB. 21 AND MAY 22, 1939

Based on Closing Prices



Note: For callable bonds, yields are computed to, and issues plotted as of, the earliest call date if the bond is selling above par, and as of the final maturity date if the bond is selling below par. The smooth curves are fitted by eye. Dollar amounts shown in descriptions of issues are in millions. Issues for which an exchange offer has been made and has expired are excluded.

EXCESS RESERVES OF MEMBER BANKS



COMPOSITION OF INTEREST-BEARING PUBLIC DEBT OUTSTANDING

Daily Statement Basis

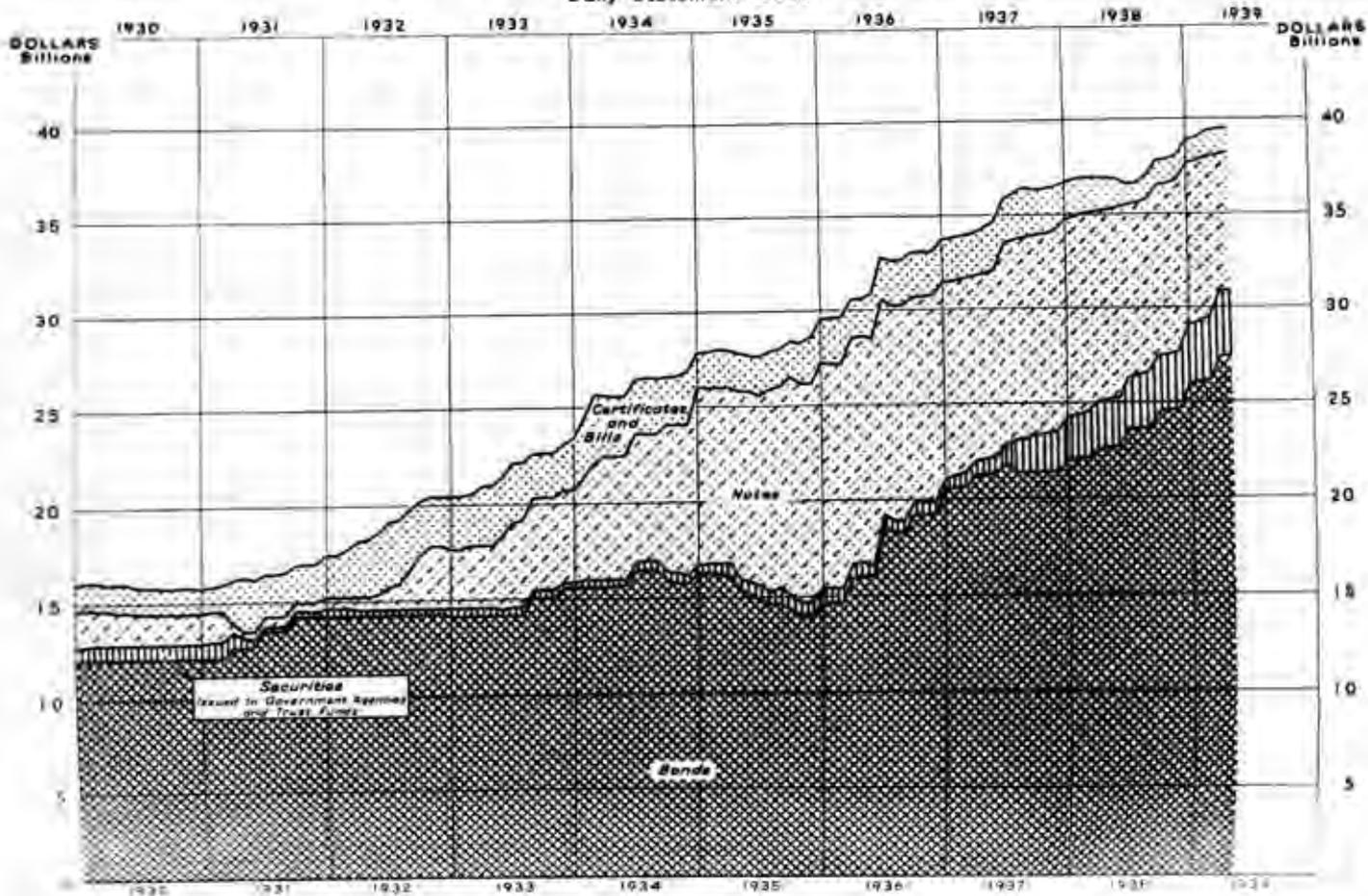
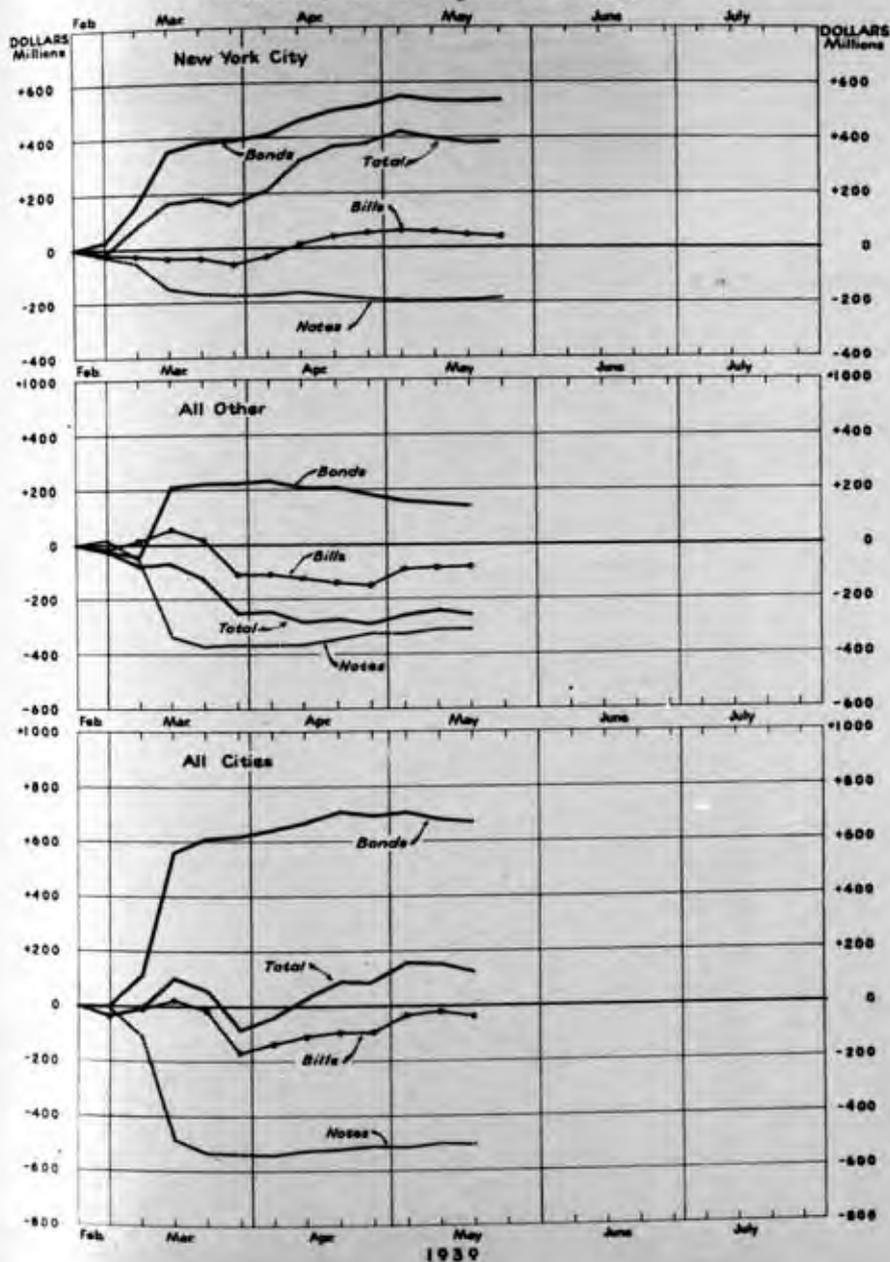


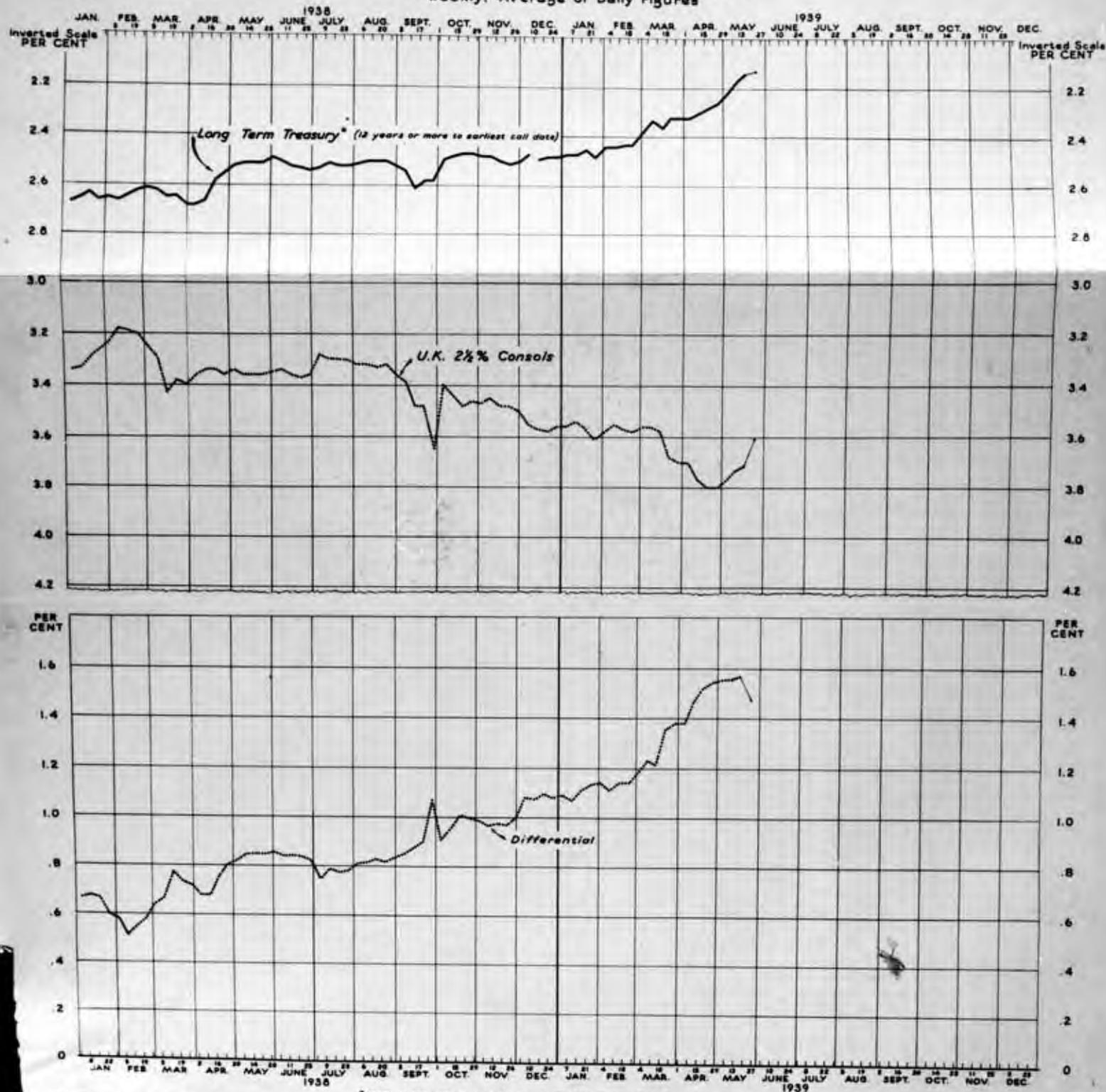
Chart IV

U.S. GOVERNMENT SECURITY HOLDINGS
WEEKLY REPORTING MEMBER BANKS
Cumulative Net Change From Feb. 21, 1939



COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY BONDS AND U.K. 2½% CONSOLS

Weekly, Average of Daily Figures



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

*Break in line indicates change in composition of Long Term Treasury average.
Note: latest figures shown are for May 24

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: May 27, noon, 1939

NO.: 1025

FOR THE TREASURY DEPARTMENT

Reference my No. 1021 of May 26. Although not indicated in the official communique, an official of the Treasury tells us that the loans of 155 million and 100 million florins to be issued by the Dutch and Swiss groups are payable in florins, Swiss francs and dollars, at the choice of the holder, on the basis of a fixed parity.

In this regard, see my telegram No. 968 of May 19.

An estimate of 4 to 4 1/2 billion francs has been given for conversion subscriptions to the French loan issue of May 15. As already officially announced, cash subscriptions totalled 6 billions.

Budgetary revenue for the month of April, 1939, about 955 million francs more than for the same month in 1938, but about 118 millions less than estimates as concerns indirect taxation.

BULLITT

EA:DJW

MAY 27 1939

Secretary Morgenthau

E. H. Foley, Jr.

I am attaching a memorandum from Mr. Tietjens in regard to the transfer of the Commodity Credit Corporation to the Department of Agriculture.

No mention of the transfer of the stock of the Corporation was made in the Executive Order. While it is possible that the Secretary of Agriculture may agitate for a transfer of the rights incident to the Corporation's stock on the ground that it would enable him more effectively to administer the Corporation under his "general direction and supervision," there would appear nothing for us to do in the meantime but to hold the stock and deal with the Corporation in the same manner as we have in the past.

(Initialed) E. H. F., Jr.

Attachment

EHP:is Typed 5/27/39

To Mr. Foley
From Mr. Tietjens

May 26, 1939

Re: Transfer of Commodity Credit Corporation to the Department of Agriculture.

Section 401 of ~~the~~ Reorganization Plan No. 1 provides as follows:

"(a) Transfers to the Department of Agriculture.--The Farm Credit Administration, the Federal Farm Mortgage Corporation, and the Commodity Credit Corporation, and their functions and activities, together with their respective personnel, records, and property (including office equipment), are hereby transferred to the Department of Agriculture and shall be administered in such Department under the general direction and supervision of the Secretary of Agriculture, who shall be responsible for the coordination of their functions and activities."

All the stock of the Commodity Credit Corporation was transferred to the United States pursuant to section 3 of the Act of March 8, 1938 which provides as follows:

"The Secretary of Agriculture, the Governor of the Farm Credit Administration, and the Reconstruction Finance Corporation are hereby authorized and directed to transfer to the United States all right, title, and interest in and to the capital stock of the Commodity Credit Corporation which each of them now holds. All rights of the United States arising out of the ownership of such capital stock shall be exercised by the President, or by such officer, officers, agency, or agencies as he shall designate, and in such manner as he shall prescribe."
(52 Stat. 107)

- 2 -

On March 22, 1938 the President issued an Executive Order (No. 7848), which designated the Secretary of the Treasury on behalf of the United States to receive the capital stock of the Commodity Credit Corporation, and authorized and directed him to exercise on behalf of the United States any and all rights accruing to the holder of such stock.

Under the foregoing Executive Order the Secretary of the Treasury presumably is authorized to elect the directors of the Commodity Credit Corporation, which, under the certificate of incorporation issued by the State of Delaware, may not be less than three in number (I believe there are now nine). Under the certificate of incorporation and the by-laws of the Corporation, the directors are authorized in general to manage the Corporation.

Reorganization Plan No. 1 does not in so many words transfer the stock of the Corporation and the rights with reference thereto to the Secretary of Agriculture. Neither does the Reorganization Plan specifically revoke the Executive Order referred to above. If a satisfactory modus operandi is worked out between the Secretary of Agriculture and the Secretary of the Treasury, it is not believed that any change in the present status of the stock will be required.

(Initialed) NOT

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

128
MA

DATE

May 27, 1939

TO Secretary Morgenthau
FROM Mr. Hagg *HA*
Subject: June Financing -- Preliminary

Conclusions

We should favor confining the June financing to refunding the September and possibly the December note maturities. We should favor including the December notes if, in the opinion of bankers and dealers, this can be done without serious disturbance to the market. Either a 5-year note or a medium-term bond would constitute a satisfactory offering; and in the event that the December notes are included, the refunding offering for both issues could well take the form of 50 percent in new notes and 50 percent in intermediate bonds.

I. Scope of the Financing

Three alternatives suggest themselves:

1. Confine operation to the refunding of the \$427 millions of 1-3/8 percent September notes:

This would be the simplest operation and would meet all immediate requirements since the present cash balance approximates \$2,300 millions. But several reasons exist for considering a larger operation:

(a) Mr. Bell's tentative estimates contemplate the raising of some \$1,250 millions in direct and agency new money between September and the end of the calendar year. Further, assuming a continuation of recent practice, the December note maturity of \$526 millions will be taken care of in September, and the March note maturity of \$1,378 millions, in December.

(It will be particularly convenient to be in a position to anticipate the March maturity both because of the size of that issue and

Secretary Morgenthau - 2

because the aggregate 1940 maturities, including the 3-3/8 percent bonds of 1940-43, would otherwise exceed \$3,200 millions.)

This program would mean that \$3,150 millions of financing would be concentrated in the last six months of the current calendar year, including \$1,900 millions of refundings. Hence the thought that it may be wise to anticipate in June some of the financing that will have to be done in any event later in the calendar year.

(b) Giving further point to this consideration is the present pronounced strength of the Government bond market, of which it would seem prudent to take due advantage. Further, any additional financing may have a tendency to restrain unwarranted speculative advances.

2. Include a \$500-million new money offering:

The thought naturally occurs, therefore, that present conditions make it desirable to anticipate future cash needs by including a new money issue in the June financing. If it be assumed that \$500 millions of new money would be raised in September anyhow and would cost 3/4 of one percent in either case (for a 5-year note issue), the anticipation of the September need in June would entail an added interest expense of \$937,500 or the equivalent of six thirty-seconds of a point. If new money were to be raised by a 2-1/2 percent long-term bond, the added interest expense would be \$3,125,000, or the equivalent of 20/32 of a point. These costs would not be too great for the convenience and assurance obtained if our need were clear.

However, our present cash balance is already very large: It includes bank deposits representing the uncalled proceeds of Treasury issues sold as long ago as June 1937; and it is only about \$400 millions lower than last February, when the same question was considered. Now that the President and others are calling increasing attention to the failure of large idle balances to be put to work, the very unusual size of the Treasury's own balance may well attract unfavorable mention.

Further, in view of the fact that our aggregate debt limit under the Second Liberty Bond Act is only \$5 billions in excess of the amount now outstanding, and in view of the

Secretary Morgenthau - 3

exaggerated statements currently appearing about the growth and size of the public debt, there is some reason for going slowly in using up the remaining debt power.

The raising of \$500 millions of new money in conjunction with the retirement during the succeeding ten weeks of an equivalent amount of Treasury bills would formally avoid the difficulty cited immediately above, but is open to other serious objections which are discussed in a separate memorandum.

3. Refund both September and December notes:

This would permit the Treasury to take advantage of the present strength of the market and to reduce the amount of financing to be accomplished later in the calendar year, without adding to its present cash balance. With the December as well as the September note maturities out of the way, the Treasury would gain improved flexibility with respect to the financing of its new money requirements and its handling of the large March note maturity of \$1,378 millions.

The Treasury could obtain these very real advantages at very little or no cost. The interest coupon on the December notes for the six months from June 15 is worth about $22/32$ of a point to the holders. If the pricing of the refunding issues follows past practice, the gross premium allowed will amount to $1-1/2$ points or more, or enough to provide an ample margin beyond the amount needed to compensate for the early relinquishment of the $1-3/8$ percent interest coupon. If an additional margin is desired for the December notes beyond that offered the September note-holders, this could easily be provided by an interest adjustment.

The proposal to anticipate the December note maturity in June is not altogether free from objections. Although the market quickly adjusted itself to the Treasury's inauguration of the practice last year of refunding note maturities three months in advance, the present proposal would be stretching the anticipation to six months, and would doubtless occasion comment. It might also have the effect of raising the market values of outstanding Treasury notes by increasing the imminence of their "rights." Whether these and related considerations are serious enough to outweigh the advantages cited above might well be discussed with bankers and dealers.

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II. Choice of Securities

1. A long-term bond:

Although strength in the market has been so general that any reasonably priced maturity offered by the Treasury would go over well, and although a further lengthening of Treasury maturities is desirable in general, a number of considerations suggest that a long-term bond would be less suitable for the June refunding operation than either a note or an intermediate-term bond, or a combination thereof.

(a) Most of the September and December notes are doubtless held by commercial banks, for which a long-term bond is inherently less suitable. Either a note or an intermediate-term bond would be mainly retained by exchange subscribers, whereas, in the case of long-term bonds, a considerable proportion would doubtless be redistributed by bank subscribers to nonbanking investors, thereby tending to contract the total volume of bank deposits.

(b) A long-term bond could not be offered alone without subjecting the Treasury to the possible criticism that it is forcing banks into long-term issues; and if only the September notes were being refinanced, the amount involved, \$427 millions, would be too small to justify the use of more than one security.

(c) As is indicated further below, the Treasury has very substantially reduced the volume of its outstanding bills and notes during the past two years and substituted bonds therefor. For many investors, notably commercial banks, an intermediate bond is a far more acceptable substitute than a long-term bond.

It may be noted that a long-term bond would be pre-eminently suitable for a substantial new cash offering, such as is contemplated for September. In the present market, a 2-1/2 percent bond, callable in 1962 and maturing in 1967, would command a premium of slightly under two points.

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2. A 5-year note:

A 5-year note would have the definite advantages of (a) exceedingly low interest cost to the Treasury -- probably $3/4$ percent; and (b) superior suitability for the needs of commercial banks.

Of the \$7,270 millions of Treasury notes outstanding, only seven issues, aggregating \$2,759 millions, can now be purchased to return any positive yield whatever to maturity; and the longest note outstanding (maturing December 15, 1943) is selling to yield less than $1/2$ of one percent.

These evidences of a shortage in the supply of short-term Treasuries follow a reduction of \$4,342 millions since June 30, 1937 in the amount of bills and notes outstanding; a reduction offset to the extent of only \$745 millions by increases in short-term Government-guaranteed obligations.

It appears at the moment that a 5-year $3/4$ percent note would command a premium in the neighborhood of 1 point, and a $7/8$ percent coupon, a premium of more than $1-1/2$ points. Additional sweetening could be provided for a $3/4$ percent note, if necessary, by an interest adjustment. (The present interest coupon is worth $11/32$ between June 15 and September 15 to the holders of the September notes; and $22/32$ between June 15 and December 15 to the holders of the December notes.)

3. A medium-term bond:

Although a 5-year note issue, either for cash or for refunding, would doubtless go over, it is certain that many bank subscribers as well as other investors would prefer a medium-term bond because of the more substantial yield obtainable therefrom. From the standpoint of the Treasury's maturity schedule, moreover, a medium-term bond has certain advantages over a 5-year note.

Greatly offsetting the effect of the reduction in Treasury bills and notes during the last two years has been the mere passage of time. The effective maturities facing the Treasury in the next five years

Secretary Morgenthau - 6

now include \$4,410 millions of 4 percent, 3-3/8 percent, and 3-1/4 percent Treasury bonds which were not regarded as part of the short-term debt two years ago, but which, because of their high coupons, will probably demand refunding at the earliest opportunities in 1943 and 1944. Every year between 1943 and 1951, inclusive, now has a sizeable amount of Treasury bonds becoming first callable. On the one hand, these bonds become progressively more suitable to satisfy the market's needs for short-term securities; and, on the other hand, their approaching maturity complicates the use of Treasury notes.

A 13-year fixed maturity bond (due in 1952) or a 13-15 year callable bond (1952-1954) would fit into the existing maturity schedule, and would be exceedingly attractive to commercial banks.

The last-named or a similar callable issue would be more prudent, from the standpoint of future refinancing, than the fixed issue, particularly if the amount were to be more than about \$500 millions. The fixed issue would probably be more popular.

It appears at this time that a 13-year bond with an interest coupon of 2 percent would command a premium in the neighborhood of 1-3/4 points. A 13-15 year bond, with a coupon rate of 2-1/8 percent, would command a premium of about 2 points in the present market.

4. Joint offering:

As between a 5-year note and a medium-term bond, it is clear from the foregoing that a number of conflicting considerations occur to make neither one greatly preferable to the other. In the event that the December notes are included in the refunding, the exchange offering for both the September and December issues could well take the form of 50 percent in new 5-year notes and 50 percent in intermediate bonds. Such an offering would be similar to the one recently employed in the refunding of the \$325 millions of HOLC 1-1/2 percent bonds. It would eliminate the difficulties of the relative pricing of the two new issues, and would permit the note to be offered with a much smaller premium than the bond without effect upon the relative volume of exchanges for the two issues.

RFP

GRAY

Berlin

Dated May 28, 1939

Rec'd 1 p.m.

Secretary of State
Washington

425, May 28, noon.

A communique issued this morning announces that following the termination of the discussions of the German-Italian Economic Committee which has been meeting in Berlin a series of new treaties and agreements were concluded which will find still closer the economic systems of the two countries. It is stated that all phases of German-Italian economic relationships were examined and a joint economic program was projected, the details of which will be elaborated in further discussions within the next few months. In particular, the protectorate of Bohemia and Moravia was brought within the scope of the German-Italian trade and payments agreements thus opening the way, it is asserted, for increased Italian trade with that region in excess of that which Italy maintained with the former Czechoslovak Republic.

The Italian chief delegate signed the agreements in the name of the Italian Albanian Customs Union.

Editorial

RFP -2- #425, May 28, noon, from Berlin

Editorial comment today, which is very brief, refers to the significance of these arrangements between the two "have not" countries and to the particularly valuable results which may ensue from an exchange of processes developed in connection with the exploitation and use of raw and industrial materials native to Germany and Italy.

The announcement of a joint commercial program is welcomed also on the ground that the agreement will bring about a development and adjustment of trade to meet the new conditions arising from the taking over of the protectorate.

Inform Treasury.

KIRK

RR:KLP

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Prepared by Sidney Tickton



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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 29, 1939

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Insurance company operations in Governments
in 1938

Data procured by examination of the reports filed with the Superintendent of Insurance of the District of Columbia, and from figures supplied by the Association of Life Insurance Presidents and Poor Publishing Company, make possible the following conclusions with respect to insurance company operations in Governments during the calendar year 1938:

1. Life insurance companies increased their portfolios of direct and guaranteed Government securities by very small proportions, compared with previous years. Probably contributing to this result were these two important factors: (1) The supply of Governments available in the market actually declined, on net balance, after the banking and Government trust fund demand had been satisfied; and (2) private placings with insurance companies of corporate refunding issues enabled these institutions to obtain a large volume of high-grade bonds previously held by others, without the necessity of bidding prices up in the open market.

2. Insurance company trading operations in direct Governments during the year served to lengthen the maturities held: The companies not only converted all of their maturing notes and a considerable proportion of their maturing bills into long-term bonds, on net balance, but they also sold a part of their 1939-42 notes and a portion of their shorter-term bonds, reinvesting these funds in longer-termed securities.

I. 1938 Acquisitions only one-third 1937
and one-fourth 1936

Net purchases* of direct and guaranteed Government securities during 1938 by the thirty-seven life companies reporting monthly to the Association of Life Insurance Presidents were the smallest since 1932 -- the year before heavy purchases first began.

*Net purchases are defined as gross purchases minus sales, redemptions, and amortizations.

Secretary Morgenthau - 2

These companies account for about 82 percent of the admitted assets of all life insurance companies and for about 75 percent of the Government securities held by all insurance companies in the United States.

The net purchases during 1938 (\$247 millions) represented a decline of 61 percent from those of 1937 (\$627 millions), and a decline of 73 percent from those of the peak year 1936 (\$919 millions).

This decline in net purchases can more reasonably be explained in terms of technical factors, however, than interpreted as indicating the end of the insurance company demand for Governments. Insurance companies are able to purchase large quantities of Governments only when the Treasury is making large cash offerings, or when the banking system, the largest class of holder of Governments, is liquidating them in quantity. Unless either of these conditions is met, the market for Governments is apt to be too thin to permit substantial quantities to be purchased without substantial increases in price.

In the twelve months ended December 31, 1938, the privately held marketable supply of Governments increased \$1,026 millions. Bank holdings increased \$1,293 millions, however, and holdings of the thirty-seven insurance companies increased \$247 millions. In other words, part of the increase in holdings of Governments of banks and insurance companies was made at the expense of other non-banking corporations and individuals.

Between June 30, 1933 and December 31, 1937, on the other hand, the privately held marketable supply of Governments increased \$13,722 millions. Banks took \$8,768 millions. The thirty-seven insurance companies took more than 70 percent of the remainder -- \$3,502 millions -- a volume equal to more than three-fourths of the increase in their admitted assets.

From the insurance companies' position in the capital markets, the supply situation with respect to corporates improved considerably in 1938. Private placings of corporate securities reached a new high -- \$733 millions, compared with \$448 millions in 1937. Insurance companies were the largest purchasers of these offerings, and this increased volume placed a large supply of corporates at their disposal at the expense of other previous holders.

Secretary Morgenthau - 3

II. Maturities of Government portfolios lengthened by trading activities

The trading operations of the thirty-seven companies during 1938 served to lengthen their maturities of direct Governments by about 15 percent -- figuring callable bonds to their call date and allowing for the passage of time affecting the life of the portfolio. On December 31, 1937, the thirty-seven companies held 11-1/2 percent of the \$3-1/2 billions of Treasury bonds callable in 1955 and thereafter. A year later, they had increased their holdings to nearly 16 percent of the bonds callable in 1955 and thereafter, although the total amount outstanding had grown to \$5 billions.

On net balance and in the aggregate, the thirty-seven companies not only converted their note maturities into long bonds in 1938, but they also made substantial purchases of additional long-term bonds, the outstanding as well as new issues, with the proceeds of the liquidation of shorter-termed bonds, 1939-43 note maturities and Treasury bills. The table below summarizes these operations:

Trading Operations in Direct Government Obligations
by 37 Life Insurance Companies, Calendar Year 1938

Acquired -- on net balance	:	Liquidated -- on net balance
(In millions of dollars)		
<u>Bonds</u>	:	<u>Bonds</u>
Five series offered	:	Eleven shortest* series
in 1938 532	:	offered prior to 1938 .. 110
	:	
Ten longest* series	:	<u>Notes</u>
offered prior to	:	All series - about half
1938 245	:	maturing in 1938 291
	:	
	:	<u>Bills</u>
	:	All series 67
Total <u>777</u>	:	Total <u>468</u>
	:	
Net purchases <u>309</u>	:	
	:	

*Callable bonds taken at first call dates.

COPY

May 29, 1939

To: The Secretary
From: Mr. Hanes

I thought you might be interested in seeing this clipping,
if you haven't already noticed it.

orig. sent to Secretary 5-29-39
c/o Robert Guex, P. O. Box 164,
Fishkill, N. Y.

BASIL HARRIS TO GET GEORGETOWN HONOR

Shipping Man to Get Doctor
of Laws Degree Saturday
—Was Pacelli's Courier

Among those who will receive academic honors when Georgetown University celebrates its sesquicentennial this week is Basil Harris, vice president of the United States Lines and prominent Catholic layman, who is to receive the degree of Doctor of Laws on June 2.

The president of the university, the Rev. Arthur A. O'Leary, S. J., and the board of directors recently voted to confer the doctorate on Mr. Harris in recognition of "personal merit and distinguished service in the restoration of the American merchant marine."

Princeton Graduate

Mr. Harris, who was graduated from Princeton University in 1912, has become a leading figure in the development of the American merchant marine during the past ten years. He began his shipping career with Norton, Lilly & Co. and later became a partner with John M. Franklin and Kermit Roosevelt in

the formation of the Roosevelt Steamship Co. to operate Government vessels in world trade routes. When this company merged with the United States Lines Steamship Co. in 1931 Mr. Harris became a vice president of the latter company.

Mr. Harris' support of Catholic charities and educational institutions has given him wide recognition as one of the leading Catholic laymen in America. He is particularly interested in promoting boys' club activities and has built several large school buildings in various parts of the country as well as a gymnasium for boys in New Rochelle. He is now organizing a campaign to raise funds for a large gymnasium for Georgetown University, which his two sons now attend.

Knighted by Pope

When the present Pope, then Cardinal Pacelli, made a tour of this country in 1936, Mr. Harris was among those who accompanied him on his 9,000-mile journey. In 1939 Pope Pius XI conferred upon Mr. Harris the order of Knight of Malta, one of the highest Catholic lay decorations.



BASIL HARRIS

Address of Secretary Morgenthau at the Commencement
Exercises of the Coast Guard Academy,
New London, Connecticut,
Monday, May 29, 1939.

~~Seamen, engineers, aviators.~~ I am glad of
the opportunity to speak to you who are graduating
from the United States Coast Guard Academy. Yours
is a service of which I as an American am deeply
proud. I am the more proud because it is a service
under the jurisdiction of the Treasury Department.

You are dedicating your lives to one of the
most inspiring careers a man may choose -- a career
that calls for intelligence, alertness and
preparedness; for willingness to plunge into a
venture under gravest danger; for ability to persist
in prolonged and heart-breaking effort. You have
chosen your profession knowing all this.

- 2 -

I should like, however, to draw your attention to something that may not perhaps have so directly impressed itself upon you -- the uniqueness of the service you have selected. Yours is a discipline of the highest type. It is not a blind obedience to orders. It is not the deadening performance of a routine response that dulls the intellect and crushes the personality. It is not a discipline that functions only under the instructions or constraint of a superior officer. It is a discipline that is self-imposed, that springs from an understanding of the ends to be served and the voluntary acceptance of the responsibilities involved in the attainment of those ends.

- 3 -

It is the mark of men nurtured in freedom and reared in the traditions of equality and reason. It is democracy in its highest expression.

And that is why I think the Coast Guard Service assumes a special significance in these war-fevered times. Yours is a service dedicated to peace, to the conservation, not the destruction of life. It is a service dedicated to the succor of men irrespective of race, creed, or color. When there is life to be saved you do not ask whether a man is black, white, or yellow. You do not pause to inquire about his religion or politics. You do not question under what flag he sails. You go out.

- 4 -

Your pennant is a symbol of peace. Its insignia inspire hope, not fear; friendship, not rancor. It strikes terror only to the heart of the law-breaker. It is the hand of American friendship extended to all nations. It symbolizes a type of international cooperation sorely needed in an era of nationalism run riot. You who serve under that pennant are the ambassadors of the United States on the high seas. You represent it in places where its sovereignty is expressed only through your service. You bring civilization to places that know it only through you. Your primary activities are directed towards the control of nature not for the benefit of Americans only but for the benefit of all men.

- 5 -

I have sometimes thought it a sad commentary on the state of civilization that this should be so -- that nations should cooperate freely only when men's lives are to be wrested from the elemental forces of nature. We work together against wind or storm, flood or fire, iceberg or earthquake. For a brief moment the sense of kinship before a natural catastrophe wipes out the antagonism of nation toward nation. How excellent for the world if its international affairs were guided by the spirit of the Coast Guard.

- 6 -

The Coast Guard has made valuable contributions to the sciences of meteorology, marine biology, navigation, to flood control and to the conservation of rare biological species. These are services which, while not so spectacular as the immediate saving of lives, are real gifts to humanity. The advances you make in knowledge in these spheres will be used long after the latest death-dealing inventions have been discarded. Such knowledge will prove as beneficial as the most heroic rescue at sea.

I have been impressed by the Coast Guard as a service in the spirit of democracy. I see it also as first and last a service for peace.

- 7 -

The whole organization is founded on the basis of peace. Your form of organization is military, but your function is civil. The Coast Guard is a law enforcement arm of a democratic government.

There is, I feel, no more disturbing trend in the world today than the increasing infringement of personal liberties by despotic governments. It is your privilege to set an example contrary to this trend. It is your duty to the Service and to the country to enforce the laws of the land, justly and without respect to person. The Coast Guard has no favors to dispense in its enforcement of the law. Whatever political influence a man may have ceases to exist in his relations with you.

- 8 -

That freedom from political influence must continue to be one of your cherished traditions. The Coast Guard has deservedly earned and I hope it will always keep, the reputation of performing its duty modestly and unassumingly and with as much courtesy and fairness as is compatible with strict enforcement of the law.

It is a tribute both to the seamanship of the Coast Guard and to its character as a school in seamanship and marine science that it has been entrusted by the Maritime Commission with the training of merchant seamen. It is a further tribute to your organization that the President has directed that the lighthouse service be consolidated with the Coast Guard.

- 9 -

It is evidence that the President regards the Coast Guard not merely as a group of service branches but as a single organization, so well knit together and so well managed, that it is capable of assuming new responsibilities allied to its own and of discharging them well.

To enable you to perform your duties more effectively, great improvements have been made in the equipment with which you will work. Of the thirty-four cutters which are the backbone of the Coast Guard fleet, twelve have been built since 1933. Practically the whole air arm of the Coast Guard has been created during the last five years. The officers and men of the Coast Guard have made splendid use of this equipment.

- 10 -

In the past year alone they have saved directly the lives of almost as many people as there are in the whole Coast Guard Service, while indirectly they have saved many more by furnishing indispensable information with respect to the hazards of air and sea.

These are high examples for you of the class of 1939 to emulate.

I should like to add just one personal word to each of you. You who are being graduated today entered the Academy and have completed with credit your preliminary training as officers of the United States Coast Guard during my tour of duty in the Treasury. Therefore I shall follow your careers in the Service with a special and personal interest.

- 11 -

I shall take pride in the good records that I know you will make. In reading in the future of some signal exploit of the kind for which the Coast Guard is famous it will please me immensely to know that one of the boys with whose training I had something to do has acquitted himself nobly. I know that you will not disappoint me.

--oOo--

CONFIDENTIAL

Trip of the President
Hyde Park, New York to
Washington, May 30, 1939.

Tuesday, May 30, 1939.

Lv. Hyde Park... (New York Central RR)... 11:00 p.m. E.S.T.
(12:00 p.m. D.S.T.)

Wednesday, May 31, 1939.

Ar. Washington.. (Pennsylvania RR.)..... 8:30 a.m. E.S.T.

Members of the party:

T h o P r e s i d e n t .

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Mrs. Morgenthau,
Miss M.A. LoHand,
Mr. William D. Hassott,
Miss Grace Tully,
Mr. Henry M. Kanno,
Mr. Dewey E. Long,
Mr. Leo A. de Waard,
Secret Service Agents.

Newspaper men:

Mr. George E. Durno,	International News,
Mr. Frederick A. Storm,	United Press,
Mr. Douglas B. Cornell,	Associated Press,
Mr. Walter Trohan,	Chicago Tribune,
Mr. Felix Bolair,	New York Times,
Mr. John O'Donnell,	New York Daily News,
Mr. Bruce Pinter,	New York Herald Tribune,
Mr. Richard Harkness,	Philadelphia Inquirer.

Picture men:

Mr. John S. Thompson,	Acme Newspictures.
Mr. W.J. Forsythe,	Associated Press Photos.
Mr. Alfred Waldron,	Fox Movietone News.
Mr. Douglas DuPont,	Fox Movietone News.

Telegraph representatives:

Mr. C.S. Linkins,	Western Union Tel. Co.
Mr. T.B. Bowen,	Postal Telegraph Co.

Mr. Harry Karr, D.P.A.,
Pennsylvania Railroad,
In charge of Transportation.

EJ

GRAY

PARIS

Dated May 30, 1939

Recd. 2.15 p.m.

Secretary of State
Washington

1029, May 30, 4 p.m. (SECTION ONE)
FOR THE TREASURY.

Trading more active on the exchange and security markets today. The fund bought an important amount of dollars through Chase. Continental currencies firm. The security market was strong and active and rentes and variable revenue securities showed substantial gains in many instances.

Press reports state that approval has been given by the Netherlands Government to the renewal for one year of the 35,000,000 florin credit granted by Mendelssohn and Company to the Belgian Treasury and repayable next month. The Swiss credit to Belgium of 25,000,000 Swiss francs maturing on June 17 is also likely to be renewed, it is stated.

(End section one.)

BULLITT

WSB

EJ

GRAY

PARIS

Dated May 30, 1939

Recd. 2.40 p.m.

Secretary of State

Washington

1029, May 30, 4 p.m. (Section two.)

In LE TEMPS of May 29 Frederic Jenny examines the problems raised by the flow of gold towards the United States. He agrees that fears of a European conflict were responsible for a substantial movement of private short term funds to the United States but stresses the effect on the gold movement of the important favorable American trade balance and observes that settlement of this balance alone represented more than half of the gold inflow last year and 75% of the world's gold production. Jenny expresses entire agreement with the reported views expressed by Secretary Morgenthau in his recent letter to Senator Wagner, as concerns the Senator's fears that the monetary uses of gold might decay, and his suggestion that the United States might stop buying gold or at least reduce its buying price.

End Section two.

WSB

BULLITT

EJ

GRAY

PARIS

Dated May 30, 1939

Recd. 2.35 p.m.

Secretary of State
Washington

1029, May 30, 4 p.m. Section three.

HOWEVER, Jenny fears that the progressive reduction of the gold reserves in the possession of the other countries must eventually raise delicate problems, and while he agrees that when unsettled international situation accounts in some measure for the maldistribution of gold he insists that the favorable American trade balance is responsible for this situation to an important degree. He concludes that two solutions may be considered capable of halting the inflow, namely, (1) the granting of foreign loans by the United States to facilitate the purchase of American goods (but admits that present international conditions are unsuitable for the resumption of such a policy) and (2) a more liberal tariff policy on the part of the United States. In his view the possibilities of solution that this step offers should override objections of a domestic political and social order and in this respect refers to recent declarations attributed

to

- 2 -

No. 1029, May 30, 4 p.m. Sec. 3 from Paris
to Secretary of Commerce Hopkins, pointing out the
necessity to increase the importation of goods which
do not compete with American industries and thus
absorb the surplus export trade balance.

(END MESSAGE).

BULLITT

WSB

RECEIVED

MAY 30 1919

U.S. DEPARTMENT OF COMMERCE
WASHINGTON, D.C.

REB

GRAY

London

Dated May 31, 1939

Rec'd 2:18 p. m.

Secretary of State,
Washington.

758, May 31, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

The growing optimism in the city referred to in my 732, May 24, 6 p. m. and previous telegrams continues. As reflected in the London stock exchange the FINANCIAL NEWS index of prices of ordinary shares (July 1, 1935 equal 100) stands at 84 as compared with 78 on May 1; government securities according to the FINANCIAL TIMES index (November 15, 1926 equal 100) stands at 107 as compared with 102 on May 1. Current prices are almost back to the pre-March 15 level.

The foreign exchange market was more active today and the dollar was offered. After opening at 4.68-3/16 it moved to 9/32 at which point the British authorities intervened to buy a few dollars. The Bank of France likewise purchased a few dollars at 34.74-1/4. 159 bars were sold at gold fixing of which 63 were married and the

Bank

FEB

2-#758, From London, May 31, 6p.m.

Bank of England supplied a few. Samuel Montagu was again the large buyer and other arbitrageurs maintain that Montagu is leaving uncovered against war risk a fraction of their arbitrage operations.

KENNEDY

CSB

02013030

MAY 31 1941

RECEIVED

MAY 31 1941

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 31, 1939, 5 p.m.

NO.: 1038

FOR THE TREASURY DEPARTMENT.

On the exchange market today quiet conditions prevailed. Small turnover; no important changes. More offerings of the dollar. We are told that the Guaranty received a fair sized order to buy dollars for the fund at the end of the official session. Firm security market, which was cheerful about the latest press reports of developments in the Soviet negotiations.

I give below the essential parts of an account of a statement which Beyen made yesterday at Basel to the AGENCE ECONOMIQUE correspondent with regard to the transfer of the Czech gold which is on deposit in London:

END SECTION ONE.

BULLITT.

EA:LWW

JR

GRAY

Paris

Dated May 31, 1939

Rec'd 1 p.m.

Secretary of State,
Washington.

1038, May 31, 5 p.m. (SECTION TWO).

Beyen regretted that the question had become a political one. As far as the B.I.S. was concerned the question was purely technical. No pressure had been exercised on the bank from any quarter. The B.I.S. was not called upon to consider any other question than that of the propriety of its orders. Neither the British Government nor the Bank of England could have prevented the B.I.S. from utilizing the gold deposited in London as it thought fit. The Swiss law did not in any way require the B.I.S. to examine specially the legitimacy of the orders given by the Czechoslovakia National Bank to the B.I.S.

Beyen continued that the bank would not necessarily know if any pressure had been brought to bear by Germany upon the Czechoslovakia National Bank. No claim had been made upon the holdings of the latter institution.

BULLITT

RR

JR

GRAY

Paris

Dated May 31, 1939

Rec'd 1:25 p.m.

Secretary of State,
Washington.

1038, May 31, 5 p.m. (SECTION THREE).

The B.I.S. was not called upon to negotiate on the subject with any German institution. Any attempt to apply political pressure would have been immediately rejected by the B.I.S.

AGENCE ECONOMIC editorially commented that it does not intend to enter into any discussion with the management of the B.I.S. on the subject of the procedure adopted by the latter to deliver the Czechoslovakian gold to Germany and concluded as follows:

"It is comprehensible that public opinion was shocked by this apparently proper 'transfer'. The activity of the B.I.S. is in fact inexistent. It would have been better to liquidate this institution than to use it for operations which, but for it, would certainly have been more difficult for the Reichsbank to carry out".

(END MESSAGE)

BULLITT

RR

c o p y

CONGRESS OF THE UNITED STATES
House of Representatives
Washington, D. C.

May 31, 1939

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

Dear Mr. Secretary:

Heretofore I have requested all of the files in the Eastern Canadian Distillery cases, which were compromised for approximately \$3,000,000 by Seagram's Hiram Walker and Consolidated Distilleries, and other, in 1935-36.

So far I have not been granted these files but have been advised that it is against "the public interest" to make these available to the Committee.

In this connection I desire to call your attention to the following facts:

That the claim of Harry Sokol for an additional \$50,000 now pending before the Congress of the United States, as an informer in the Consolidated Distillery case, was investigated by Mr. Mack, after the claim had been approved by everyone apparently except your Mr. Graves of the Treasury Department. This investigation of Mr. Mack's included an interview with all of the people interested in the original investigation of the Eastern Canadian Distillery cases, together with an examination by one of Mr. Mack's subordinates, a Mr. McManama, of certain files of the Bureau of Customs pertaining to these cases. Mr. Mack, in his examination before this Committee, admits that he did not examine these files himself but that the examination was conducted by his assistant. In the report he recommended the non-payment of the Sokol claim. However, in this report, which was very carefully prepared, he quotes at length from letters of Mr. Green, who was the agent in charge of the Eastern Canadian liquor investigation, and his report includes an affidavit which he took from Mr. Green, which is Exhibit No. 3 of said report.

Your Mr. Green, it is testified by Mr. Graves, is a thoroughly responsible man, and there is no question in my mind that, by virtue of his training, experience and position as Chief Investigator on the Special Committee investigating these liquor cases, Mr. Green is probably better informed about the merits of Sokol's claim than anyone else in your Department. He recommended the payment of this claim in his letter to the Commissioner of Customs on June 17, 1938, as follows:

"After a careful consideration of the record in this case and a discussion of certain matters of Sokol's activities with our investigators, he is the only informer who could be classed as such, giving original information pertaining to the activities of the Canadian Industrial Alcohol Limited and its subsidiary, the Consolidated Distilleries Limited, and if there is no legal bar to the payment of the claim, it would appear that he would be entitled to an award of compensation."

Mr. Green also stated under oath in Exhibit No. 3 of Mr. Mack's reports:

"I am usually influenced by Bureau precedent and it seemed to me that this case is an all fours with the Coast Breweries, Ltd. case, and if an award was made in that case, it would seem that I would be justified in recommending favorable action in the case of the Consolidated Distilleries."

Mr. Graves, in his testimony before this Committee, has stated that the investigation of the Eastern Canadian Distilleries cases had been going on for from six to eight months prior to the entry of Mr. Sokol as an informer into this case, which was about January 1935. The statement of Mr. Graves further shows that he came to your Department about the first of January 1934, from the Post Office Department, that he had had no previous experience in customs, that this was the first case of that character he had been engaged in, that he did not personally have any knowledge of the investigation which antedated Sokol's connection with the case, nor any personal knowledge of an earlier informer prior to Sokol's entry into the case.

Mr. Graves also advised the Committee that he had no authority to turn over any of the records antedating January 1935, which might corroborate his statement that the Government had been investigating the Consolidated Distillery Company prior to Sokol's entry therein and that Sokol's information was not the first which the Government had received with regard to the illegal sale of alcoholic beverages by the Consolidated Distilleries Limited in the United States during prohibition days.

It should be clear to you, Mr. Secretary, that in view of the foregoing, it is impossible for this Committee to fairly adjudicate the issues involved in Sokol's claim, and to make a sound recommendation to the Claims Committee of the House of Representatives unless you are willing to cooperate with the Committee and to furnish it with the following records of your Department:

1. All records antedating Sokol's entry into this case, pertaining to informers and the investigation of the Consolidated Distillery Company prior to January 1935; and
2. All affidavits and reports of Mr. Joseph L. Green or of Mr. Harry Sokol, as informer, to Mr. Green, which relate to the Consolidated Distillery Company case, after the entry of Sokol as informer therein; and
3. All original documents in your Department relating to the investigation of the Consolidated Distilleries Limited, and original memoranda of all conferences between Mr. Graves, Mr. Whitaker, Mr. Mohan and Mr. Frank, relating to the investigation and also relating to the claim or assessment and the settlement made by the Consolidated Distilleries Limited, or its parent company, the Canadian Industrial Alcohol Limited; and
4. In view of the fact that Mr. Mack's report indicates that he did not examine all of the files in this case, but depended upon Mr. Mohanana for such an examination, and in order that I may, as a Committee, fairly adjudicate the claim of Harry Sokol, I request that all records pertaining to the investigation, the claims which were set up, and the settlement of the claims of the Eastern Canadian Distillery cases shall be made available to this Committee, so that I may be able to judge whether or not information furnished by Sokol on the Seagram and Walker cases was so interwoven with the settlement of the Consolidated Distilleries case as to fairly sustain the inference that it was the information of Sokol which led to the recovery against the Consolidated Distillery companies.

I am sure, Mr. Secretary, that you must agree with me that these requests are reasonable in view of the diversity of opinions in your Department as to the

- 4 -

facts, and that the submission of the entire files in the Eastern Canadian Distillery cases are necessary in order that I may fully and fairly determine the merits of Mr. Sokol's claim. Unless there is something in these cases, which your Department is reluctant to reveal to the Congress, I can see no valid reason why all of the material which I have requested from you should not be made immediately available to this Committee. Please let me have your personal reply to this request. My reason for insisting upon your personal reply is that Mr. Graves, under oath, has testified that you only can make these files available, since they are in your official custody.

Very truly yours,

(Signed) J. Parnell Thomas

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 31, 1939.

TO Secretary Morgenthau
FROM Mr. Foley

A Subcommittee of the Senate Committee on Banking and Currency held hearings this morning on the Mead bill, S. 2343, which authorizes the Reconstruction Finance Corporation to insure banks against losses sustained as a result of loans made by them for business purposes.

Senator Mead testified and explained the purposes of the bill. He stated that many small firms are now suffering or failing because of inability to obtain credit and capital. Credit facilities should be provided for small business enterprises proportionate to those now enjoyed by big business. Under existing conditions banks will not make loans to small business enterprises and if such enterprises are too small to sell stock they have no means of obtaining capital. The Mead bill is designed to lend governmental aid to loosening credit to small enterprises.

Banks now refrain from lending intermediate credits because if a business risk goes bad a large part of the loan is usually lost and in the relatively few cases where such loans are made the rates of interest are excessive. The proposed bill, by providing for insurance, would not only encourage the making of such loans but would also, by limiting the risk of loss, reduce the rates of interest charged. Since the bill provides for the rediscount of such loans with the Federal Reserve banks, the liquidity of banks making such loans would not be lessened. In response to a question as to the effect of the

- 2 -

proposed bill upon the liquidity of the banking system, Senator Mead stated that the Federal Reserve Board had informed him that the rediscount procedure contemplated by the bill is practicable but that the Board desires to submit an amendment to the provision as now drafted.

Congressman Allen of Pennsylvania, the sponsor of a similar bill in the House (H. R. 4280), testified in favor of the bill. Congressman Jeffries of New Jersey and a representative of the American Retailers Association testified in favor of the bill, but emphasized the need of small loans to retailers. Senator Wagner and Senator Mead stated that they believe that the present bill makes adequate provision for such loans. Senator Pepper of Florida also testified in favor of the bill and stated that it does not conflict with a bill (S. 3630), providing for the establishing of a system of regional industrial banks, which he introduced last session.

Senator Mead stated that representatives of the Treasury Department, Reconstruction Finance Corporation, Securities and Exchange Commission, and the Federal Reserve Board have been asked to testify concerning the bill. Further hearings will be held tomorrow and Friday. Jesse Jones of the Reconstruction Finance Corporation will testify Friday morning.

E. W. F. H.

TREASURY DEPARTMENT

169

INTER OFFICE COMMUNICATION

DATE May 31, 1939

TO Secretary Morgenthau

FROM Mr. Foley

Senator Head of New York on May 8, 1939 introduced Senate No. 2343 which was referred to the Committee on Banking and Currency and, if enacted into law, will be known as the "Insured Business Loans Act of 1939."

The bill authorizes the Reconstruction Finance Corporation to insure business loans of banks, whose deposits are insured by the Federal Deposit Insurance Corporation, to the full extent of losses incurred in excess of 10% of the principal amount of any loan for a business purpose.

Premiums charged for such insurance may be at the rate of not less than 1/4 of 1% and not more than 1% per annum, depending upon the nature of the loan and the character of the risk involved.

The bill permits the Corporation to charge a higher premium or to refuse to grant insurance altogether on loans of any bank which pursues the policy of insuring only its more doubtful loans.

To be eligible for insurance, a loan to any one firm must not (1) exceed \$1,000,000, (2) be made for a period less than one year or more than ten years, (3) bear interest (exclusive of premium and a moderate service charge) in excess of 4% per annum, and (4) be made to any firm of which an officer, director, or security-holder owning more than 10% of stock is also a director of the bank making the loan.

Insured loans are made eligible for rediscount with the Federal Reserve banks for the full amount of the insurance, that is, 90% of the face value of the loan. In addition every Federal Reserve bank is authorized to buy and sell obligations evidencing loans insured under the bill in accordance with rules and regulations which the Federal Reserve Board shall prescribe.

Putting the risk of loss—the risk of all losses up to 10% of the principal amount of the loan on the lending bank—would appear to have several advantages:

- (1) It constitutes a safeguard against imprudent lending and as an automatic check on the abuse of the insurance privilege;
- (2) It eliminates the expense and annoyance involved in the adjustment of relatively small losses;
- (3) It should operate so as to relieve a bank from the fear that even a fair business risk may be a greater risk

than a commercial bank can afford to assume, but at the same time deter a bank from assuming other than a fair business risk.

A distinct advantage of the Mead bill is that it meets the credit problem of small enterprise without creating a new system of banking institutions, without creating a new Federal agency, and without disturbing the traditional method of financing capital expenditures by small enterprises.

I am attaching a copy of the bill.

F. W. H.

76TH CONGRESS
1ST SESSION

S. 2343

IN THE SENATE OF THE UNITED STATES

MAY 8, 1939.

Mr. MEAD introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

A BILL

To provide for the insurance of loans to business, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Insured Business Loans
4 Act of 1939."

5 SEC. 2. When used in this Act, unless the context other-
6 wise requires—

7 (a) "Corporation" means the Reconstruction Finance
8 Corporation.

9 (b) "Bank" means any "insured bank" as defined in
10 section 12B (c) (8) of the Federal Reserve Act, as
11 amended.

1 (c) "Federal Reserve Board" means the Board of
2 Governors of the Federal Reserve System.

3 (d) "Loan" means any loan, extension of credit, or
4 renewal thereof.

5 (e) "Person" means an individual, a corporation, a
6 partnership, an association, a joint-stock company, a business
7 trust, or an unincorporated organization.

8 SEC. 3. (a) Subject to the provisions of this Act, the
9 Corporation, upon application, is authorized to insure any
10 bank against the whole or any part of the loss or losses, in
11 respect of principal or interest or both, which such bank may
12 sustain in excess of an amount equal to 10 per centum of the
13 principal amount of any loan which such bank may make to
14 any person for any business purpose, and for the purposes of
15 this Act the Corporation is authorized to determine what
16 constitutes a business purpose. For such insurance the Cor-
17 poration shall charge a premium of not less than one-fourth
18 of 1 per centum nor more than 1 per centum per annum of
19 the unpaid balance of such loan: *Provided*, That the Cor-
20 poration in its discretion may charge a higher premium, or
21 may refuse to grant insurance altogether on loans of any
22 bank which in the judgment of the Corporation pursues a
23 policy of insuring only the more doubtful of its loans eligible
24 for insurance. The Corporation shall from time to time fix
25 the premium rates to be charged for the insurance of loans

1 which rates may be adjusted in accordance with appropriate
2 classifications based, among other things, upon the nature of
3 the loans and the character of the risks involved, and the
4 premium rates for which the Corporation undertakes to insure
5 any particular loan shall not be increased during the life
6 of such loan.

7 (b) No loan shall be insured by the Corporation (1) if
8 the aggregate principal amount of the borrower's insured
9 indebtedness exceeds \$1,000,000; (2) if the loan is made
10 for a period less than one year or more than 10 years; (3) if
11 the loan bears interest (exclusive of premium charge for
12 insurance and service charge) at a rate exceeding 4 per
13 centum of the principal amount of the unpaid balance of the
14 loan outstanding: *Provided*, That the Corporation by regu-
15 lation shall have power to decrease or increase the per-
16 missible rate of interest if and to the extent that it finds such
17 decrease or increase is necessary to insure the adequate use,
18 or deter the excessive use, of the insurance facilities provided
19 in this Act; (4) if the loan provides for a service charge, fee,
20 or commission aggregating during the life of the loan more
21 than one-fourth of 1 per centum of the principal amount of
22 such loan; (5) if the loan is made to any person, of which
23 an officer, director, or security holder owning more than 10
24 per centum of any class of its stock is, or has been within
25 the preceding twelve months, a director of the bank making

1 such loan; or (6) if the loan is made in contravention of
2 any rule or regulation which the Corporation shall prescribe
3 as necessary or appropriate to carry out the purposes of this
4 Act or to prevent the abuse of the credit facilities herein
5 provided.

6 (c) Nothing in this Act shall prevent the Corporation
7 in appropriate cases insuring loans which are subordinated
8 to short-term indebtedness incurred in the ordinary course
9 of business.

10 (d) The Corporation shall have power to insert in
11 the insurance contract covering any loan insured under this
12 Act such terms and conditions as it may deem necessary or
13 appropriate to carry out the purposes of this Act or to pre-
14 vent the abuse of the credit facilities herein provided.

15 SEC. 4. (a) It shall be the duty of any bank having
16 a loan insured by the Corporation, and of any assignee of
17 such loan, to make such reports on the condition of such loan
18 as the Corporation may require. In the event of any de-
19 fault on any loan insured by the Corporation, the bank or
20 its assignee shall promptly notify the Corporation and take
21 such steps for the protection of such loan as the Corporation
22 may require. At any time after any such default shall have
23 been continued for sixty days, such bank or its assignee
24 (upon making a good and sufficient assignment of such loan
25 to the Corporation) shall be entitled to demand from the

1 Corporation, and the Corporation shall pay, the full amount
2 of insurance due on account of such loan. Thereupon the
3 Corporation shall be fully subrogated to the rights of the
4 bank or its assignee or both in respect of such loan, but
5 shall remit to the bank or its assignee or the borrower as
6 their interests may appear any moneys collected in excess
7 of the insurance paid and the cost of collection.

8 (b) Subject to the provisions of this Act and the terms
9 of the insurance contract, the insurance on any loan shall
10 inure to the benefit of any assignee to whom such loan
11 shall have been assigned, or of any purchaser to whom the
12 obligation evidencing such loan shall have been transferred.

13 SEC. 5. (a) Upon the endorsement of any bank, which
14 shall be deemed a waiver of demand, notice, and protest
15 by such bank as to its own endorsement exclusively, and
16 subject to such regulations as may be prescribed by the
17 Federal Reserve Board, any loan insured under this Act
18 shall be eligible for rediscount by the Federal Reserve bank
19 for the Federal Reserve district in which such bank is
20 located, and for purposes of rediscount such loan shall be
21 valued at not less than the full amount of the insurance
22 payable by the Corporation in respect of such loan. Such
23 loan shall be eligible for rediscount whether or not the bank
24 offering the loan for rediscount is a member bank of the
25 Federal Reserve System and whether or not such bank

1 acquired the loan from the borrower or acquired it by trans-
2 fer from another person.

3 (b) Every Federal Reserve bank shall have power to
4 buy and sell, at home or abroad, obligations evidencing
5 loans insured under this Act, such purchases and sales to
6 be made in accordance with such rules and regulations as
7 the Federal Reserve Board shall prescribe.

A BILL

to amend the Internal Revenue Code of 1954 to provide for the taxation of certain income from the sale of certain property

Enacted by the Senate and House of Representatives of the United States of America in Congress assembled, September 10, 1954.

Approved: September 13, 1954.
Franklin D. Roosevelt
President

1 acquired the loan from the borrower or acquired it by trans-
 2 fer from another person.
 3 (b) Every Federal Reserve bank shall have power to
 4 buy and sell, at home or abroad, obligations evidencing
 5 loans insured under this Act, such purchases and sales to
 6 be made in accordance with such rules and regulations as
 7 the Federal Reserve Board shall prescribe.

A BILL

To provide for the insurance of loans to busi-
ness, and for other purposes.

By Mr. Mead

MAY 8, 1939

Read twice and referred to the Committee on
Banking and Currency

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

May 31, 1939.

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

For your information -

As you requested in your telephone call to me this afternoon at 2:14, I called Mr. Edward A. Tamm and the following is a transcript of the telephone conversation I had with him:

Foley - Mr. Tamm

Tamm - Yes (interruption)

Foley - Mr. Tamm, I gave the Secretary that message that you said you had for me

Tamm - Yes (interruption)

Foley - (sentence continued) and I mentioned that you had called; and he asked me if I would find out from you what you could tell us about the Smathers matter that I discussed with the A. G. some weeks ago. McQuillan and his agent that worked on that case - they were with me when I talked to the A. G., and you were sent for at that time, and you took them to your office to talk to them, I believe, when I came back to the Treasury.

Tamm - I don't know. It is out of our hands and is pending in the Department. Mr. Morgenthau would like to know from the A. G. the status of that case?

Foley - Well - whatever you can tell us about it.

Tamm - I will be glad to tell that to the A. G.

E. H. F.

May 31, 1939

Mr. Hanes today showed the Secretary the attached letter which he received from James Roosevelt. HM, Jr said to Mr. Hanes: "I would get all the facts and have Ed Foley go over them and see whether they are correct legally. After that is done, if you would care to have me go over them, I would be glad to do so. I think I told you that at Cabinet I brought the matter up and the President said 'Fine! Go to it.'"

SAMUEL GOLDWYN INC., LTD.

STUDIOS-7210 SANTA MONICA BOULEVARD
LOS ANGELES, CALIFORNIA

JAMES ROOSEVELT
VICE PRESIDENT

May 29, 1939

Dear Johnny:

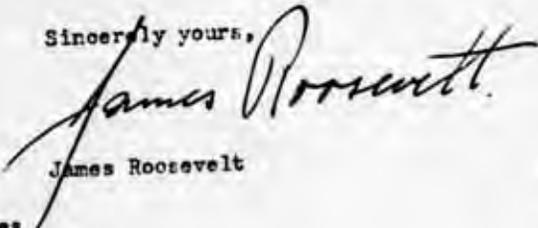
I have your letter of May 25th.

To the best of my knowledge I have never telephoned you concerning any tax cases, with the exception of two telephone calls requesting some information for a friend of mine, Mr. Joseph Schenck. The telephone request was not for a special favor of any kind, but rather for information as to whether the Government might be going to ask him for certain records, so that he might prepare them for immediate submission if the request came.

At the time, I asked you if my request was perfectly proper, and your reply was that it was certainly so and you would be glad to look into the matter and inform me.

I do not understand the tenure of your letter and its implication that I have made repeated calls to you concerning these cases. You are well aware that this is not the case and that I have made it a definite principle not to contact any Government department, asking for special treatment or favors for any of my friends.

Sincerely yours,


James Roosevelt

The Honorable John W. Hanes
Under Secretary of the Treasury
Department of the Treasury
Washington, D. C.

ROBERT & SOHN
Attorneys at Law
Beaver, Pa.

Charles R. Robert
Beaver, Pa.
Morgan H. Sohn
Aliquippa, Pa.

May 21, 1939

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

My dear Secretary:

The most gratifying and promising utterance that has come out of Washington for a long time is your statement before the Ways and Means Committee on the subject of taxation. At last a high official of the Government recognizes the importance of a fiscal system that will encourage free enterprise and private investment, of distributing the tax burden justly and the national income equitably. This is the sum total of a sound fiscal policy and what a wonderful thing it would be if we, Democrats, would develop a fiscal policy by which the objectives outlined in your statement would be realized. I am persuaded that the greatest sin of omission on the part of the present Administration has been its indifference towards the development of a sound fiscal policy and its failure to recognize the important part it plays in the national economy.

When the Revenue Act of 1936 was under consideration in the House of Representatives, I had occasion to make a speech in which I endeavored to point out the basis of a sound fiscal policy with special reference to the problem of recovery and unemployment. I am herewith enclosing a copy.

During the campaign of 1938, I distributed a pamphlet among the voters in my District in which I set forth in a simple way the factors in our economic set-up that ought to bear the brunt of taxes. Enclosed find a copy.

With kindest personal regards, I remain

Yours truly,

CHARLES R. ROBERT

By (Signed) Charles R. Robert

CH:AD

C
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P
Y

GOODWOOD
RICHMOND, BERKSHIRE COUNTY
MASSACHUSETTS

May 29, 1939

Hon. Henry Morgenthau,
Treasury Department,
Washington, D. C.

Dear Mr. Secretary:

My warm congratulations on your taxation statement. It covered everything important, except the question of double taxation of dividends! I am pained with journals like the New York Times who demand tax revision and yet insist on a constitutional amendment to handle tax exempts. You certainly have shown courage to stick by your guns on this question and I know events will prove you have been right.

Sincerely yours,

(Signed) Raymond L. Buell,
Raymond L. Buell.

(COPY)

THE UNIVERSITY OF CHICAGO
Department of Economics

May 29, 1939

Mr. Henry J. Morgenthau, Jr.
Secretary
Treasury Department
Washington, D. C.

Dear Henry:

I am sending you herewith Paul Leach's story of your tax revision efforts, which may perhaps not have been brought to your attention. I think you will enjoy reading it.

* * * * *

Cordially yours,

(signed) Jacob Viner

Jacob Viner

JV-W
Encl.

(COPY)

178

1708 LOCUST STREET
PHILADELPHIA

May 29, 1939

Hon. Henry Morgenthau, Jr., Secretary,
United States Treasury Dept.,
Washington, D. C.

Dear Mr. Morgenthau:

I am writing to offer you my hearty
congratulations for your statement before the Ways
and Means Committee of the House of Representatives
relative to the revision of taxes.

Yours very sincerely,

(signed) Edw. Lowber Stokes

COPY

179

135 South La Salle Street
Chicago

May 29, 1939

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

Dear Sir:

Permit me to extend my compliments on your testimony
before the House Ways and Means Committee on May 27.

Yours very truly,

(Signed) Franklin Roosevelt

FR:MK

COPY

180

Herbert Bayard Swope
30 Rockefeller Plaza
New York

May 29, 1939

Dear Mr. Secretary:-

Fine statement on taxes. Congratulations.

Faithfully,

(Signed) Herbert Bayard Swope

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

C
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TREASURY DEPARTMENT

Telegraph Office

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1939 May 29 AM 6 43

OSSINING NY MAY 28 1939

Hon Henry Morgenthau Jr

CONGRATULATE YOU HEARTILY ON YOUR FINE CLEAR CONSTRUCTIVE STATEMENT
IF FOLLOWED IT SHOULD BE THE BASIS OF BUSINESS AND EXPANSION AND
INCREASED EMPLOYMENT ESPECIALLY IN THE CAPITAL GOODS. SINCERELY

GERARD SWOPE

750a

C
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Y

TREASURY DEPARTMENT

Telegraph Office

NO V, E 25 SER

WINCHESTER VA 31EP MAY 29 1939

1939 MAY 29 PM 3 42

MR HENRY MORGENTHAU

WASHINGTON

MY WARMEST CONGRATULATIONS ON YOUR VERY FINE STATEMENT ON TAXATION
THIS WILL DO MUCH TO CLEAR THE PUBLIC MIND ON THIS VITAL QUESTION.

HARRY F BYRD

340P

C
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Y

William M. Sporborg

Dear Mr. Morgenthau,

May I offer to you my heartiest congratulations upon your timely, welcome and splendid address before the House Ways and Means Committee yesterday in Washington. With thousands of other American citizens, along with innumerable admirers, I rejoice that you are a member of the President's Cabinet. I have been following your career with such great satisfaction that I could not resist writing these few lines of commendation to you.

Kindly present my compliments to Mrs. Morgenthau and accept my best wishes for yourself. "More power to you!"

Sincerely yours,

(Signed) William M. Sporborg.

Shrewsbury, N. J.

May 28, 1939

(COPY)

May 27 -

Mr. Henry Morgenthau

Dear Sir:

After reading your suggestions to Congress for Tax Revisions, in this mornings paper, I feel I must write you these few lines and thank you as no doubt millions of Americans will do this morning, even though they will not take the trouble to write - Thank God there are a few Americans in office that really have the interest of America's future at heart and you are one of the very few - I pray and hope that Congress will get busy at once, although that will be expect - a great deal -

If you were now and had been President of the United States since Mar. 4th, 1933 - we would not be in this horrible mess -

Sincerely,

(signed) Harry R. Tate

Box 291 -
Altadena, Calif.

May 31, 1939

My dear Mr. President:

Last Thursday you asked Hanes and me for some specific information and I take pleasure in forwarding it to you herewith.

If there is any additional information you would like to have, please let us know.

Sincerely,

The President,
The White House.

May 31, 1939

My dear Mr. President:

Last Thursday you asked Hanes and me for some specific information and I take pleasure in forwarding it to you herewith.

If there is any additional information you would like to have, please let us know.

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The President,
The White House.

May 31, 1939

My dear Mr. President:

Last Thursday you asked Hanes and me for some specific information and I take pleasure in forwarding it to you herewith.

If there is any additional information you would like to have, please let us know.

Sincerely,

The President,

The White House.

May 26, 1939

To: The Secretary
From: Mr. Hanes

At our conference with the President on Thursday morning, May 25th, you will remember he requested certain information. Attached hereto is my memorandum to Mr. Blough and his memorandum to me, giving the information requested.

J. W. H.

C O P Y

May 26, 1939

To: Mr. Blough

From: Mr. Hanes

The President has asked the Secretary to supply him with the following data:

- (1) The average per capita tax per annum in Great Britain.
- (2) The average per capita tax per annum, Federal, state and municipal, in the United States.
- (3) Has the cost of Great Britain's rearmament program been paid for by (a) increased taxes, or (b) by borrowing?

MAY 26 1939

Mr. Hanes

Mr. Blough

The following information, from latest available sources, is submitted in connection with the President's request to the Secretary for data on the three questions indicated in your memorandum of May 26:

(1) The average per capita tax per annum in Great Britain.

Total and Per Capita Taxes, United Kingdom, Fiscal Year 1936-39

(Pound converted at \$5.00)

	(Amounts in millions)	Per Capita 1/ (in dollars)
National 2/	\$ 4,697	\$ 99.32
Local 3/	882	18.66
Total	5,579	117.98

1/ Population estimated at 46,010,500 for England, Scotland and Wales, as of June 30, 1937, and 1,279,753 for Northern Ireland as of February 26, 1937.

2/ Inclusive of \$214,715,000 contributions for unemployment insurance (1936-37).

3/ 1934-35 rates used for England and Wales; 1933-34 rates used for Scotland; 1935-36 rates used for Northern Ireland.

Sources: Financial Statement (1936-40); Statistical Abstract for the United Kingdom, 1936; The Statesman's Year Book, 1938.

Mr. Hanes - 2

- (2) The average per capita tax per annum, Federal, State and municipal, in the United States.

Estimated 1938 Federal, State, and Local Tax Collections

	(Amounts in millions)	Per Capita ^{1/} (in dollars)
Federal	\$ 6,034	\$ 46.34
State	3,857	29.62
Local	4,920	37.78
Total	14,811	113.74

^{1/} Population of continental United States as of July 1, 1938 estimated at 130,215,000. (Bureau of the Census)

- (3) Has the cost of Great Britain's rearmament program been paid for by (a) increased taxes, or (b) by borrowing.

Financing of the Armament Program of the United Kingdom

(In millions of dollars ^{1/})

Fiscal Year	Total expenditure on armament	Borrowing specifically allocated to armament program	Revenue from taxes speci- fically al- located to armament program	Armament expendi- tures financed from General Revenues
1937-38	\$ 1,330	\$ 325	\$ -	\$ 1,005
1938-39	2,000	640	110	1,250
1939-40 (budget)	3,150	1,900	125	1,125

^{1/} Pound converted at \$5.00

J82:log
5/26/39

Mr. Hanes - J

In comparing the United Kingdom and the United States total and per capita tax collections it should be noted that, for the United Kingdom, only unemployment insurance taxes (contributions) while for the United States all social security taxes have been included. Furthermore, with respect to local taxes for the United Kingdom, only property taxes are included. Information on the incidental collections from licenses and fees is not available.

JHJ/leg
5/26/39

(COPY)

Mrs. Hamilton W. Wright
328 Buffalo Avenue
Niagara Falls, New York.

May 31st 1939

Secretary of the Treasury Morgenthau,
Treasury Department,
Washington, D. C.

Dear Sir:-

I do not propose to understand a Secretary of the Treasury and appointed by the present Administration making the recommendations you did last Saturday on tax revision - - - I am only thankful that you have done so and am grateful to you for putting the financial stability of this country above political expediency -

I congratulate you on not only having sound convictions on the revision of our tax structure but on your courage to fight for these convictions and the fearlessness you have shown in expressing them -

Cordially yours -

(signed) Caroline Norton Wright

C
O
P
Y

SOUTHEASTERN ENGINEERING CORPORATION

Engineers and Constructors

57 Alabama St., S.W.
Atlanta, Ga.

May 29, 1939.

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

Dear Sir:

Your recent recommendations of proposed changes in tax legislation is the most encouraging news of the year and, I believe, will be acclaimed by every business man in the country.

Your proposal, No. 4, is most urgently needed. In any type of business such as construction, which by it's very nature shows big swings of profit and loss, the present law is grossly unfair. Under it a small business man can be literally taxed out of existence, simply by the recurrence of alternate years of heavy profit and loss in alternate years.

You and your staff deserve, and I am sure will receive, the full support of business, large and small in driving this opening wedge to a new Recovery.

Respectfully yours,

/s/ John W. McConnell
John W. McConnell

JWM/ww

CITY OF TOLEDO

OHIO

John N. Edy
City Manager

June 2, 1939.

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

My dear Mr. Secretary:

May I offer this word of appreciation for your recommendation that Congress repeal those tax laws which are more irritating than revenue producing in order that a higher level of business activity may be encouraged and increased work opportunity afforded for unemployed persons. I think this City is fairly typical of those industrial communities in which the burden of relief and work relief is simply beyond the capacity of the local government and at the same time is straining the capacity of the Federal government. You cannot concern yourself with our financial problems, yet this is not the only city in which the outlook appears hopeless. Unless unemployed persons can be returned to work in private employment the financial structure of industrial cities is certain to collapse.

With assurance of my esteem and sincere good wishes,
I am

Respectfully yours,

(signed) John N. Edy

City Manager

JNS:MS

RE: PACIFIC COAST MOTION PICTURES

May 31, 1939
3:55 P.M.

PRESENT: Mr. Hanes
Mr. McReynolds
Mr. Graves
Mr. Gaston
Mr. Wenchel
Mr. Irey
Mrs. Klotz

H.M.Jr: All right, John.

Hanes: Mr. Secretary, the Department has referred to us a report on the so-called motion picture cases out on the Coast. It is quite a long document, and I did not think we wanted to go into the reading of it now. I think the best thing to do is to have Graves give you an outline of just exactly what has taken place and where we stand now.

H.M.Jr: All right.

Graves: The document that we have here is the usual report for signature by the Commissioner, addressed to Assistant Attorney General Morris. It recommends that the District Attorney of Los Angeles be authorized and directed to institute criminal proceedings directed against Schenck and Goetz, representing the Meyer Family Trust, and Darryl Zanuck and a number of other persons, or employees or counsel retained by one or another of those three, and including a revenue agent, who investigated the tax liability of this group, and who it is believed sought to conceal the true facts.

H.M.Jr: What is his name?

Graves: Kadis. The charge against these people is they failed to disclose income received by them -- and I speak now of Schenck and Goetz and Zanuck -- in connection with the reorganization of the 20th Century-Fox Company. In that reorganization, these three, who were the owners of 20th Century, merged with a very much larger interest, relatively, than

they had when they went into the merger. That gain was not reported by them in their income returns for the year, and our investigators have, of course, sought to get from them the true facts about the transaction. I think it is correct to say that throughout the investigation those people have sought to withhold the true facts, to misrepresent the facts and mislead our investigators. We are recommending that they be held to account for that failure to tell the truth in this investigation.

The amount of the income derived by those men, in all, was something in excess of seven million dollars. The amount of the deficiency and penalty to be declared against them is something in excess of six million dollars.

H.M.Jr: So it is six and seven?

Graves: Yes.

H.M.Jr: Thirteen.

Graves: Yes. The amount of the tax and the penalty would be almost as much as the income.

H.M.Jr: Did they bribe this agent?

Graves: It is our supposition that they did. We have very strong evidence to that effect, which, however, in its present state, would not stand up on trial; but our belief is that if the district attorney would call certain witnesses on this report before the grand jury, direct evidence of bribery could be had.

H.M.Jr: Now, let me ask you this question -- either you or counsel; in sending this over, as I understand, as a suggestion from the Commissioner of Internal Revenue to the Assistant Attorney General, Mr. Morris that is the usual procedure?

Graves: That is the usual procedure. It has only been departed from in the Annenberg case, as far as I know.

H.M.Jr: Well, I do not think those two cases are quite comparable.

Graves: That is my own opinion.

H.M. Jr: What?

Graves: I agree with you on that.

H.M. Jr: I mean in the Annenberg case, we are dealing with the underworld, gambling, rackets and all the rest of that. That is one thing, and although this is a tax evasion, there is no racketeering involved.

Graves: It is a tax case.

Foley: And it is a large one.

H.M. Jr: It is large, but there is no racketeering or underworld hooked up with it. What about this question: When I looked into the Annenberg case I was told that we had to see his lawyers. Is this the usual way -- to send it right over?

Graves: I think it is in order to have it go over without attempting further to contact either these principals or their lawyers. They have been contacted over and over again by our special agents, and given every opportunity to say anything that they might care to say, and, as I have remarked, they have undertaken to obstruct our investigation and withhold the information. There is no question but what they have undertaken deliberately to deceive our investigators.

H.M. Jr: I would just like to satisfy myself that this is the usual procedure.

Wenchel: Yes, sir.

Graves: Yes, sir.

Wenchel: What you have in mind, Mr. Secretary, is that you were told that the people in Chicago should be interviewed. That has been done in this case.

H.M. Jr: They have been interviewed?

Wenchel: Yes.

H.M. Jr: Where?

Wenchel: In Los Angeles.

Graves: And in New York.

Wenchel: And Muskowitz in New York. That is right.

H.M.Jr: Who is Muskowitz?

Wenchel: He is tax counsel for Meyer.

H.M.Jr: Where does Meyer come into the picture?

Wenchel: He is connected with the Meyer Family Trust, of which Goetz is the manager.

H.M.Jr: What is the family trust called?

Wenchel: The Meyer Family Trust.

H.M.Jr: Does it not have some name?

Wenchel: That is the name -- the Meyer Family Trust.

H.M.Jr: John, it comes through you to me. What do you recommend?

Hanes: I recommend that we send it to the Department of Justice. As I understand, the Department of Justice will then contact the individuals and they will then be given a right of hearing. That is the general procedure in the Department. It will go through the ordinary course, just as in any other tax case.

H.M.Jr: Once we send it over there, I would say it was up to them to follow whatever procedure they wanted to follow.

Hanes: I agree with you.

H.M.Jr: We canttell them what they should or should not do.

Hanes: I did not mean that we should tell them.

H.M.Jr: I mean, once it goes over there, their hands are untied as to what they want to do, and it does not go with any recommendation from us.

Graves: Other than the institution of criminal proceedings.

H.M.Jr: Pardon me, what did you say?

Graves: We say that we recommend the institution of criminal proceedings.

H.M.Jr: Oh, you do say that?

Graves: Yes, sir.

Hanes: It is stated in this letter to them.

H.M.Jr: Who says it?

Hanes: The Commissioner.

H.M.Jr: Who is the Commissioner?

Hanes: Mr. Helvering.

H.M.Jr: Will his name be on it?

Graves: I think it will. He says he will be in the Bureau up to Friday.

H.M.Jr: Does anybody want to raise any question?
(No response)

H.M.Jr: Then, it goes over with our recommendation for criminal prosecution, and with no strings to it once it does go over. Is that right?

Graves: That is right.

Hanes: Is there anything that either of you gentlemen wants to add to that?

Irey: I just wanted to say to you that this man Kadis has been removed from the service. That is in accordance with the usual procedure that is followed, and a recommendation was made.

H.M.Jr: Ed?

Foley: I agree. I have no other statement.

H.M.Jr: It is four-fifteen. Will he sign it between now and five o'clock.

Hanes: It can be arranged.

H.M.Jr: I would like to have it signed. I would like to have it arranged to have Mr. Morris wait until it gets there tonight. Call him up and tell him we are going to have it over and ask him to please wait until it gets there.

Is there anything else?

- 6 -

Foley: Could I call Miss Baumgartner and tell her it is on the way over?

H.M.Jr: Surely.

Foley: So that she will be able to tell him that when he gets in. I think that would be a good idea. The only purpose to be served in getting it over there tonight is to have him sign it when he gets in at 9:15.

H.M.Jr: All right, but suppose that Helvering cannot sign it.

Graves: I think we can arrange that.

H.M.Jr: Where is he?

Graves: He is at Takoma Park Sanitarium.

H.M.Jr: At what place?

Graves: At Takoma Park.

H.M.Jr: All right.

(Meeting concluded at 4:18 P. M.)

AFG

May 31, 1939

Present:

Mr. McReynolds
Mr. Bell
Mrs. Klotz

HM, Jr.: I have made no suggestions as to what Gaston should do. Think about it. I don't know. I don't know what he likes to do. I did say something about doing Procurement, looking into that. Outside of that I have made no suggestions.

Of course, in the room here, if Gibbons gets out, he's inclined to get out, then it would be easier to decide. You see what I mean? When we announce it, we have to say something of what Gaston is going to do.

Then, this is the thought I wanted you people to think about. I don't know whether you know it or not, but sometime in the Fall Archie Lochhead is leaving, and I could not tell him not to go.

There is this young fellow that we have trained for some time. This fellow Hawkey. We might bring him in there.

Then there -- this is all in the air, another thought was to put Merle Cochrane in there. With Frank Dietrich and Hawkey in there, and if we had anything special in the world, we could get him out. He could get 20 months' leave of absence. He could get leave of absence or assign him. They won't want him in Paris.

Mr. Bell: That would be fine if he did not lose his status, because he's a prominent career man.

HM, Jr.: Have him detailed here. My thought was if we had Merle Cochran in there, Frank Dietrich and Hawkey, that would take care of that.

Then, on the other thing -- Mac, you know more

-2-

about Lucius Wilmerding.

Mr. MoR: He's a very bright young man.

HM, Jr: I don't mean as Assistant Secretary. I was thinking of having three bright young men in here as Assistants, whom we could sort of use for special assignments, such as Export-Import. I was thinking of Lucius Wilmerding, Phil Young and young Joe Cotton, none in terms of Assistant Secretary, but all coming from excellent background of people who have done public service and you could give them different assignments as the things came up. But I was thinking of those three that people could use. One, Mac could use; one, Bell. But those three young fellows would be here to use for different things, one to work in with Export-Import, or whatever there is.

Mr. Bell: Is Cotton here?

HM, Jr: Ha's coming' this afternoon. They say he's brilliant.

Mr. Bell: He's a lawyer?

Mrs. Klotz: Who would they be responsible to?

HM, Jr: Me. Mac. Bell. Anybody that wants them

Mr. MoR: Primarily, assistants in the boss' office.

HM, Jr: Take Export-Import. I would immediately put Cotton in there as understudy to Archie. Why isn't the Brazilian loan going ahead? Things like that. I am throwing it out.

Mr. MoR: Wilmerding is a very bright young fellow. He's good on research if you want to be sure your research is thorough.

Mrs. Klotz: But that's all.

Mr. MoR: He's of no use whatever in an administrative capacity, to turn over anything to him to be done.

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Mr. Bell: Writes a good report.

Mrs. Klotz: But that's all.

Mr. McR: He will go clear to the botton of a thing, you can depend on it. But he takes all the time that's necessary to do it.

HM, Jr: Gentlemen, I am just throwing these things out. Nothing is settled. I want the three of you, with Harold Graves, to talk it over and then come back and talk it over with Mrs. Klotz and me. I am throwing it out because I have sort of made up my mind that I can't get, in the next 20 months, the kind of people, quasi-political people, that I want.

Mrs. Klotz: And first-class people.

HM, Jr: First-class quasi-political.

Mr. Bell: The time is too short.

HM, Jr: Therefore, I have to rely on the rest, on Mac and Bell and Harold Graves, Gaston, White, Haas, and the rest of them.

Mr. Bell: Nothing settled about Gibbons yet?

HM, Jr: No. I am going to talk to Gibbons.

Now, it's up to you. Do we need some Assistants? What I would do with Joe Cotton would be immediately to put him under Archie and let him try him out. You know what I have told him? Three months' trial.

Mr. McR: Of course, Phil Young is already working. He would stay in the place he is.

HM, Jr: Joe Cotton would come as understudy with Archie on Export-Import, State Department, but not on the Stabilization Fund. He's particularly interested in South America; would have nothing to do with the Stabilization Fund. Take the question of Spain. It's a legal matter. This question of why don't we go ahead

with Brazil. I don't know whether he has the backbone to go over there, to fight so hard we will find out, but I want to know why aren't they making that \$50,000,000 loan to Brazil. Somebody is blocking it. That kind of stuff. I would make him understudy to Archie on Export-Import, which is plenty for the time being.

Mr. Bell: We have some other loose ends. Might not be any of our business, but Wayne Taylor used to spend a lot of time with Commodity Credit and Crop Insurance and I have never been able to find out what that last thing is.

HM, Jr: O. K. I was thinking, frankly, of the loose ends which have been my responsibility, knowing Archie is going to go and trying to plan for myself a six weeks' vacation. What I am hoping to do. Only thing that bothers me is apples! What I am trying to do is -- let you all in the secret -- try to plan is the first of August this year to the 15th of September. That's what I am trying to plan, and so it will be the first financing I ever missed.

Mrs. Klotz: Marvelous!

HM, Jr: Only thing that will bring me back are my Mackintosh apples.

Mr. Bell: You will be close, where you will be in telephone reach?

HM, Jr: No. What I want to do is go to see the President and ask him about it and I am going to tell Johnnie Hanes today, but that's what is on my mind. I am planning to smoke him out. But that's what I have in mind. Then as soon as we knew, and everything else, I think what we ought to do is meet just as frequently until we get this thing. First thing is to get Gaston straightened out, because there are blind spots like you are talking about. Do you (Bell) need anybody? Does Mac need anybody? Does Harold need anything?

Again, very much in this room, I may be all wrong; I don't want to be unkind, but I can't see that Johnnie does anything towards supervising Internal Revenue. Am I wrong, Mac?

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Mr. McR: No; he does not do it.

HM, Jr: Does he do anything?

Mr. McR: No. I don't think he does?

HM, Jr: He fusses with particular cases, but outside of that?

Mr. McR: He gets into plenty of individual cases that we have to get him out of, but he does not do much. His intentions are perfectly good. He does not mean to butt in out of turn. As soon as he finds he is, he gets out quick.

HM, Jr: But as to taking administrative responsibility?

Mr. McR: No; he does not.

HM, Jr: I am trying to be realistic. I have just gone through this most difficult time since I have been in Washington. I am afraid I am here for another 20 months.

Mr. Bell: You are afraid you are?

HM, Jr: Yes. And therefore

Mr. Bell: I was afraid for a while you were not.

HM, Jr: Therefore, Mrs. Klotz is going to laugh, but for instance, tomorrow afternoon I am not going to be here. I have just got to do something to store up a little energy.

Mrs. Klotz: You are approaching it in the right way by putting it on these people.

HM, Jr: I am putting it on them and I want you gentlemen to think about it so you can get reasonable vacations; have a little fun; enjoy yourselves.

Mr. McR: I am having lots of fun. When you were under too much pressure at the White House, that wasn't any fun.

HM, Jr: I am trying to be realistic. I want these

fellows so if you come back and Bell says 'I need a couple,' and Mac says he needs a couple -- and then I think we ought to sit down with Jones and he said, for instance, he would like to talk about HOLC. He said, 'I am going into a new job and I want to get help from the Treasury.'

Mr. Bell: What job? Oh, he's going to head up that consolidated lending agency.

HM, Jr: Who did you think was going to do it? Ickes?

Mr. Bell: I had no thoughts on it. I thought Jones was the best man.

Mr. McR: I had a little fun when I came back Saturday. Ran into Louie Brownlow. We drank some Scotch and soda and he was just itching to see me. He said "The President wouldn't let me go over; wouldn't let me see anybody; any Department people. I had to stay away from them." He was just bubbling over for gossip and that's all he did, except to tell me one thing.

You know, Sam Ordway is out tomorrow. He's resigned and the President accepted it as of tomorrow. He, of his own volition, brought to the President a list of people that were known more or less nationally who might be considered for appointment as Civil Service Commissioner and he rated them on a Civil Service basis, some twelve. And I was at the bottom of the list. Louie, he just laughed. He said "This is the first time you ever flunked a Civil Service examination. You rated just under 70." He had Brownrigg, Department of Justice, at the top. He's the man Murphie brought down from Michigan. Louie thought it was so funny.

HM, Jr: It's because you fought him.

Mr. McR: Sure! But the funny thing is, he said that was on Friday that he gave it to the President, that the President turned it over to Louie and Smith of the Budget and said something about these boys rating their teachers. He said the President just laughed about it. But Louie said that on Saturday morning Sam had sent a

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revised list over that turned the thing around and put me at the top. Funny thing is I went over and met him -- Sam -- first time I ever spoke to him alone -- spent two hours with him over at the Cosmos Club and Sam changed his mind after talking to me two hours.

HM, Jr: Friday night, at the bottom of the list, and Saturday morning you were on the top and you had two hours with him Friday night? Is that leading up to the point of Civil Service Commissioner?

Mr. McR: Oh, no! Wouldn't take it in a thousand years! I don't want it. As far as I am concerned, I would rather be where I am now than any place they can find. I am perfectly happy and expect to feel happy for 20 months.

HM, Jr: One other thing -- I wish you would send for Admiral Peoples in the next 24 hours and ask him where he's going to go at the end of 60 days, and keep after him. Have the Admiral write me a letter asking that after 60 days he be transferred back to Navy.

Mr. McR: I have already talked to him and he's told me he would not stay after 60 days.

HM, Jr: The other thing, is it a good move to have Capt. Collins in charge?

Mr. McR: I have no hesitation on that.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

209

DATE May 31, 1939

TO Secretary Morgenthau

FROM Mr. Haag

Subject: Data on export sales of wheat and other market information, reported by Federal Surplus Commodities Corporation.

May 20: Export demand slow.

Soaking rains received in parts of dry areas in Nebraska. Crop experts estimate total United States wheat crop at about 700,000,000 bushels, versus 931,000,000 last year.

May 22: Winnipeg reports sale of 250,000 bushels to United Kingdom.

Good rains reported in parts of Kansas, Iowa, Nebraska, and Canadian northwest.

May 23: No data on export sales.

Good rains in North and South Dakota.

Estimates of 1939 wheat crop for 22 northern hemisphere countries reporting, about 7 per cent below last year.

May 24: Reported that United Kingdom bought about 635,000 bushels from Argentina.

Crop damage reports from high temperatures brought heavy buying. Reported that public interest in the wheat market is largest in more than a year.

May 25: Export demand very draggy. Canada reported sale of 350,000 bushels.

Good rains in spring wheat territory, with forecasts of further showers, and lower temperatures brought heavy selling.

Total U. S. wheat supply (including carryover) expected about 1,000,000,000 bushels, versus 1,084,000,000 last season.

Secretary Morgenthau - 2

May 26: Export sales estimated at 350,000 bushels, mostly Manitobas.

Market disregarded reports of good rains over large sections, and all wheat deliveries sold at new highs. Principal factor apparently was heavy covering by shorts and change to bull side by these buyers.

Domestic flour demand shows big improvement. A large chain store bakery reported to have bought more than 200,000 barrels of flour in past two days.

May 27: No data on export sales.

Reports from Southwest indicate estimates for Oklahoma, Kansas and Nebraska may be revised upward due to more favorable weather.

File *211*
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 31, 1939

TO Secretary Morgenthau
FROM Mr. Haas *HA.*

Attached is a memorandum from Miss Lonigan in which she discusses two suggestions which have been made recently with regard to WPA operations.

Attachment

May 26, 1939

To: The Secretary

From: Miss Lonigan *EL*

Two suggestions have recently been made about WPA which suggest certain fundamental improvements of great value.

Labor leaders are recommending that WPA should remove all relief requirements. This is highly desirable both from the viewpoint of sound social policy, and from the very deeply held preferences of workers. Actually the relief mechanics for determining need are so unsound that they do not constitute a test of need. They do encourage dependency and discourage self-reliance.

If relief requirements are removed, some other limiting factor must be introduced, or too many abuses arise in connection with choosing the beneficiaries.

The simplest, fairest, and most constructive basis of selection for WPA would be preference for men and women over forty-five. It might be better not to limit WPA entirely to older men, but to put first the obligation to provide supplemental employment for those with the least chance to return to private industry.

This principle of choice is confirmed by the suggestion made by Congressman Voorhis that orders for food and clothing be given to WPA workers over forty-five.

That would be undesirable, as it stands, because it would be doubling benefits for one class, but it indicates the growing preference for centering the national relief and made-work efforts on men over forty-five. Actually Congressman Voorhis's suggestion might be achieved more directly by providing self-help for the remaining workers over forty-five, who are not in private employment or on WPA.

In order to have the desired effect of stabilizing employment, expenditures for this WPA program should be divorced from the business cycle, or any form of compensatory financing. They would serve to put a foundation under the labor market, instead of increasing the irregular and fluctuating influences affecting it.

As I understand the law, no new legislation is required for this change in WPA work for those past middle-age. Under the present law it is entirely a matter for administrative decision.

THE NEW YORK TIMES.

**PART FOOD PAYMENTS
URGED FOR THE WPA****Voorhis Suggests This Plan for
Workers Aged 45 and Above**

WASHINGTON, May 20 (AP).—A suggestion that WPA employees, aged 45 years and over, be paid partly in food and clothing was made to a special House investigation committee today by Representative Voorhis, Democrat of California.

Chairman Woodrum commented that such a plan as that of Mr. Voorhis was now in operation at Richmond, Va., and had proved highly successful. The Virginian added that the plan might provide "a wonderful opportunity to lighten the load if set up throughout the entire country."

Mr. Voorhis explained to newsmen that he would restrict food and clothing certificates to persons 45 years of age or older because oppor-

tunities for finding jobs in private industry diminished with age.

The young Californian also suggested that Congress appropriate sufficient funds for the year beginning July 1 to provide jobs for 3,000,000 persons, or 1,000,000 more jobs than provided this year. That figure, he estimated, would provide work, according to WPA statistics, for at least one person in every unemployed family in the nation.

Testimony of engineers and investigators who have been at work in Pennsylvania and New York was postponed until Monday.

The committee, seeking to expedite the drafting of legislation to revamp the Federal relief setup, may start night sessions next week to hasten completion of its inquiry.

TREASURY DEPARTMENT

215

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE May 31, 1939

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending May 27, 1939.

Conclusions

(1) The upturn in business activity recently initiated by rising commodity prices, an improved outlook for production of automobile steel, contra-seasonal increases in automobile and steel production, and the settlement of the coal strike, received further confirmation last week by an acceleration of the upward trend in stock and basic commodity prices.

(2) Back of the rise in the markets, in addition to the already visible evidences of a turn in business, is a belief that the danger of war in Europe has definitely receded, following the prospect of a three-power alliance including Russia. Whether this belief is justified or not remains indeterminate, and the foreign situation provides the chief uncertainty in the business outlook.

(3) The low point of the current business setback was reached in May, but it is possible that the FRB monthly index may have reached its low at 92 in April. The outlook for increased activity in steel and related industries during June, at a time of normal seasonal recession, may bring a substantial upturn in the adjusted index for that month.

The present position of business

Background: Following an exceptionally rapid recovery in the fall of 1938, which carried industrial production slightly above the level of "basic demand", a corrective downturn occurred during the first quarter of 1939. This was prolonged by the effects of the European crisis in March and later by the coal strike. In the meantime, goods

Secretary Morgenthau - 2

continued to move into consumption faster than they were being produced. With the coal strike settled, commodity prices rising, and, at least temporarily, a more promising outlook for peace in Europe, the way has been cleared for a renewed upturn in business activity. Another war threat, of course, might upset the situation.

Recent developments: Signs of an impending business upturn have become more frequent during the past few weeks. The turn was rather clearly called a month ago, when sensitive commodity prices moved sharply upward, first in Great Britain and later in the United States. (See Chart 1.) This price upturn accompanied increased British buying of raw materials.

Stock prices in London and Paris began to rise more rapidly early in May, reflecting greater confidence in the European political outlook. (See Chart 2.) In this country, however, bearish sentiment in Wall Street became somewhat more pronounced during this period; short selling increased, and the upward trend of stock prices flattened out on reduced activity. The total short interest on the New York Stock Exchange increased to 662,713 shares at the end of April, as compared with 529,559 shares a month earlier. A further increase occurred during May, according to market writers, contributing additional potential strength to the market's position.

Various items of business news, in the meantime, have reflected an improved outlook. The settlement of the coal strike removed one uncertainty and added a positive strengthening influence. A temporary break in steel prices brought the automobile companies into the steel market to contract for their fall requirements. Steel activity, in two successive jumps, has increased from 45.4 per cent of capacity to 52.2 per cent, at a time when the normal tendency is downward. Automobile sales have improved, and automobile production has also turned upward contra-seasonally.

Prices again turn upward

During the past week these cumulative influences were reflected in a renewed upturn in both commodity and stock prices. The immediate influence was a strong rise in the London market on Wednesday, prior to the New York opening.

Secretary Morgenthau - 3

on Prime Minister Chamberlain's announcement of an imminent Anglo-Russian agreement, following a two months' deadlock. Our market responded with the first million-share session since early April, as short covering and other buying turned stock prices definitely upward.

The recent price upturn has been especially pronounced in the Dow-Jones futures index, which is heavily weighted with farm products, and is apparently more sensitive to changes in underlying conditions than is Moody's index of spot prices. A 9.0 per cent rise in the Dow-Jones index between the low on April 12 and the close last Friday (as shown in Chart 3) is accounted for largely by marked upturns in prices of grains, cotton, silk and hides.

The present outlook

This week's upturn in stock and commodity prices, following distinct improvement in basic business conditions, seems to represent a widely-accepted "go" signal, not yet so unmistakable as the one last June, but of a similar nature. It will doubtless lead to a revision of bearish opinions recently held in many quarters, and will release a considerable volume of new industrial orders which will contribute to further recovery.

A renewed upturn in British business activity in recent weeks, following a levelling-out during April in response to war uncertainties arising from the seizure of Czechoslovakia, has added some cheer to the domestic outlook. The weekly adjusted index of the Financial Times of London (shown in Chart 4) has gained two full points in the past two weeks.

New orders in some lines have already been stimulated by the change in business sentiment. A revival of activity in the cotton goods markets in the past few days has seen the broadest buying movement experienced in many weeks. A good deal of the buying represented covering of urgent needs, according to trade reports, since users of gray goods have allowed their inventories to run down to very low levels. In other industries, the long period of practically hand-to-mouth buying has doubtless resulted in various shortages that may cause urgent buying movements on any further price rise.

Increased production of automobile steel, combined with the influence of new orders in other industries released by the improvement in prices, provides the basis for an expected upturn in industrial production during the next month or two.

Secretary Morgenthau - 4

Since this increase will come at a time of normal seasonal slackening, it may bring a substantial rise in the adjusted FRB index for June. While weekly business indices reached a low in May, it is possible that the monthly FRB index may have established its low in April, at a figure of 92.

Longer term outlook

Barring any new shock from abroad, basic conditions favor a continuation of the business upturn now beginning. The force behind the 1938 recovery -- a rapid "offtake" of manufactured goods -- is still effective, as shown by a comparison of industrial production with our combined index of sales (formerly called "consumer buying index"). (See Chart 5.)

While the movement of goods into consumption (in physical volume) declined somewhat during April, owing to a combination of bad weather and war scares, it remains substantially above the recent levels of production. This suggests that inventories have been further reduced, and that the upward pull on industrial production has been intensified during the recent business setback.

This conclusion is confirmed by our index of "basic demand". (See Chart 6.) The underlying demand for goods, according to our estimates, has held steady during the first four months of this year at a higher level than production. Substantial production deficits have accumulated in some individual industries (as shown in the lower section of the chart), notably for automobiles and lumber.

The basic domestic situation appears sufficiently strong, in the absence of further unsettlement abroad, to warrant a continued improvement in industrial production through the rest of the year, first to make up deficits already accumulated, and later to supply the increased requirements normally created by a rising business trend.

Current business news

The New York Times index for the week ending May 20 rose to 86.1, from 85.3 the previous week, in response to a steep upturn in carloadings following the settlement of the coal strike, and a marked improvement in automobile production. The adjusted indexes for steel production, lumber production, and cotton mill activity were moderately lower.

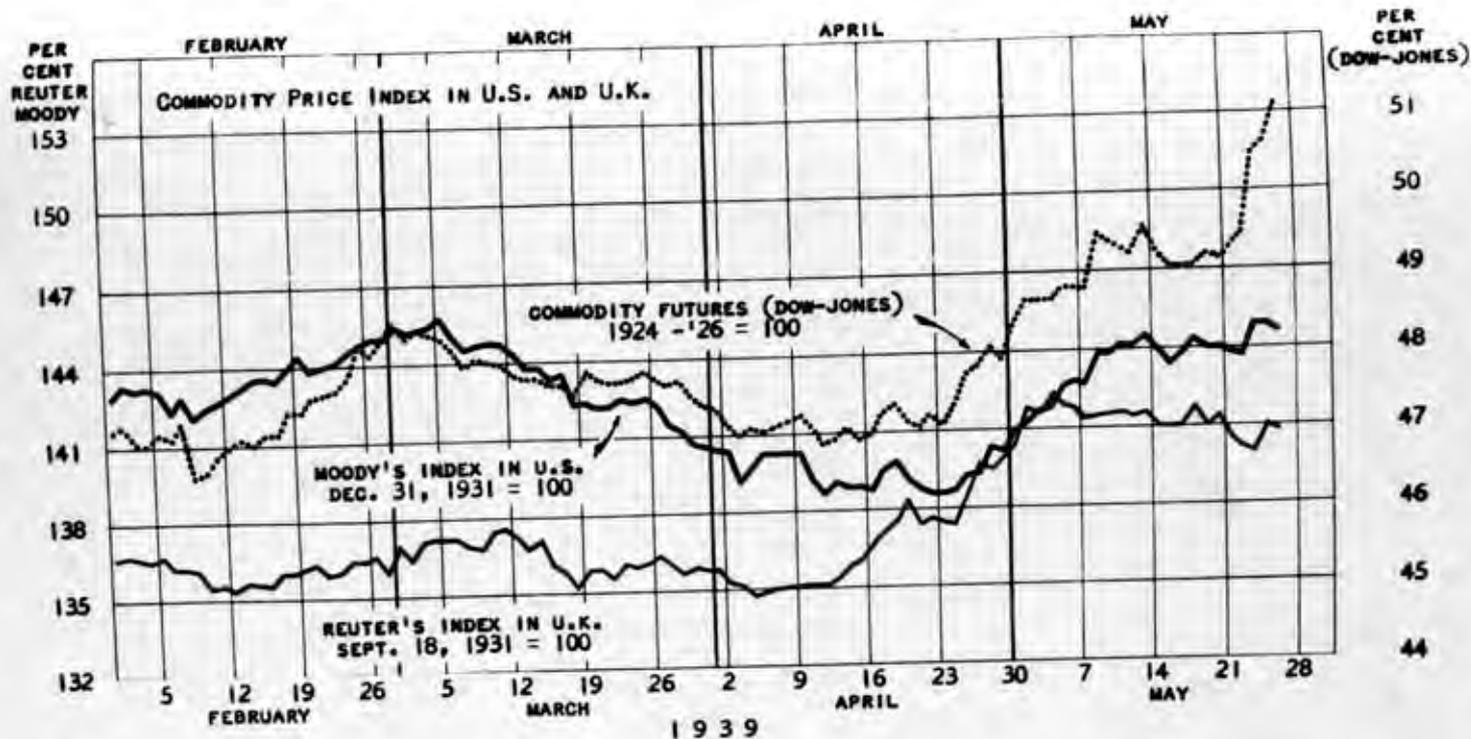
Secretary Morgenthau - 5

For the week ending May 27, preliminary data indicate a substantial improvement in the index of steel production, more or less offset by a considerable decline in the automobile index. The improvement in steel has been carried further during the following week, since operations in several important districts are scheduled to be stepped up sharply.

A drop in automobile production to 67,740 units last week, versus 80,145 the previous week, was due entirely to a strike at the Briggs Manufacturing Company plants, which forced a suspension of operations at nearly all Chrysler factories owing to a shortage of car bodies. The Lincoln factory has also closed for the same reason.

A rather sharp downturn in the F. W. Dodge figures for residential contract awards during June may result from the current uncertainty over pending FHA amendments. Uncertainty over the sections relating to large rental projects, in particular, has caused some withholding of mortgage insurance applications, and cancellations in some cases are reported. Due to this and other factors, mortgages selected for appraisal turned down in April from the high March figure. A decline in residential awards, however, is expected to be temporary, since a considerable volume of FHA applications is reported to be accumulating, awaiting a clarification of the amendments.

COMMODITY PRICE INDEXES, DAILY



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

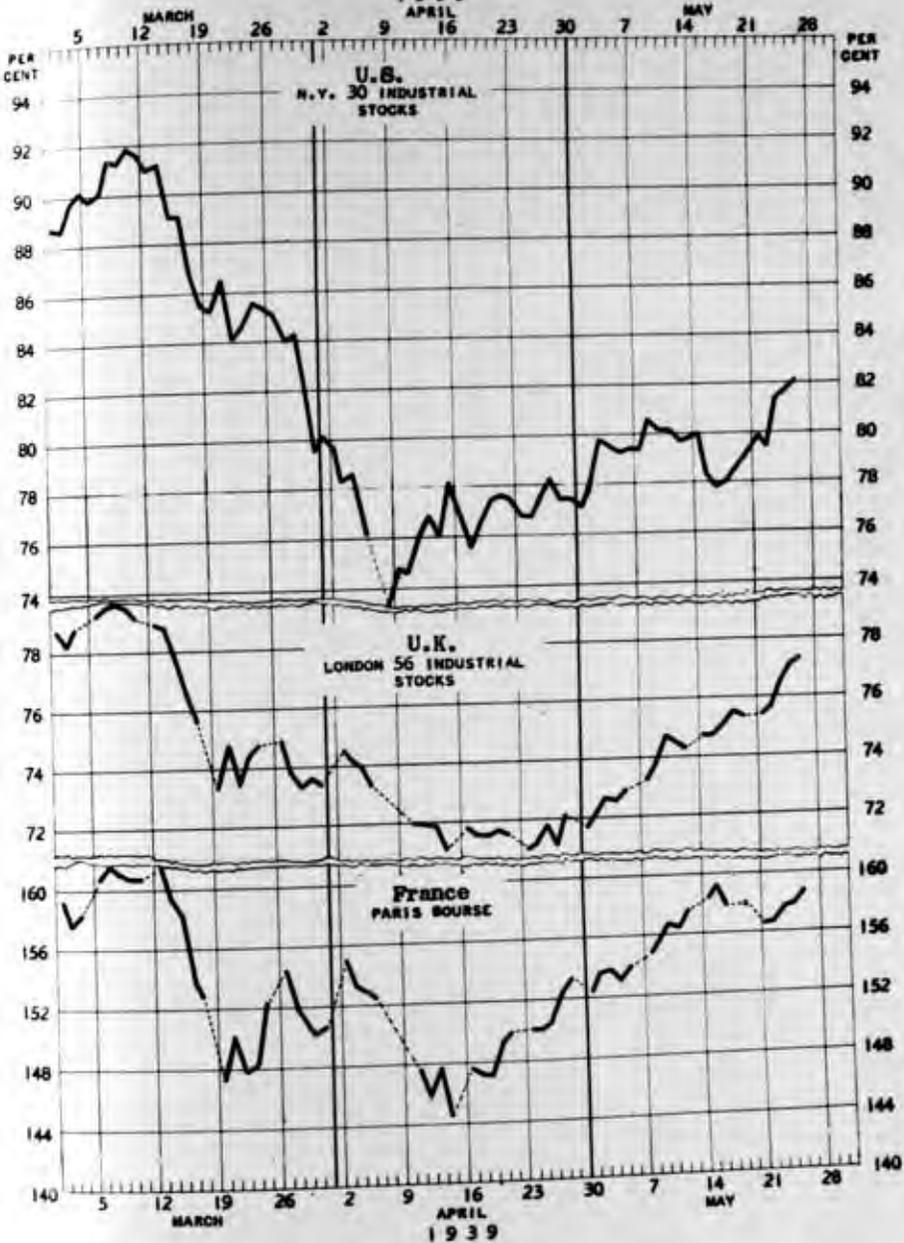
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Chart 1

FOREIGN AND DOMESTIC STOCK PRICES

DAILY, AUGUST 1936 = 100

1939



PERCENTAGE CHANGES IN PRICES
OF COMMODITIES IN DOW-JONES FUTURES INDEX



Chart 3

INDICES OF UNITED KINGDOM BUSINESS ACTIVITY, LONDON TIMES
Weekly

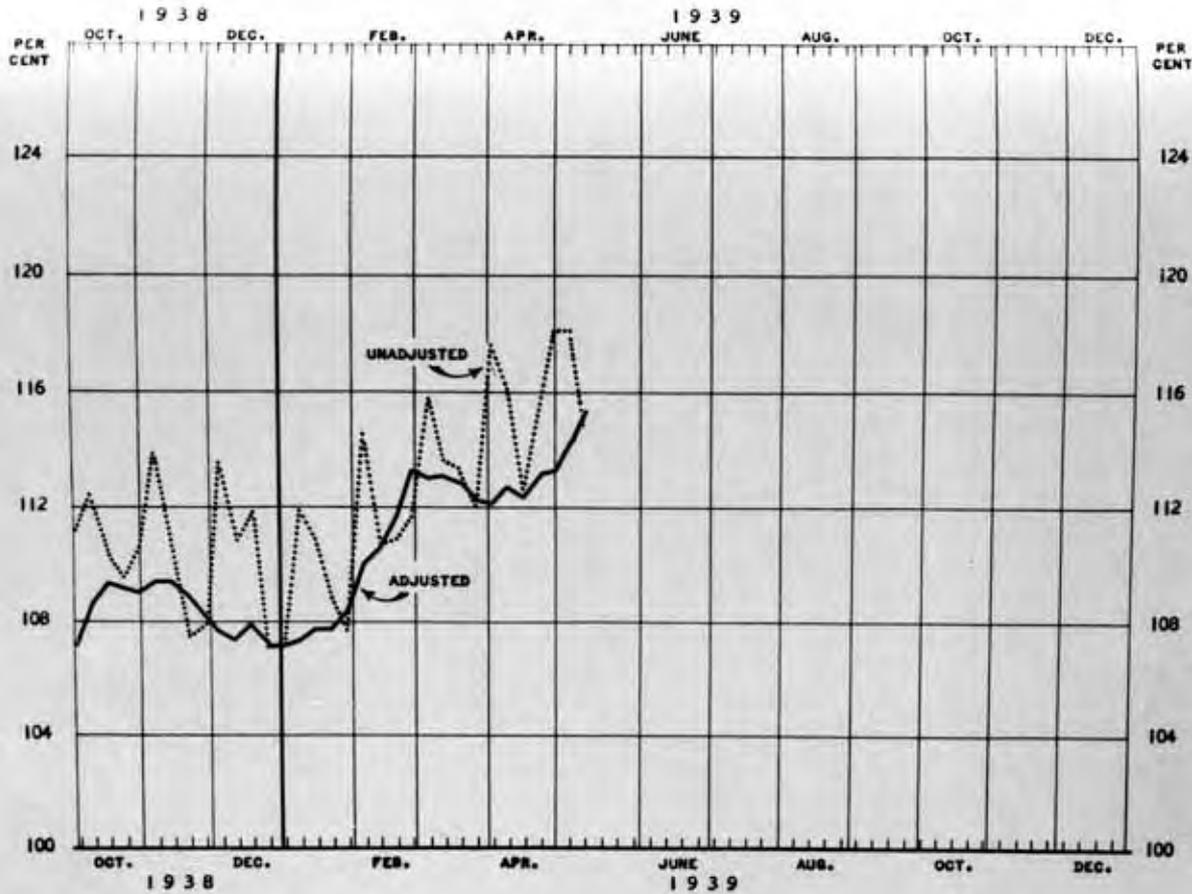
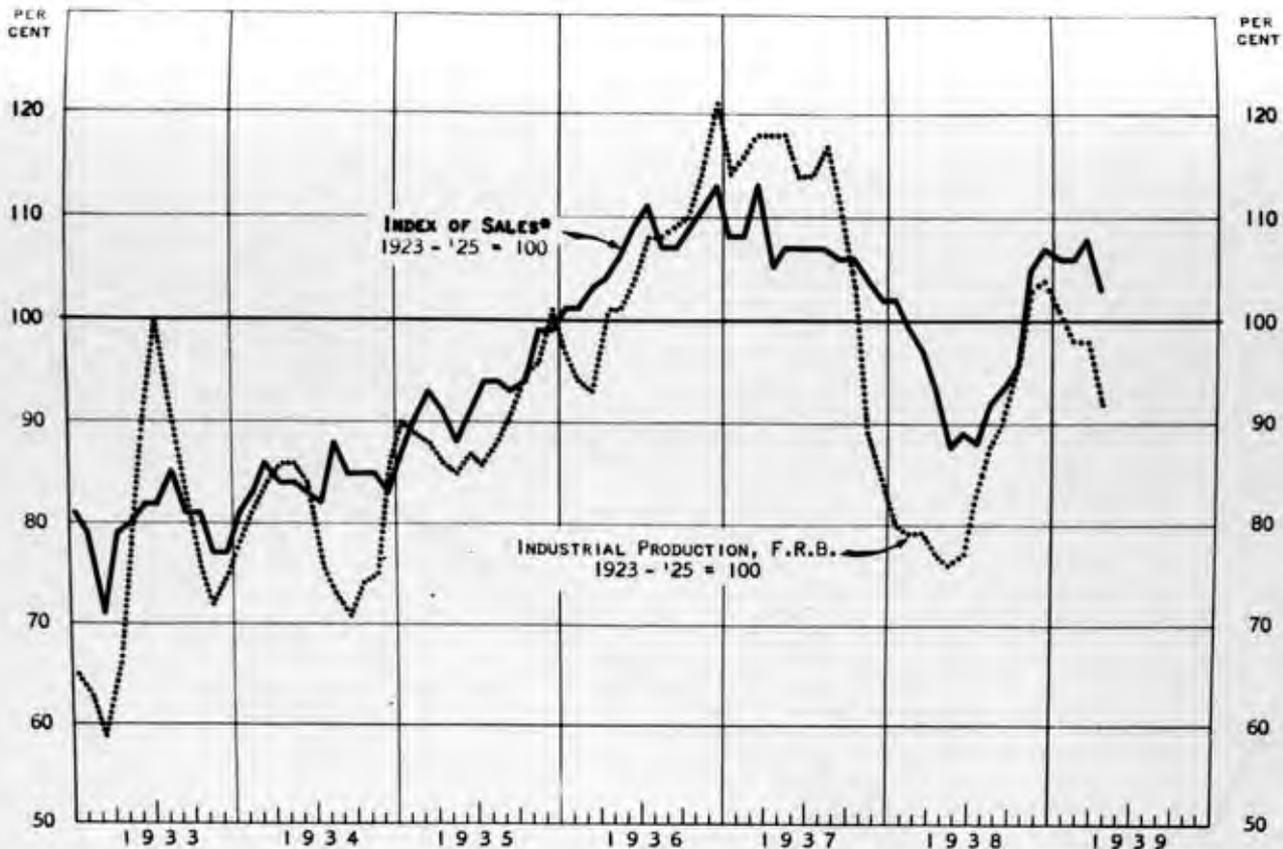


Chart 4

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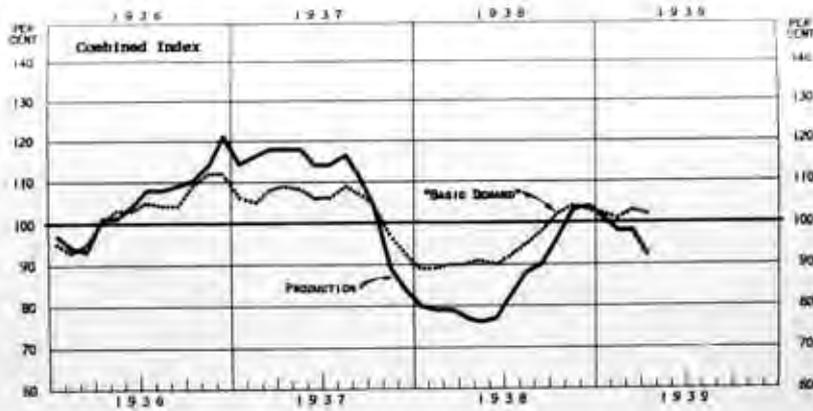
INDEX OF SALES COMPARED WITH INDUSTRIAL PRODUCTION

SEASONALLY ADJUSTED

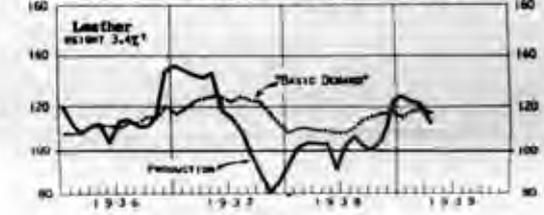
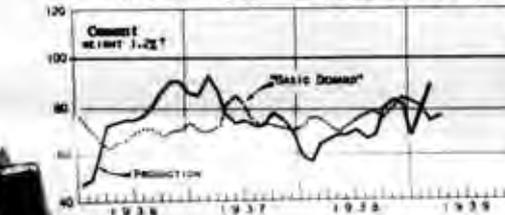
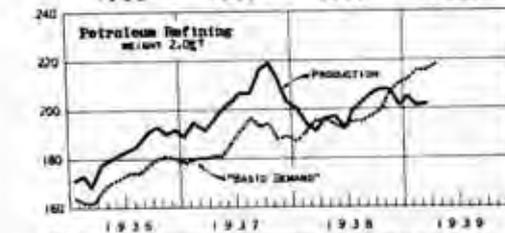
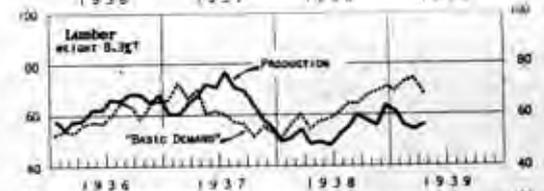
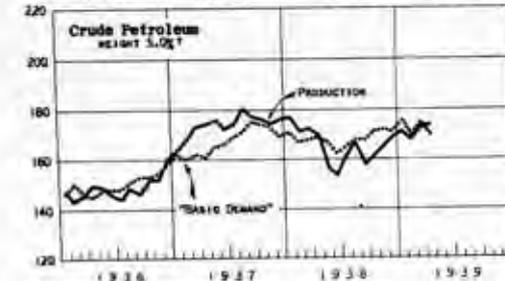
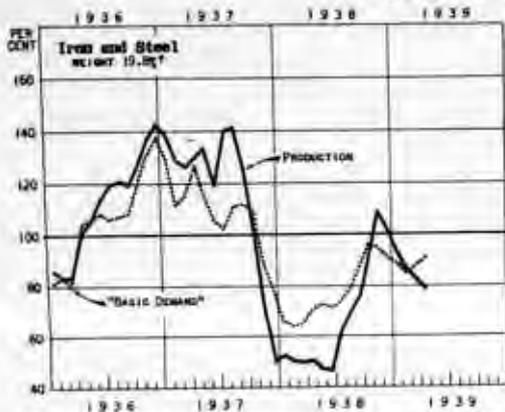


*REPRESENTS "OFFTAKE" OF MANUFACTURING GOODS, IN PHYSICAL VOLUME.

ESTIMATED BASIC DEMAND COMPARED WITH PRODUCTION, BY INDUSTRY
1933 - '39 = 100, Adjusted



Selected Industrial Groups



NOTE: LATEST FIGURES ARE PRELIMINARY IN MOST CASES

WEIGHT IN COMBINED INDEX

GROUP MEETING

May 31, 1939.
9:30 A. M.

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

H.M.Jr: Good morning. I hope everybody had a nice weekend. I have one announcement to make, which I think will be pleasing to everybody. I spoke to the President last night and told him that I wanted to recommend Herbert Gaston as Assistant Secretary, and the President said he would be delighted.

McReynolds: You could not have made a more popular announcement around the Treasury, I am sure.

H.M.Jr: So that from now on, if the Home Owners Loan does not subscribe more than seventy-five per cent, you know whose fault it is.

Gaston: I still buy Baby Bonds.

H.M.Jr: Another very pleasant announcement is that from now on I need not kid McReynolds about being a doctor. I see that he is going to be made one at the American University. I congratulate you.

McReynolds: Thanks.

H.M.Jr: From now on it is Doctor McReynolds.

Duffield: I was secretly tempted to tell you that.

H.M.Jr: A lot of people around here were tempted to tell me; a lot of them said, "We think it is coming"; but Upham was the loquacious one. He sent me this memorandum.

McReynolds: In fact, he told me about it.

H.M.Jr: Did he? Well, that is nice. Could I, from the legal section, have today a one page summary of the so-called Mead bill, on which I understand the discussions are starting today?

You told me that you were going to be able to see Adolf Berle on Saturday, but you did not tell me what for. If it is Treasury business, might I know

Foley: Oh yes. It was the thing that I discussed here at the meeting the day before. He called up on Thursday and said that they had a cable from their representative in Prague.

H.M.Jr: Now, do things like reorganizing the banking structure come under you, George, or your people?

Haas: We are doing some work on it.

H.M.Jr: Will you take the Berle testimony, the Berle statement, and give me a critical analysis on it?

Haas: I think you better have it.

H.M.Jr: All right, George. Will you ask Dr. Hardy, of Brookings to tell us?

Haas: All right.

H.M.Jr: Tell him I would like to have it in the next two days. I want Jake Viner to see one. Send him a wire, and also the man at Princeton.

Haas: You are going to take care of those other two?

H.M.Jr: What is the name of the man at Princeton -- Walter Stewart, and Professor Williams at Harvard. I would like all of them.

Haas: Do you want me to --

H.M.Jr: If you will fix up a telegram and tell him I want an analysis and also the implications involved.

Haas: All right.

H.M.Jr: Do you think of anybody else? That is Williams and Stewart, and Jake Viner and Hardy over here at Brookings. Harry, have you got anybody?

White: No; I think those four would cover it.

H.M.Jr: You ought to give him one. George, get all of those things out this morning, those telegrams, will you?

Haas: Would you like to ask Hardy too?

H.M.Jr: Yes; Hardy.

McReynolds: Do you want me to prepare the request?

H.M.Jr: Prepare the requests; clear them through Mac and let them go out.

Haas: Yes.

H.M.Jr: An analysis and the implications. I do not know what it means. I saw what General Johnson says it means, anyway; of course it comes up in my mind as to whether some of these people should not go up and try to give the other side of the question.

White: They certainly ought to get the other side.

H.M.Jr: Because, if I understand it, it is very much the same thing as was suggested to Brazil, that we lend Brazil a hundred million dollars and keep it here, and they borrow against it and re-finance themselves on that sort of money, and he went back to the time when France loaned gold to Russia and kept the money in France. It looks very much like the same idea. It is like pulling yourself up with your own boot straps. At least, that is the impression I got. If I understand it, I would personally rather come out in the open and use commerce currency and do it that way; but maybe I am wrong. It bothers me a great deal, anyway. All of these things are kind of covered up in words, more than anything else.

John?

Hanes: No.

H.M.Jr: Herbert?

Gaston: No, sir, I have nothing.

H.M.Jr: Kind of took your breath away.

Gaston: Yes, sir.

Hanes: They are working on the Social Security. There will not be any hearings. Until they get that out of their way, they will not start again.

H.M.Jr: Did you agree?

Hanes: There were three men up here. One of the representatives of the American Bar Association --

H.M.Jr: I cannot hear you very well.

Hanes: One was a member of the American Bar Association, who just talked on the technicalities of the law, rather than policy matters. The other two men were talking about foreign tax credits. It only lasted about an hour and a half.

H.M.Jr: George, ask Dr. Goldenweiser to send a memorandum over on the Berle thing?

Haas: Yes, sir.

H.M.Jr: And tell him we will give them anything that we have.

Haas: All right.

H.M.Jr: Is there anything else, John?

Hanes: No.

H.M.Jr: Herbert?

Gaston: No.

H.M.Jr: Foley?

Foley: No.

H.M.Jr: If you are not busy, you might get in on this Berle memorandum.

Foley: I would like to.

H.M.Jr: And also, if you are not busy, you might get in on the Mead bill, too. I would like to see it. Hanes had a plan a month ago. I do not know whether the Mead bill is anything like that.

- Hanes: I have not read the Mead bill, but the principle involved is identical.
- H.M.Jr: What you talked about a month ago sounded very good, and I thought, if this thing was good maybe we could get behind it, you see. Why don't we have an appointment and talk about the Mead bill and Berle thing at eleven o'clock tomorrow? Why not have a meeting of everybody who is interested in it? How will that be? Suppose I say that for one hour tomorrow we talk about the Mead bill and the Berle matter.
- Gene?
- Duffield: No.
- Foley: Suppose I get in touch with Berle this morning and go over that draft with him. He seems very anxious to do something, and says he is now talking it over with Hull and Welles, and they are in favor of the idea.
- H.M.Jr: You will have to refresh my memory.
- Foley: Well, he says that Germany is going to seize deposits in this country of residents of Czechoslovakia, and he wants to impose some kind of an exchange control over those deposits, so that they cannot be moved out of America in advance without licenses.
- H.M.Jr: Is not White in on this, and Archie? You will have to get together on this thing. I do not know, but I am telling you now that I want it over Mr. Hull's signature. I do not want Mr. Hull to tell me two months from now that he never heard about it.
- Foley: It is a pretty drastic thing.
- H.M.Jr: But this does not sound very good to me, and I want it over Mr. Hull's signature, that he does know about it. You fellows think this thing over and digest it for me.
- Foley: That is all I have.
- H.M.Jr: Where is the extension for Nathan Straus' \$8,000,000?
- Foley: They are just starting hearings before the Steagall Committee now. They finished the hearings in the Senate and the bill was reported favorably, but no

action has been taken by the Senate as yet.

Duffield: There was a report of the House Committee against certain sections of the bill, and that report failed to get to the Senate Committee before the Senate Committee acted.

Foley: It was sent to Wagner, and he sent it over to Straus.

H.M.Jr: Let us get this thing straight. I would like to see Straus get another extension.

Duffield: Yes, but there is just one section in it --

H.M.Jr: All right.

Foley: That is that underwriting section.

H.M.Jr: Let us write two letters, one saying "I would like to see him get it", and another one criticizing that particular section.

Foley: Has the report gone out, Dan?

Bell: No.

H.M.Jr: I would like very definitely to favor it.

Foley: Limiting the Treasury exceptions to the bill, to the provision for underwriting these securities on the part of national banks, and everything else we are in favor of. This letter will have to be recast, because this is more or less of a negative letter.

H.M.Jr: And I would like to give the letter a little publicity. Now, all right, as far as anything the President has said, but I did not want to do it.

Bell: That is what I was going to ask, if that has been changed. It is not in accordance with the budget.

H.M.Jr: Let us get the letter ready. I can show it to the Director of the Budget, and I can send it over to the White House, and say: "This is what I am going to do", and if the President wants to say "No", all right. I think you ought to hurry it up, though. But I would like to see it. Now, this is

the kind of a thing I would like to see. There are so many things that I do not want to, but I would like to go on record publicly about this -- well, let the President see it first. I did not know how you would feel about it. I would rather do it than a bank to buy common stocks. Let us get it, and Hanes and I will take it and look at it, and we will let the President know how it is going. But why not put that down for eleven o'clock tomorrow.

Duffield: All right.

H.M.Jr: Is there anything else?

Foley: No, sir.

H.M.Jr: Harry?

White: Are you planning on having another meeting on that matter?

H.M.Jr: Yes; you let me know when you are ready. Will Friday morning do?

White: I think the sooner the better.

H.M.Jr: Well, say ten-thirty Friday.

White: Ten-thirty Friday.

H.M.Jr: That is up-hill and down-hill.

White: Yes; up-hill and down-hill.

H.M.Jr: Up and down. I was interested when in the Cabinet meeting two weeks ago, the President asked Hopkins what was the Federal Reserve Index going to be. He told him around ninety-nine or a hundred. I picked up the paper the other day and saw that it is ninety-two.

Duffield: Maybe he was thinking of another page.

H.M.Jr: I have heard some people being accused of being able to make a slide rule talk, but I never heard of anyone being able to bend the Federal Reserve Index.

Harry, have you anything further?

White: No, sir.

H.M.Jr: George?

Haas: Here is an order (handing document to the Secretary).

H.M.Jr: Incidentally, I asked Wallace about the sale of milk in paper bottles in Rochester, at a lower price than in glass bottles, and see if he could not do anything. If anybody has any ideas about that, shoot them in to me. I would like to know. I know I am tackling a terribly difficult thing. I said something to the President last night about it, and then I am trying to do something for the farmers, and I said I could not get Wallace to do anything about the surplus. So that if anybody has any idea on it or knows anything about milk in paper bottles, or has had any experience, or has heard anything about it, shoot it in to me.

Gaston: There is competition in these bottles. There are more than one manufacturer making them.

H.M.Jr: What they will have to do is to permit the milk to go through as "X" milk - pool all their interests.

Gaston: I was just wondering if it was possible that there was a monopoly of "X".

H.M.Jr: If it is, we will have to overcome it in Rochester. I was just wondering offhand, if they sold the milk in bottles at two cents less than in paper. They are doing something like that in other places now.

Lochhead: The foreign situation is all quiet.

H.M.Jr: Congratulations. I see you recognize that summer is here.

Lochhead: Yes; partly.

H.M.Jr: Steve?

Gibbons: Nothing, except to tell you you made a great speech.

H.M.Jr: I have learned how to read.

Gaston: It sounded very good. I heard the re-broadcast. It was re-broadcast at nine o'clock.

H.M.Jr: It was?

Gaston: Yes; or at nine-thirty.

H.M.Jr: Did you hear my hiccough? I thought I was very poor. Mrs. Morgenthau thought I was all right.

Gaston: It came over very well.

H.M.Jr: The re-broadcast?

Gaston: Yes.

White: Ruml called to say that everybody was very enthusiastic about your tax statement, that he talked about it and thought it was excellent.

H.M.Jr: He did not like my coast guard speech?

White: I do not know whether he heard it.

H.M.Jr: Harold -- Mr. Acting Commissioner.

Graves: Not until tomorrow, as I understand it.

H.M.Jr: The same salary?

Graves: Yes, sir; the same as mine -- not the same as his. (laughter).

Gibbons: How is that?

McReynolds: It is different here. The Customs gets it. The Treasury does not get it.

Graves: We have completed the report on the West Coast Motion Picture Case. I wanted to inquire whether you would like to send this over in the usual way, or whether you wanted to take it up yourself.

H.M.Jr: I would like you to give it to Mr. Hanes, and then let Mr. Hanes talk to me about it. Then, after he and I talk about it, we will see you right away; but if you will give it to Hanes, I would like to have it cleared today, if that is agreeable to Hanes.

Graves: I will get it right up.

H.M.Jr: Yes; give it to him, and then he and I will talk it over with you, and we will clear it before sunset.

Graves: All right.

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

Hanes: Yes.

Graves: Here is a letter from a man about the collector at Boston.

H.M.Jr: What about this collector also for the State of Washington, the Customs collector? Is it Washington or Oregon?

Hanes: Washington.

H.M.Jr: Let us get some action. Mac you hang on to this, and see that I get it from Graves, and also as to the State of Washington. Let us move on some of these things.

Is there anything else?

Graves: Nothing. Is there an eleven o'clock meeting?

H.M.Jr: Yes; you and George and anybody else that has any ideas on finances come in at about quarter to eleven.

Bell: Not an open meeting?

H.M.Jr: Not after reading the three memorandums from Haas, with their pros and cons. That is what I have once a month; but I will listen. I think it is easy to answer, but I will listen.

Bell: That is all I have.

H.M.Jr: Let me ask you this; you did handle this for me on Home Owners Loan, a hundred million dollars.

Bell: That is left open.

H.M.Jr: Do we underwrite that hundred million dollars.

Bell: Well, we can still sell that hundred million dollars in the market for account of the Home Owners Loan, and anything left over we can take over for the investment account.

H.M.Jr: But Hanes has to underwrite it, and if they think

we are going to underwrite a hundred million dollars, why, the answer is nuts. Right, John?

Hanes: Right.

Bell: The Board of Directors say they are selling at par, when they are selling in the market at a hundred and one and three-fourths.

H.M.Jr: Suppose they sell at ninety-nine. Then you can put them to us --

Bell: You can buy them at ninety-nine.

H.M.Jr: I do not want to buy them at ninety-nine. I mean they are selling at ninety-nine, and they put them to us at par. Seriously, though, I am not bound to underwrite a hundred million dollars of stuff --

Bell: It was my thought that you would talk about it after the June financing is over.

H.M.Jr: But we would not do that, unless there is a consideration -- for the Treasury. Think it over.

McReynolds: I had an invitation from the Home Owners Loan to play golf with them at the Chevy Chase Club the other day, and refused to go. I did not want to talk to them. I thought maybe they wanted to do a little propaganda work.

H.M.Jr: We will get through today, and then we will talk about it right afterwards. As a matter of policy, they can put a hundred million dollars any time, that is, up to sixty days, and I will go fifty-fifty with them. I will take half postal savings now.

Bell: I do not think you ought to buy them for the postal savings account at par, when they are selling in the market at a hundred and one and three-fourths.

H.M.Jr: Well, we will talk it over.

Bell: You can certainly buy them somewhere between par and a hundred and one and three-quarters.

H.M.Jr: We will talk it over.

Bell: I think if I were Chairman of the Board, I would feel a little jittery in trying to justify the par.

H.M. Jr: That is all right. Then they will take all the risk, as long as there is no obligation on the part of the Treasury.

Bell: Everybody sold them. The market was not even disturbed.

H.M. Jr: But I do not want any obligation on the part of the Treasury that we have to take them at any time. I am serious about that. Think that over. I think we ought to have something in writing.

Bell: We have something in writing. We have a letter authorizing you to sell.

H.M. Jr: Was there any implication that I have to take them?

Bell: No; the only implication is in your press statement, when you said that arrangements had been made to take not to exceed a hundred million dollars.

H.M. Jr: It is an open deal?

Bell: It is wide open at both ends.

H.M. Jr: All right. Steve, will you call Farley and the two Senators from New York this morning, and tell them about Gaston.

Gibbons: In Manhattan or the Bronx?

Gaston: At Albany.

H.M. Jr: You need not ask the O'Connells.

Gibbons: I do not think he knows anything about this Washington collector of revenue situation or the Boston situation.

H.M. Jr: He should not. Why should he? But as soon as we get that, we will send it over to the White House; I mean about Gaston.

Gibbons: Yes.

McReynolds: We will take care of that.

H.M. Jr: O.K.
(Meeting concluded at 9:55 A.M.)

May 31, 1939

FOR THE SECRETARY:

May I suggest that you also ask the Comptroller's Office for an analysis of both the Berle testimony and the Mead Bill proposal. As I mentioned before, Mr. Crowley also has some very pronounced views on the Mead Bill.

I should like also to repeat my previous suggestion that you talk to Mr. O'Connell who represents the Treasury on the TNEC.

ESD

RE MILK CONSUMPTION AND DISTRIBUTION

May 31, 1939.
2:30 P. M.

Present: Dr. Parran
Mr. Haas
Mr. Wallace
Mr. Albert G. Black
Mr. E. W. Gaumnitz

H.M.Jr:

If you don't mind my unburdening myself and injecting myself into your field - my only excuse is that I happen to be a dairyman and I happen to know, over the week-end, that the dairymen are very sore put and have been for a long time. And I was wondering whether at Rochester, where you are making such a great success of this surplus food thing - whether you couldn't try out fluid milk in Rochester, New York, the idea being that - I mean my thought was the possibility of making some arrangement with whoever the dairymen are serving that territory, getting into the paper containers and getting away from the price that they charge for milk in the glass and really getting it down low.

I'll say for myself, without committing anybody else, that as a member of this Administration I just don't think we have done a damn thing on milk. That's how I'll say that. And my basis for it is the price of milk the last two or three years in New York State. And without trying to make the Department of Agriculture declare fluid milk as a surplus, which I would hesitate to do on account of the price - but I'd love to see you really get to grapples with this fluid milk thing, just on an area basis.

The reason I asked Dr. Parran is to see whether he can or cannot support me on the question of nutrition. But I just hate to think - we've got twenty months to go and we still have never hit this problem.

Then, I was reinforced in this thing by having Mr. Nash here from New Zealand - Finance Minister - where every child in all of New Zealand gets a pint of milk every day at 11:00 o'clock.

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Now, I'm a long way from being acquainted with all the details. I know it's a headache, but every agricultural product is. And I would love to - I mean not the whole United States; maybe Rochester isn't the best place in the world, and I don't know what the milk shed is there and what the question is, who controls these paper bottles and whether you can get all the companies to say, "Well, we'll contribute our proportion and let this go into the price," and all the rest of it.

That's very, very briefly - I'd love to give it some time if you people would let me.

Parran:

On the question of need, of course we have a great deficiency in milk consumption. I have no current figures on Rochester, but as of three or four years ago the per capita consumption there was not above the average, and the average was way below the desirable nutritional needs. Rochester itself wasn't quite as bad as Buffalo, but certainly from a nutritional standpoint it was very bad. We would very much like to see the consumption of milk permanently increased by every possible device.

I think the Secretary has raised another question in connection with paper milk containers which has to do with mechanism. I'm not sure that paper milk containers are now permitted in Rochester. In about thirty or forty cities they are selling it at retail in paper containers. We are agreeable to having milk sold in paper containers, subject to certain standards which have been formulated in a number of cities. We ourselves are getting out certain recommended standards having to do with a certain bacterial content and lack of permeability, to be put into effect, and for the guidance of additional cities.

I can see, Mr. Secretary, that it is possible that one dairy may find it more expensive to put out milk, some in glass, some in paper - more expensive than one way or the other. I'm not sure it would work out.

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H.M.Jr: Well, again as an amateur, may I throw this in? I've been in a lot of milk plants. Most of them bottle two or three hours a day and then they're through. The machinery is there. I don't suppose any of those fellows in the bottling plants work more than three or four hours a day.

Gaumnitz: Some, four and a half or five.

H.M.Jr: Well, if we could arrange that we're going to take this surplus and go in and work the plant for another couple hours, using the equipment - is that too amateurish a suggestion?

Gaumnitz: Well, the paper container deal is one bit, pretty much by itself. Let me go back a little and then come back to it.

First, on the New York situation itself. You are acquainted undoubtedly with the fact that there was a Federal agreement or order in New York that only lasted from - I believe it was September through until the first of February - during which time I think the producer price situation was not unsatisfactory. At that time we had an adverse lower court decision in Judge Cooper's jurisdiction. And the whole thing is now before the Supreme Court, and we are of course expecting a decision next Monday. If that decision is favorable, then we immediately will have the question of lifting the suspension that is in effect now with reference to New York, and going back under that previous order. It is possible there may have to be some amendment. So much for that side. I think the group up there are quite strongly in favor of that type of operation. It was a joint venture, you may remember.

H.M.Jr: No, I'm not familiar - I haven't seen anybody. I mean I'm not....

Gaumnitz: It was the outgrowth....

H.M.Jr: You don't know me very well. There is no organization that's behind me. This is just H.M.Jr., dairyman.

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Gaumnitz: You remember that old....

H.M.Jr: I just read in the papers - didn't follow it very closely.

Gaumnitz: Right now the situation in New York City is extremely chaotic on any price at all that you want to name.

H.M.Jr: Well, I'm interested not - I mean getting at the price thing through the surplus.

Gaumnitz: Well, I'll get back to that. But I just wanted to point out that deal which was in effect and which possibly may come back into the picture.

Now to go over to the stamp deal. Quite a lot of consideration has been given to the desirability of adding milk under that....

H.M.Jr: Fluid milk.

Gaumnitz:experimental plan. Fluid milk. We do have this difficulty between the various dairy products.

(Wallace comes in)

H.M.Jr: Hello, Henry.

Wallace: Glad to see you.

H.M.Jr: Sit down. I'll just take one second to tell you what I've been saying to these fellows. I've been saying that as H.M.Jr., as an individual, I've interjected myself into this fluid milk situation.

Wallace: We need a lot of interjections.

H.M.Jr: I'll admit I know very little about it. I'm completely out of touch - not in touch with any organization. But I'm just raising the question of the possibility of, in Rochester, adding fluid milk to the surplus food and trying it out and - not the whole country, but just there. And then I raised the question of whether it was possible maybe to use the plants which work three or four hours a

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day on their regular business - run them another couple hours, with the possibility of paper containers rather than glass - something special. I told these gentlemen that it's been six or seven years since I've been in this, and I'm just raising the question. But I again....

Wallace: I may say that this idea of adding fluid milk in one of these towns where we're trying out the stamp plan has been in mind right along.

H.M.Jr: Well, it's encouraging to me. But I just....

Wallace: I don't know just what the considerations are which would govern as to which town should be picked for the purpose.

H.M.Jr: I just said Rochester because, having been on the farm three or four days, having heard the grief up there - New York State being the number one fluid milk State....

Wallace: I find that the income of the dairy farmers this year as compared with a year ago - the first four months this year - is off about sixty million dollars.

H.M.Jr: So I'm interjecting myself, with your permission, into this thing - get that, Henry - if you don't mind. He (Gaumnitz) was just telling us....

Wallace: You've been so helpful on the stamp plan in making it work.

H.M.Jr: I also say that - I mentioned this to the President last night - that somebody's got to do the selling job on this stamp thing. It needs it very badly. Just passing that along. I don't know why, but evidently somebody has been, I gather, talking against it. I got it on the train last night.

Wallace: The WPA folks have been.

H.M.Jr: Well, I don't know where, Henry, but some place....

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Wallace: They have not been enthusiastic.

H.M.Jr: Some place....

Wallace: The social worker's doctrine is that it's all right to hand out cash, but not food.

H.M.Jr: Now, Mrs. Roosevelt is very enthusiastic about it. But for some reason or other the President - I got the distinct feeling that somebody had been talking against it. I mean that's as far as we got, see?

Mr. Wallace is used to having me stick my neck out on farming.

You (Gaumnitz) were saying something....

Wallace: Now, where do we go?

H.M.Jr: This gentleman was telling me....

Wallace: Analyzing the Rochester situation?

H.M.Jr: No, he was just saying he has it under consideration.

Wallace: I just didn't know....

H.M.Jr: About fluid milk - you didn't say Rochester.

Gaumnitz: Well, we had discussed fluid milk quite a lot and it is under consideration, of course, for being added. There are these general difficulties in it, that in comparing the various dairy products we again come back to the fact that from all dairymen's standpoint, the farmers' standpoint, the place where the money goes farthest is, of course, in terms of butter. Fluid milk probably ranks last. At the same time, the entire distribution of the stamp plan at the present time has been a store type of operation. In the case of fluid milk, that would immediately bring up this whole question of home delivery of milk versus milk out of stores, which of course then runs into the question of a differential - so-called store-wagon differential question comes up.

And then, lastly, we have one other phase. It has been possible, under a Boston experiment, to secure

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the distribution of milk under a contractual arrangement with handlers and through relief stores under State auspices....

H.M.Jr: Relief?

Gaumnitz:relief stores to handle distribution on a total of about - a total of two and three quarters cents per quart, as opposed to the usual margin for home delivery, or store, in most cities of anywhere from five to seven cents a quart.

Now one further thing on the question of the paper bottle. By and large the paper bottle, as far as it's been developed so far, is not a particularly good container for home delivery; it is a fairly good container for the store type of delivery, where bottles are not returned or where there is not a bottle deposit. It's a more expensive method, as it stands today, if there is a bottle deposit, or for use in home delivery.

Wallace: What's the cost of the paper container per quart?

Gaumnitz: It runs pretty close to a cent; some, as low as eight-tenths with a large volume. Most of them say they can't handle it under thirty or forty thousand quarts a day, and that entirely in wholesale business.

H.M.Jr: We were sitting around and talking last night and I mentioned this milk thing to the President. He said somebody told him that in London they have what corresponds - what you're talking about in Boston: stores - are you familiar with it - where they just handle milk. They have one every three blocks, they said. It was new to me.

Gaumnitz: They are so-called milk bars which have been developed in the last two or three years.

H.M.Jr: But for the poor people. He seemed to know about it.

Well, is this something that could be tried out in one city fairly soon?

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- Wallace: I think we should pick our city with some care. Rochester may be the city, I don't know. But I think we ought to try it in one of them.
- H.M.Jr: In connection with food tickets. It would be grand.
- Dr. Parran, you'd go the limit on the need, wouldn't you?
- Parran: I certainly would, and would hope - I've said this to Mr. Wallace before - that an arrangement can be worked out so that milk particularly can be given on doctors' prescriptions whether or not the family is on relief.
- H.M.Jr: When it is on relief?
- Parran: Whether or not the family is on relief. Given on the basis of the medical and nutritional needs. Part-time employment - private employment of the wage-earner, temporary sickness, tuberculosis, malnourished children. I haven't been pressing the point recently, but I had hoped to have the opportunity - this is it - to encourage the further projection of the stamp plan in the direction we have talked about previously.
- Wallace: You think all the doctors have sufficiently high professional standards so they wouldn't abuse, you might say, the right of prescription?
- Parran: In the case of Rochester, the right of certain physicians....
- Wallace: That is a question.
- Parran: In the case of Rochester, I should suggest at the outset that it be limited to prescription by the Health Department or the city hospitals - city clinics.
- Wallace: I know that doctors on occasion did step over the line in prescribing certain other fluids at one time.
- Parran: Quite. There was more of a demand for the other fluid than there is for milk, I think.

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I should think in a city like Rochester, knowing the Health Department set-up as I do - and it's good, and the city hospital, which is connected with the University, does a large business with the poor people - poor children of the town, and the staff of public health nurses go into most of the homes where there are sick children among the poor. And I should like to see the plan extended to the Health Department and its related hospital and clinic service, but not - I think not necessarily to the private physician at the start. Let the private physician know that he can refer the case to the Health Department; I think that would give you the official control that you need.

- Wallace: Well, I think we would be in agreement on that, don't you think, Al?
- Black: Yes, that would work very well.
- H.M.Jr: Do you want to invite me over for lunch, give me a milk lunch, for next Tuesday - Dr. Farran and George and myself - and sew this thing up?
- Wallace: Go to Rochester?
- H.M.Jr: A city.
- Wallace: Rochester is the only city on which we are operating at the moment. Dangerous starting tomorrow, isn't it?
- H.M.Jr: That's five days. That gives you ample time, doesn't it?
- Wallace: It means we'd do it in Rochester.
- H.M.Jr: What do you think? I like the luncheons that Mr. Wallace gives me.
- Parran: Surplus milk.
- H.M.Jr: Well, whatever he has, particularly his popcorn.

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- Parran: As between Dayton and Rochester, the Rochester Health Department is a more dependable one, better organized.
- Wallace: I think there's a chance we may go in Birmingham, Alabama.
- Parran: Very good health department there - man named Dowling, very dependable, at the head of it.
- Wallace: Of the three places, offhand I'd say Rochester probably would be the best. But I don't know a thing about the local dairy situation except in so far as it is probably part of the New York City one.
- Parran: The Dairymen's League is in there, largely. Of course, they draw milk all over and put it wherever there is the best sale.
- Wallace: I think you better let us look into....
- Black: I think that aspect of it is pretty important, because if you started this in some city where dairymen were opposed to it....
- Wallace: The Dairymen's League, as you know, Henry, sometimes has very intimate hook-ups with the distributors.
- H.M.Jr: Well, if you need any help....
- Wallace: And between the two of them, sometimes they're pretty powerful.
- H.M.Jr: Well, if you need any help on that - they were in last week asking me to do a favor which I think I can do.
- Parran: I think the Dairymen's League is a distributor in Rochester through a subsidiary.
- Gaumnitz: I think it is.
- H.M.Jr: But you've got to get them all together.

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- Wallace: If that's true, they'll feel that this is a blow to their system. That is, it would seem to me that to launch it in Rochester it would be essential to get together with those people in advance.
- H.M.Jr: Well, again, if you want me to help, I'd love to.
- Wallace: Well, that might be the thing to do - would be to
....
- Gaumnitz: We have - remember, last week, Mr. Secretary, we had another meeting with the Mayor's Committee in New York and with Commissioner Norris, with reference to the possibility of expanding the lower income milk consumption in New York City under a plan somewhat similar to that revised plan for Boston. That thing is under consideration now. That whole meeting was the outgrowth of a visit on the part of a number of producers, including, I think, a representative of the League; and in the discussions with them we proposed this second class relief milk with a part subsidy arrangement in connection with it. And that producer group at least approved though, as I say, there was a representative of the League there. It might be possible that some such deal could be worked out.
- H.M.Jr: George, could we send Edna Lonigan up to Boston to take a look at that set-up, if it's all right with Mr. Wallace. I'm not familiar with it. That be all right, to send her up there?
- Wallace: (Nods yes).
- H.M.Jr: Let her study that Boston thing.
- Wallace: Supposing you let us take a look at Rochester. I'll let you know what we get.
- H.M.Jr: And the paper bottle thing is not so important.
- Gaumnitz: I shouldn't think so. I think it's quite clear that under our present arrangement in Boston paper would cost us probably at least a half cent and

- 12 -

possibly three quarters of a cent more than our present operation. It becomes purely a matter of how many trips a glass bottle makes. If the glass bottle is returned, as we require under that program, then the cost of the container becomes a fraction of a cent. In the usual city, as in Washington, where there is no deposit uniformly when milk is secured from a store, the chances of a bottle being returned are very small, so therefore a bottle is likely to make five trips and cost roughly a cent a trip. Paper, of course, likewise costs a cent. In that case, it's a matter of indifference, and you gain a little on loads and the like. But where bottles are returned, where there is a deposit, the evidence is in favor so far of glass.

H.M.Jr: Well, I'd like to help if I can. I didn't know about the Boston thing.

But our people up there are certainly hard pressed right now. The way they put it - for instance, it doesn't pay them to feed any grain to cows at this time.

Black: Most of that grows out of that Court decision.

Wallace: Yes, there is that to remember, that we are likely to get that Court decision very soon.

H.M.Jr: Aren't they complaining in Wisconsin, too?

Wallace: Oh my, yes. It's hard to believe the things they say, they're so emphatic. They claim they are all on the verge of foreclosure, what-not.

H.M.Jr: Well, would you keep me posted through George Haas?

Gaumnitz: Surely.

H.M.Jr: And if I don't hear, I may call up.

Black: I think just as long as you're keeping a record - I don't think that....

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- H.M.Jr: Well, this is just for myself. Mr. Wallace is used to this. There's only one copy.
- Black: Yes, I know, but I think you ought to have this for yourself, too, because when we started you dropped a remark that nothing had been done for the dairymen....
- H.M.Jr: I said so.
- Black:during this Administration. I just want to take an exception to that, for the record.
- Wallace: Please go ahead, Al. If you don't, I will.
- H.M.Jr: I said "talking for myself." O. K.
- Black: As a matter of fact, I don't think there's been any group that's done more for the dairymen than this Administration.
- H.M.Jr: Oh boy, I'd hate to put you up against one of these dairymen organizations.
- Wallace: That's what we want - get an opportunity to talk to them.
- Black: I know they'll tell you about it, and yet at the same time they'll be receiving benefits far beyond any other group, at the same time they'll tell you nothing's been done for them.
- Wallace: You see, as a matter of fact, Henry, a dollar spent in this surplus removal of butter does more for all of the dairymen - not merely the butter, but the whole structure - than a dollar spent anywhere else in the dairy program or in the farm program for any other group. It multiplies. It's one of these - well, maybe the wheat subsidy will do as much in increasing the wheat farmers' income as the dollar spent for butter. But this thirty million dollars spent for butter last year, I would estimate offhand, increased the income of the dairy farmers of the United States a hundred and fifty million. Am I wrong, Ed?

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Gaumnitz: Somewhere in there.

H.M.Jr: Well, you and I were in on the first butter deal, as I remember. You sold me a lot of butter when I was in Farm Credit. You remember? Were you (Gaumnitz) in on that?

Wallace: Then in addition to that, we - well, that was a comedy of errors, may I say.

H.M.Jr: I have a slight recollection.

Wallace: That was a full-sized comedy of errors, complicated by a number of things: inability - unwillingness of certain individuals in Triple A at that time to do certain things which they never were supposed to do, which I didn't know they hadn't done for quite a while. Well, by means of milk marketing agreements and evaporated milk agreements, there was a type of price-fixing there that has been of extraordinary service to the dairymen over a wide area.

H.M.Jr: But this thing I've been talking about is a question of consumption and helping the people.

Wallace: Well, we're working for it, and Mr. Gaumnitz, may I say, is wrestling continuously with this question of the base milk as contrasted with the surplus milk, seeing whether or not it is possible under the varying situations to work out that two-price system at the consuming end. They've got the two-price system at the producing end; let's see whether it is possible to get a two-price system at the consuming end.

H.M.Jr: Awful lot of selfishness in this milk business.

Wallace: Exactly the same thing you find in every type of civic corporate activity, practically. For practically every commodity in the cities they set your price.

H.M.Jr: Well....

Black: If they would get a favorable decision from the Supreme Court - and these cases have never gone

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to the Supreme Court during the last six years; been trying to get them there for six years - if we get a favorable decision there, it's going to open up possibilities for rather direct help in getting these milk sheds that we haven't been able to get.

H.M.Jr: That wouldn't preclude, even if you got a favorable decision....

Black: Not in the slightest.

H.M.Jr:this question of surplus tickets. It would just supplement it.

Wallace: Please don't misunderstand his bringing this up.

Black: As a matter of fact, it would help it. It would organize these markets in such a way that it would promote efforts of that kind.

Wallace: Please don't feel that we have any opposition to this, except that we want to step into a particular spot - we don't want to do that without looking it over.

H.M.Jr: You most likely know the name of this person - who is the man I call Louie Brownlow's clearing house in Chicago, who looks after direct relief and visits the various cities?

Parran: Not Frank Bane?

H.M.Jr: No. Well, there is a man there - they can tell you who it is - I mean his specialty is relief. I was out there about six weeks ago, or two months, and they had a little supper for me. I talked to the group. This question of the surplus thing came up. I talked to him. He has all these contacts with the social workers in the various cities. They're very much opposed to this thing. Very powerful group.

Wallace: It's somebody like that who has been talking to the President.

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- H.M.Jr: Now, I was thinking, if you find out who the man is in Louie Brownlow's organization....
- Wallace: He would be the man.
- H.M.Jr: If you could sell him.... He immediately saw that this was wrong, that was wrong. And here is a key fellow visiting all the cities on relief, and it seems to me....
- Wallace: I don't think you can change the attitude of the social workers, Henry. It's part of the fundamental creed. Do you think you can, Dr. Parran?
- Parran: I doubt if you can change the whole group of them. You may be able to change a few strategic individuals.
- H.M.Jr: This man is a very important fellow, because he contacts so many cities on relief and advises them. He's in with Brownlow's group.
- Well, thank you, Henry.



OFFICE OF THE CHIEF
U. S. SECRET SERVICE

In reply refer to File 255

TREASURY DEPARTMENT

WASHINGTON, D. C.

May 31, 1939

MEMORANDUM FOR THE SECRETARY,
FROM CHIEF, SECRET SERVICE.

I telephoned Colonel Warner, in command of the New York State Police, requesting a permanent detail of three men to cover the Roosevelt residence at Hyde Park. He referred to the limited force he has, stating that it would necessitate closing up a sub-station. He advised me that for a long time three men had been assigned to that detail and that the detail had been reduced to one man because it was felt unnecessary to tie up three men there as there was so little to demand attention.

I informed him that it is considered advisable to have three men at the residence and told him that it would be appreciated if he would stretch a point in cooperating with us by arranging the detail.

Colonel Warner said that he would telephone me at 10 A. M. Thursday, June 1st, and give me an answer. I have an impression that he was stalling and that he may not comply with the request.

Frank J. Wilson

May 31, 1939
10:16 a.m.

HMJr: Hello.
General
Craig: Good morning, Mr. Secretary. General Craig.
HMJr: Good morning.
C: Mr. Secretary, no reply has been received from the letter sent on Friday to General Disque.
HMJr: Oh!
C: As soon as it comes in I will let you know.
HMJr: Thank you so much.
C: I -- I have some little doubts about him, sir.
HMJr: Well.....
C: I mean, about all-around qualifications.
HMJr: Well, unless you're enthusiastic, I don't want him.
C: Yes. Well, I want to see what his answer is, because it -- it hasn't been very long, not over a month, since he wrote to me asking for something to do; that he had lost everything he had and was looking for something.
HMJr: I see. Well, I -- I won't move until I hear from you.
C: Well, don't think I -- I won't forget it, sir, and I'm still communicating with other people.
HMJr: Thank you, General.
C: All right, sir.
HMJr: Good bye.
C: Good bye.

May 31, 1939
3:38 p.m.

HMJr: Hello.

Operator: Operator.

HMJr: Yes.

O: Mr. Farley took another call now, she said if.....

HMJr: Well, darn it, I can't hang on this phone.

O: Well, I know. I asked her to wait a minute, and she put someone else on instead.

HMJr: Well, that's just too bad.

O: Can you take him in a couple minutes?

HMJr: Well, I'll try it, but if he -- I can't -- I can't fuss around. Ring the bell if he's on.

O: All right.

HMJr: If he can't wait, then to h--- -- I beg your pardon.

O: All right.

HMJr: All right. And tell Mr. Parker I'll talk to him tomorrow.

O: All right.

HMJr: Thank you.

May 31, 1939
3:40 p.m.

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HMJr: Hello.

Operator: Can you take him now?

HMJr: Yeah.

O: There you are.

HMJr: Hello.

James

Farley: Hello. How are you?

HMJr: I'm fine.

F: Good! I'm going away -- out to Arkansas for four or five days. Is it safe for me to go and -- without you getting in trouble? Can you take care of yourself?

HMJr: I did pretty well last week.

F: Well, that's all right then. I just wanted to check up and make sure. I thought you did all right myself.

HMJr: What?

F: I thought you did all right too.

HMJr: I'm not looking for any more fights.

F: O. K.

HMJr: This one.....

F: I'm not looking for any myself.

HMJr: This one will last me the rest of the year.

F: Well, I hope so for everybody's sake.

HMJr: Yeah.

F: You're all right, are you?

HMJr: I'm all right. I'm awful tired -- I mean, it -- it took the hell out of me.

F: I suppose.

HMJr: And I'm not -- as I say, I don't want any more -- I don't want any more fights.

F: All right. I'll be back next week, and I'll give you a ring and I'll get together with you.

HMJr: I don't think I did the party any harm.

F: No, you're all right. You're really all right.

HMJr: Huh?

F: If you weren't I'd tell you.

HMJr: But I mean, I think -- I think it ought to be helpful.

F: Yes, it will. It's all right.

HMJr: I think it ought to be just as good.....

F: In other words, I'm trying to -- I -- what I -- the reason I'm calling you is to congratulate you on your decision.

HMJr: Thank you. Thank you.

F: I'm serious about it too.

HMJr: I'd love to have a talk with you when you get.....

F: When I get back I'll give you a buzz.

HMJr: O. K.

F: Hello?

HMJr: Yeah.

F: Did you read about my report in the morning papers?

HMJr: Yeah.

F: Well, all I know about it is what I said at the meeting on Friday.

HMJr: Well, I'll be darned.

F: To you, you know, that is.

HMJr: I get you.

F: That's all -- that's all I said.

HMJr: Well, Jim, ah -- I mean -- well.....

F: That's very funny, isn't it?

HMJr: In other words, you can't read all -- you can't believe all you read.....

F: Listen, you can't believe a damn thing you read. I picked up the papers this morning at breakfast and I got quite a kick out of it all, because you heard everything I said.

HMJr: I see. Well, that wasn't much.

F: Not a damn thing.

HMJr: Okey-doke.

F: So there it is, Brother.

HMJr: Good bye.

F: See you later.

HMJr: Thank you.

F: Thanks a lot, Henry.

HMJr: Good bye.

F: Good bye.

May 31, 1939
4:51 p.m.

HMJr: Hello.

Operator: George Harrison.

HMJr: Hello.

George

Harrison: Hello, Henry.

HMJr: Yes, George.

H: I had such a delightful lunch with you/I thought I'd
pursue you further. ^{that}

HMJr: Yes.

H: I was wondering whether you and Mrs. Morgenthau were by any chance planning to be in town over the weekend, and whether you'd care to go down on my boat Saturday afternoon -- Sunday -- and Sunday.

HMJr: Well, that's terribly nice, but I think we're planning to be here, but.....

H: Well, it's down at Annapolis.

HMJr: Oh! Oh! Well, may I ask her?

H: You'll do that, would you? I'd love to have you come if you will.

HMJr: We.....

H: I thought we'd go down right after lunch Saturday and go out and go swimming, spend the night on board, go for a sail Sunday, and then come back in the afternoon.

HMJr: Well, I don't know what her plans are. It sounds terribly nice and if -- can I get in touch with you.....

H: You know, it's the same boat that you and the President went down on once before.

HMJr: Oh, yes. When could I call you?

H: Well.....

HMJr: Do you want to know tonight?

H: No, no. No, anytime at all.

HMJr: Where will you be tomorrow?

H: I'll be in New York.

HMJr: Well, I'll call you the first thing in the morning.

H: Will you do that?

HMJr: Yes.

H: First rate. Well, I'd love it if you can.

HMJr: Thank you so much.

H: Fine!

TREASURY DEPARTMENT

263

INTER OFFICE COMMUNICATION

DATE May 31, 1939

TO Secretary Morgenthau

FROM Mr. Haas *HA*Subject: Advisability of selling wheat in view of
May squeeze.

There seems nothing further to be done on this. The May squeeze was a mild one, and according to Dr. Duvel the situation has now been settled. There is practically never a squeeze in July futures, since new crop wheat becomes available in time for delivery on that month.

Dr. Duvel expects wheat prices to go higher, owing to the unsatisfactory crop situation. A private estimate released today places the total crop at 661 million bushels, which compares with general expectations of around 700 millions, and with last year's crop of 931 millions. The outcome of the spring wheat crop, however, remains almost entirely dependent upon future weather.

● MR. MORGENTHAU'S OFFICE TO-

Mr. Hanes Mr. Gaston
Mr. Gibbons Mr. McReynolds

.....

I don't see further
to *SWB*

Mr. Alexander	Mr. Harper
Mr. Allen	Mr. Helgesing
Mr. Bartelt	Mr. Irby
Mr. Batoneider	Mr. Julian
Mr. Bell (1)	Mr. Kilby
Mr. Berkshire	Mr. Lochhead
Mr. Bernard	Miss Lonigan
Mr. Birgfeld	Mr. Maxwell
Mr. Blough	Adm. Peoples
Mr. Broughton	Miss Reynolds
Mr. Bryan	Mr. Rose
Mr. Cannon	Mrs. Ross
Mr. Davis	Mr. Sloan
Mr. Delano	Mr. Spangler
Miss Diamond	Miss Switzer
Miss Flanagan	Mr. Tarleau
Mr. Foley	Mr. Thompson
Mr. Graves	Mr. Uphan
Mr. Haas (2)	Mr. White
Mr. Hall	Mr. Wilson
Mr. Hanna	

Mr. Bell) Is there anything I
Dr. Haas) should do about this?

H.M.Jr.

May 22/39

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

HENRY H. JONES
CHAIRMAN OF THE BOARD

May 17, 1959

16888

Dear Henry:

With reference to your inquiry some days ago about the advisability of selling wheat due to the apparent squeeze for May delivery, beg to advise that of the 82,000,000 bushels placed under the 1958 loan, about 20,000,000 bushels have already been released and there is probably 10,000,000 now in process of being released.

This will leave only about 50,000,000 bushels, which does not appear to be a large surplus.

The release price to farmer borrowers was increased 2 cents a bushel, effective May 12, 1959, and they are continuing to take the wheat on this basis.

The Department of Agriculture thinks that wheat will probably go substantially higher, unless there is a material and early improvement in crop prospects.

Sincerely yours,


Chairman

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

TREASURY DEPARTMENT

267

INTER OFFICE COMMUNICATION

DATE

May 31, 1939.

TO Secretary Morgenthau
FROM E. H. Foley, Jr.



For your information -

Mr. Tamm of J. Edgar Hoover's office called me about eleven o'clock this morning and said that Mr. Hoover had been in touch with him this morning about the Movie Cases. Tam reported that the Attorney General would be back in town around 9:30 this evening and wanted the report on his desk at that time if possible.

I told him that you were having a meeting this afternoon at 4:00 on these cases and that I would convey the message to you.

E. H. F.

States ranked in order of
fluid milk produced 1/, 1937

<u>State</u>	<u>Millions of Pounds</u>
New York	5,701
Pennsylvania	3,619
Texas	3,267
Wisconsin	2,941
Illinois	2,685
Ohio	2,268
Michigan	2,143
California	2,052
Iowa	1,611
Minnesota	1,440
Missouri	1,390
Indiana	1,306

Treasury Department,
Division of Research and Statistics.

May 31, 1939

1/ Estimated by subtracting milk equivalent of manufactured dairy products from total milk produced.

MEETING WITH EXECUTIVE COMMITTEE OF
FEDERAL RESERVE OPEN MARKET COMMITTEE
(Treasury group alone for ten minutes;
Federal Reserve group in at 11:00 o'clock)

May 31, 1939.
10:50 A. M.

Present: Mr. Hanes
Mr. Bell
Mr. Haas
Mr. Murphy
Mr. Lochhead
Mr. Seltzer
Mr. Hadley
Mr. Eccles
Mr. George Harrison
Mr. Draper
Mr. Leach
Mr. Sproul
Mr. Piser
Mr. Williams
Mr. Goldenweiser
Mr. Matteson

Bell: The lowest point that our balance will reach in that three-month period will be at the end of August, a billion 384 million dollars.

H.M.Jr: How much?

Bell: Billion 384 million. I had provided in this picture new cash of 850 million in September, and then financing by the agencies in October of a hundred million for United States Housing Authority and in November three hundred million again for Commodity Credit or RFC, whichever one needs it; and no cash in December. And we go out of December with a billion and a half.

H.M.Jr: Too much.

Bell: And the low point there would be the end of January, a billion 305 million; end of February, a billion 315. So we wouldn't need any cash until March.

H.M.Jr: Well, let's start around, let's make it - does anybody think we ought to try to get any new money this time?

Hanes: I don't.

- 2 -

H.M.Jr: Archie?

Lochhead: Well, not after Dan's figures; it wouldn't seem to be reasonable.

H.M.Jr: Do you (Seltzer) think so?

Seltzer: (Nods no).

H.M.Jr: George?

Haas: No.

Murphy: No.

Hadley: No.

Bell: I don't think so.

H.M.Jr: Well, that's unanimous. Then it's a question of refunding some four hundred odd millions of September notes.

Bell: 427 of Treasury notes maturing in September.

H.M.Jr: I personally think it's - I'll listen to these other people - I think it's too disturbing to call the December stuff now. I think it kind of upsets things too much. Some people recommend calling the December.

I mean I think it's - I can't see any particular good reason for the December.

Do you (Bell) want to argue for calling December?

Bell: No. I don't know whether I ever got to the point that I definitely recommended it. I said I thought we should consider it at this financing, in view of the favorable market conditions. I'm inclined to agree with you that there would be some criticism of calling the Decembers. I think some of the outside people have viewed it as unwise at this time also; whereas, in March the argument went the other way, that they thought we were in the wrong by not taking in the Septembers. But I'm inclined to

- 3 -

think that maybe we'd better let well enough alone and do just as we have done in the past.

H.M.Jr: Well now, does anybody want to talk in favor of calling Decembers?

Haas: I just have this comment to make on it, that before you drop it completely I don't think anything will be lost by trying some of the people out in the market, seeing what they think of it. But you may not want to.

H.M.Jr: George, I tell you the way I feel; I don't want to do anything at this time, unless there is an awful good reason, to worry the people unnecessarily, see? I mean if there is some awful good reason for calling these things - even though we've got a big thing coming next March - I mean I don't want to do anything out of the ordinary. The best thing they can do as far as I'm concerned would be to forget the Treasury and the Treasury financing for the next three to six months, and if we can simply come out and say, "You don't have to worry about us people, we're out of the market until next September, and you boys have got clear sailing for three months" - see?

Hanes: I think it would be a wholesome thing to do.

H.M.Jr: See?

Haas: O. K.

H.M.Jr: What?

Haas: O. K.

H.M.Jr: And then again, if you don't mind - because I've read all this stuff - I personally - I'm going to listen to these other people - feel that the easiest thing - I'm going to tell you why - is a five-year note, and the reason I feel it's a five-year note is that I'm worried about the present market and I'd hate to get out.... That's another reason why I don't - if I call the December, then I've got about nine hundred million dollars to refund, and that's too much for a five-year note.

- 4 -

I mean I'd have to split it. I don't want to get out a long bond, because if we're in an incipient boom or boom market, then our Governments are going to get soft, and I'd hate like hell to sell a twelve or thirteen-year bond now and then see the thing steadily go down. And a five-year note is pretty steady and can't sink very much, can it?

Seltzer: A three-quarter percent note can sink. That's a pretty low coupon. I mean you have quite a little price risk in a coupon as low as that.

H.M.Jr: Well, relatively, if it went off two points it would be a lot, wouldn't it? It would be terrific, wouldn't it?

Seltzer: Well, it would be a sharp decline.

H.M.Jr: But you might perfectly well sell a two percent bond; it would go how many years?

Hadley: About fourteen.

H.M.Jr: And you could see that go below par. I mean I'm telling - that's why I hate to sell a long bond, because if the stock market continues to go up and the commodity market continues to go up, then I argue in this room - I don't want to even tell these other fellows - I think we may have a sloppy bond market, and I don't want to be caught at this time. And that's why a ⁴²⁵ million dollar note issue, priced comfortably, would be the least thing to worry about over the summer.

Haas: That's a simple solution, if you do that.

H.M.Jr: What? Dan, see?

And then if you call the other thing you've got nine hundred million dollars and you'd have to give them most likely a bond. And with this stuff selling at its all time high peak, I'd like to keep out of it. And then if the thing slumps off this summer and it goes off two or three points and then you've got to raise eight or nine hundred million dollars in September, we're all set.

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Am I reasoning foolishly?

Seltzer: No. But I think your market is going to be quite a little disappointed.

H.M.Jr: Why?

Seltzer: That is, I think these maturing noteholders would much prefer a medium-term bond.

H.M.Jr: We haven't got out a five-year note in six months. It's been six months since we got out a five-year note. I want to play it just as close in as I can, so that if I'm right - the worst that can happen if I'm right, and the market and commodities continue to get better - then I've got something which is fairly easy to handle. If I'm wrong and things go to hell, well, O. K. Huh?

Lochhead: Of course, if you don't take any new money and you put out a short-term note you may have a very strong bond market. That's the one - the only one thing I'm thinking of.

H.M.Jr: Archie, it hasn't been acting that way. The bond market is acting as though we were going to have a boom.

Lochhead: Yes. But that's the one argument.

H.M.Jr: The only time I've seen commodities strong and common stocks strong, Government bonds were weak. Well now, I hope that that's the weather sign for a rise, for everybody's sake. That's what we've been praying for. And it started ever since that meeting a week ago last Monday where that Committee got together and decided they were going to do something on taxes. Right?

Hanes: That's right.

H.M.Jr: As near as I can make out, it took one day to leak and began Wednesday.

Does it make sense to you, what I'm saying, Johnny?

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Hanes: Absolutely.

H.M.Jr: What?

Hanes: Absolutely. I think you're absolutely right on that one. I think it's worth taking that guess.

H.M.Jr: Well, you're not taking much of a guess, because we've got two billion three hundred million on hand. You load up, call December, and it means you've got nine hundred million dollars. You can't do it all in notes, you've got to do a bond. The market gets sloppy, and then what? I just think it's smart to sit here; we've got all our purchasing power, we've got a hundred million in postal savings, a hundred million in FDIC that we can invest during the summer if we have a sloppy bond market.

Seltzer: There is only one other consideration I think might be mentioned, and that is that in 1944 you now have about four billion three of high coupon stuff.

H.M.Jr: Which doesn't - but you don't have to call it.

Seltzer: No, that's right.

H.M.Jr: And all - have you got anything coming due on the 15th of June, maturing?

Seltzer: No, you haven't.

H.M.Jr: And all this is is 425. If everything goes well, it will be 405, 410 million dollars.

Hadley: The Federal has 70 million of it.

H.M.Jr: And we haven't got out a note in six months. Whether you fellows want to price it at three quarters and give them an allowance for their interest, or whether you want - hell, we can fuss about that Thursday and Friday.

Now, I'm not going to talk this way to these gentlemen coming in. I'm going to go through the regular routine and listen. But I wanted you fellows to know what I have in my mind. We can have another meeting, if necessary.

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Does anybody think I'm going - getting out on the end of a limb?

Hadley: No, I think it's the simplest thing to do.

Murphy: I'm all for it.

H.M.Jr: Dan?

Bell: It's all right with me. I have no strong feeling about the other at all.

H.M.Jr: I just wanted a heart-to-heart talk now. And then when these gentlemen come in we can listen to what they have to say, listen to Piser and then do the opposite. That's in the room.

(Federal Reserve group comes in)

H.M.Jr: Well, Mr. Bell, if you'll give us the rules of the game, please.

Bell: I think, Mr. Secretary, that they have most of the figures. I might explain that we're going into June with about three hundred million dollars more than we contemplated when we last met, due principally to the repayment of the RFC and an increase in our revenue receipts over expenditures.

This estimate that I have does not contemplate any cash financing in June. It does contemplate a two hundred million dollar financing for the Commodity Credit in July, an \$50 million cash for the Treasury in September, a hundred million dollars cash for United States Housing Authority in October, and a three hundred million dollars cash for the RFC or Commodity Credit, whichever needs it, in November. And nothing for any agency, including the Treasury, in December.

The balances would be, on that basis, about a billion nine going out of June, a billion seven at the end of July, a billion three eighty at the end of August, a billion nine at the end of September,

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a billion six hundred million in October, a billion seven fifty in November, and a billion 530 in December. We have in that picture a refunding of 427 million of Treasury notes maturing on September 15 and 526 million of Treasury notes maturing December 15. We also have some odds and ends of various credit agencies, such as a little over two hundred million for Home Owners Loan on August 1, a hundred million of the Federal Farm Mortgage Corporation on September 1, and two hundred million of the Commodity Credit in November. That about completes it.

Eccles: How much new September financing - 800, you said?

Bell: 850 million in this estimate, yes, sir.

Eccles: That's new.

Bell: That's new cash.

Eccles: The three hundred millions for Commodity Credit or RFC?

Bell: In November.

Eccles: Yes. That would be new money. That would be used to pay the Treasury off? The RFC still owes....

Bell: It could be used that way. There's about three hundred million still due the Treasury from the RFC.

Eccles: So this would really take the place of the Treasury financing, but it would be financed outside the budget.

Bell: That's right.

H.M.Jr: Anybody else like to ask Mr. Bell any questions?

Harrison: What does that leave you at the end of December?

Bell: A billion five hundred going into January.

Golden'r: Did you say there's 850 of new money that you want to raise?

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Bell: 850 million dollars new cash in September, yes, sir.

H.M.Jr: Well, on that basis, it gets down to a refunding of the September notes now, and I wondered if the Federal Reserve Committee had any other suggestion to make other than possible consideration of the refunding of the September notes on the fifteenth of June. Mr. Eccles, was there....

Eccles: Well, we have been discussing it this morning, and Mr. Piser had been making a survey for some time past in all twelve Federal Reserve districts to ascertain their views. In the discussion this morning it seemed to us, of course, that the problem is just - it didn't make very much difference. It's a very simple one. And it was just a question as to whether the September maturity as well as the December - there was any justification for financing both the December and the September notes at this time, or whether to do no financing at this time and finance September and December in September, which of course would not be advisable if you expect to get 800 million of new money.

The thought was that you possibly could go to the end of the year without new money, in which case in September you could finance both September and December; or you could finance both September and December now. There was some argument for the financing of both of them by reason of the fact that the combined issue of September and December is less than a billion dollars, and there is some disadvantage in a small issue because to take an existing issue - they're all at a very high premium, and you are almost required to put out a new issue to meet the market situation today; and therefore to put out a new issue of four hundred million is rather a small issue to put out, in view of the fact that you'll have three months from now another issue to put out anyway.

So it's a precedent again of anticipating maturities six months instead of three months - that's the only objection there may be to it. We didn't take any vote to see what the preference was, but I'm just giving you the results of the discussion.

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Then, if a 900 million refunding was done now, that is, taking in September and December, it appeared that an option may be given for a long bond and what is termed a short bond. If, however, only the four hundred million is refunded, we seemed to have a preference that only a long bond be given.

I don't know as that....

H.M.Jr: I wondered how New York felt about the possibility of reaching out for December. I mean how would they feel about it up there?

Sproul: We had discussed that with some of the people at New York. They feel that it might cause some uncertainty, figuring whether you had a four and a half or a five year obligation, where your maturity was going to be, but that the uncertainty would not be great and that the anticipation six months in advance could be done without any considerable difficulty.

H.M.Jr: Well, are you coming over, Marriner, with any fixed ideas?

Eccles: No. I personally don't have any, and I didn't understand that any other member of the Committee had any very fixed ideas. The problem is rather a simple one in view of the present situation, and I don't think it makes a great deal of difference whether you include December now or not, and I don't think it makes very much difference as to what the combination may be. There may be some slight choices as a matter of personal opinion.

But is that correct, George?

Harrison: I think that's right.

Eccles: I interpreted the discussion. We didn't try to get down to some definite....

Harrison: I agree, Mr. Secretary, that you've got a pretty free choice.

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It does seem to me, though, that if you're going to raise some new money in September or are contemplating some new money some time before the end of the year, that it might well be worth considering today the wisdom of refunding the September notes and getting some of your cash now rather than cleaning up September and waiting until September for all your cash. Now, I say that for this reason, that while I am not one of those that expect the European conflagration just now, apparently all the gossip is that the critical period will be in August and September. If that is true, and we don't know - if that is true, it does seem to me, as long as it doesn't make much difference, that it might be more prudent and politic on your part to refund September now and take a little of your cash now, rather than put all your eggs into the September market.

H.M.Jr: Well, we don't even have to do that.

Harrison: No, I don't think you will. I think that would perhaps be the best thing, everything considered. And I think my second choice would be to take up both the September and December now. I say that largely because I think the 400 million refunding with nothing else will be so bullish on the market that you may run up....

H.M.Jr: Swell.

Harrison:you may run up your bond prices a point or a point and a half more just by the refinancing.

H.M.Jr: I see. Well....

Harrison: Therefore, I think you've got - my hunch is you've got to do more than just refund September today.

H.M.Jr: I can't help it if the spenders are falling down on me. The money isn't going out.

Eccles: It never has according to schedule. Trouble is, you've got to discount some of these RFC figures in particular. If you were to take the estimates

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that they send in - they never check out.

H.M.Jr: Well, Dan's run a - what do you call it, on horses - an average - when you average them up?

Harrison: A parlay?

H.M.Jr: Something like that. He estimates over a period of two or three years - they over-estimate about ninety percent, don't they?

Bell: Some of them.

Harrison: I don't know what kind of horses you've got in the Treasury stable, but you've got a pretty good Jockey.

Bell: Hobby horses.

I think you should explain, Mr. Secretary, that this \$50 in September was put there in order to raise enough money to get us over that December hump. That is, if we take in the refunding of the March - a big amount, a billion 378 million - it could very well be split; say we have four hundred or five hundred million of new cash in September with the refunding of either the September notes at that time or the December notes, and then four or five hundred million cash in December again, see? I merely put the \$50 in September so as to leave December open for refunding of the March maturities if we want to do that.

Harrison: I think you ought to - that's a pretty big issue, and you don't know what may develop before December, and you've got plenty of opportunity now, either in June or September, to clear your decks for December, which I think would be wise.

H.M.Jr: Of course, if the market goes up too fast, we can always - the Federal Reserve can always let its portfolio run off.

Eccles: We have pointed out that, like most other central banks, our entire source of revenue is Government securities. Now, if nobody is concerned whether

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they have an income or not, why, I was just down in Texas - been with a group of bankers - kicking because we don't sell our portfolio. We said, "The first thing we can do is suspend paying dividends on stock," which is certainly agreeable to me. "Next thing we can do is start charging you for currency or any service that is rendered; either that, or go to Congress and ask for an appropriation. Those are your choices. Or we can hold on to the portfolio."

- Bell: I'll bet they agreed with the latter.
- Eccles: They did, but not until I got through with them.
- Harrison: All right, you can let a billion go now; they're now selling in the market at a low basis. They wouldn't cost us anything. We'd make a little profit on it.
- Eccles: You could do that, but that meets the problem for a few months, still doesn't get at the fundamental problem.
- H.M.Jr: You'd be disappointed if I didn't raise it.
- Eccles: I didn't think you'd raise it. I'm usually the one that raises it.

But so far as your financing is concerned, I'm not like George. The question of running into a situation in September and December or any other period that's going to cause you the slightest problem of financing - that's out the window, it seems to me, so long as you have huge excess reserves and so long as you have a volume of deposits which are as great as they are. You have on the one hand banks under pressure to invest these excess reserves they have, and their earnings are getting less and less and less because the loans that they already have have been renewed at lower and lower and lower rates. And so they are under terrific pressure all over the country for earnings. Then, on the other hand, you have the insurance companies, the savings banks and the trust funds, the owners of these

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deposits in the banks, with no place to put those funds.

And if the foreign situation develops, it only makes foreign capital more anxious to come here and stay here, instead of leave here, and that's an additional pressure on the market.

So that I wouldn't think of adopting any financing program in anticipation of some crisis, because no crisis can develop, it seems to me, that can cause the Treasury the slightest trouble with reference to its financing. Now, it may not be able to put out a very long bond. But you've always got the bill market; that will be excessively low as long as you've got huge reserves. And you've got your short-term bond market or your note market.

It seems to me that you may be criticized - I mean thinking of Congress - for building up balances, for carrying two or two and a half billion indefinitely in very large balances. I think instead of trying to provide the market with securities for investment, in order to keep the bonds from going up and in order to keep rates from going lower - that you just can't feed the market enough to accomplish anything in that field, it seems to me, on any present budgetary program.

And as a matter of policy - as for me, I would adopt a program confined pretty strictly to the Treasury's own interest in this matter, and would let the balances run down and operate closer - I'd operate within a billion dollar balance picture, instead of two or two and a half billion. And I would not do any new financing until the situation required it, and then I would adopt a financing based upon the situation; that is, either bills or notes or bonds.

Harrison: Well, I didn't mean to imply in what I said - my suggestion was in the form of a question, anyway, but I didn't mean to imply that you can't finance yourself in September or December in some form of obligation at some rate. You can, of course. But if I assume that you prefer to get your new money whenever you get it on long-time rather than

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by increasing your bills unnecessarily now, which I understand you would prefer not to do, then I'd say that there is very little difference in raising your new money in June than there is in raising it in September, so far as Congress is concerned. In fact, I think what you've got to do is to formulate your program upon the basis of your fiscal year looking ahead, and if you're going to do that, then it does seem to me that there is some advantage in taking some of your new money in June rather than in gambling on taking it all in September, when you might have to go to shorter maturities than you would choose to go if you had your choice now.

But I go back to my initial statement. I think you can do about what you want and it doesn't make awfully much difference.

H.M.Jr:

Well, let me, in view of this conversation, tell you how we feel here; and anybody that doesn't like it - I wish they'd say so. We're thinking in terms of refunding the September note and offering a five-year note in place of it. Now, anybody that doesn't like it - I'd be delighted to hear from them. We haven't got out a note in six months.

Eccles:

Well, that's one thing I suggested - that because of the small issue, either I would suggest - suggested even the possibility of paying it off out of balances; but of course, by reason of the rights, the value of the rights, that would be possibly quite a shock. But there is no good reason, with these huge balances, why it couldn't, from the Treasury standpoint, be paid off, if it wasn't for the disappointment to the holders of rights.

Not doing that, then to let the - to do no financing at all now, but in September finance both the September and the December issue; let it run right on as it is, and then in September finance both the September maturities and the December maturities, announcing now that that was the plan.

H.M.Jr:

Well now, do I understand that you like or go along or whatever way you say - approve the suggestion that we simply refund the September note with a

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five-year note? Now, Marriner, do I understand
....

- Eccles: Well, I would - I have no objection to that. I think that's all right. But I would have certainly - I'd have a preference for doing nothing now and in September not get any new money, because you don't need it and won't need it, and merely refund September and December at that time in either a note issue or whatever the market requires.
- H.M.Jr: We'd like very much to do the September now.
- Eccles: And that leaves the thing open in September.
- H.M.Jr: We've got that advantage of being three months ahead of time, and I hate to give that up.
- Eccles: Well, I think if you're only going to do September now, certainly a note issue would be all right. It would be a question then in my mind of issuing - having a note issue for the September maturity, or doing December too and having a bond issue.
- H.M.Jr: We don't like a bond at this time.
- Eccles: You don't? You have no idea of putting out a December - calling the December note?
- H.M.Jr: Rather not, unless somebody gives an awful good reason, unless somebody says, "This is a reason and I feel very strongly you should do December." If somebody feels very strongly we should do December, naturally, I'd be delighted to listen.
- Eccles: I'm not arguing for it. It would be a temporary market, but that does....
- H.M.Jr: If somebody says, "Mr. Morgenthau, you're wrong, I think you ought to do December," and goes after it, I'm here to listen. But if they don't feel very strongly, we feel we just ought to do September.
- Harrison: Would the alternative be, under the program you suggest, having taken care of the September note by an exchange for another five-year note now -

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when September comes along, do you want to take up December and raise some new money at the same time, the 850 millions?

- H.M.Jr: Well, I haven't really thought that thing through. I frankly - what I'd like - as insurance against these troublesome times, I like to be in the position that on any quarter date I don't have to do anything. That's the position I like to be in: that if there is really trouble sometime, I'm in position that I can just skip a quarterly date and do nothing. That's what's motivating me, see?
- Harrison: Supposing you do that, supposing now you just do September; September comes along and you don't want to do anything because of conditions.
- H.M.Jr: We could go through.
- Harrison: Could you? Because that puts you with a billion 300 millions in Marches that you would have to do in December.
- H.M.Jr: We could do it.
- Bell: Run our balance down below a billion.
- H.M.Jr: We could sit tight, do nothing in September, refund the December note in December and do a little cash, and refund March in March. What, Dan?
- Bell: That's right.
- Harrison: My comment was predicated upon Mr. Bell's statement that you are anticipating getting 850 millions of cash this year.
- Bell: Part of which, however, was to leave December completely open to do whatever you wanted to with March. You can do the December note in September and take 500 million cash so you'd do nothing in December.
- Harrison: Mr. Sproul, if they do only the September refunding now, might there not be some advantage in the note over the long bond, because the long bond in a new issue you'd probably have to - it would be an awfully small issue for a bond issue.

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Sproul: Personally, I don't think so. I don't see much advantage in refunding a note into a note under present market conditions. If you go into another five-year maturity, it will have a very low rate, a return which doesn't satisfy anybody in particular, and it adds to your maturities in the early forties.

It seems to me from a Treasury and fiscal standpoint that there are two things in this present market. One is looking at the next fiscal year and even beyond that - that you're going to have some cash to raise. And the other is that you have some short maturities that you want to get out into the long maturities. My personal preference would be to refund the Septembers plus some small amount of cash, in anticipation of needs later in the year. And do it with a long bond issue, plus opening up the longest outstanding note issue to take care of anyone who doesn't want to be forced into a long bond: a gesture which I think would result in a very small addition to that note issue.

H.M.Jr: Can't see it. Sorry.

Piser: Mr. Secretary, would you be interested in hearing the results of the survey of our twelve districts?

H.M.Jr: Very much.

Piser: Since March the commercial banks seem to have less interest in a long-term bond and considerably less interest in a five-year note; whereas, the insurance companies have shifted their preference from shorter term issues into the longer term market. At the present time the commercial banks, great majority of the commercial banks, would prefer a bond maturing in eight to twelve years, and there are comparatively few of them that want any other maturity, either a long bond or intermediate bond or what not.

The savings banks are about equally divided between a short-term bond and a long-term bond, and show very little interest in a note or an intermediate bond.

The insurance companies are almost unanimous for a long-term bond, and show very little interest in the other maturities.

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A number of the banks are still favorable to definite maturities as against a callable issue. A considerable number are also against issues of premiums, which they mentioned before the last financing.

And we also got quite a bit of sentiment in favor of the Treasury raising cash in June in order to supply issues to the market.

That is, in general, what we see from our survey.

- H.M.Jr: Well, I say, thank you, but I'm afraid I'm not convinced, if you don't mind. I mean I don't know whether that's your personal opinion or not.
- Piser: This is just the....
- H.M.Jr: What's your personal opinion, Mr. Piser?
- Piser: I think I'd be in favor of a bond in the early fifties rather than a note.
- H.M.Jr: You mean - and do the September and December or....
- Piser: I don't think it makes a great deal of difference. If you just do the September, a definite maturity bond in the early fifties would be very popular.
- H.M.Jr: Fixed dates?
- Piser: I think it would be more popular than the five-year note.
- Eccles: In other words, instead of a five-year note, an eight or ten year bond.
- Piser: Or even longer, up to twelve, thirteen years.
- H.M.Jr: Well, this time last year - whatever we got out at that time, we called it an all-summer sucker, didn't we?
- Sproul: That's right.
- H.M.Jr: I'd like another one.

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- Sproul: Well, on that point, I think you'd do better with a bond than you would with a five-year note. They haven't got much to suck on all summer in a five-year note.
- H.M.Jr: Really, do you think you'd do better?
- Sproul: Yes, I do.
- H.M.Jr: A new issue, a new bond? Honest?
- Sproul: Get a better reception in the market. There is no question of the five-year note going, no question of anything else going. I think the market would like the bond better than the note.
- Harrison: I agree to that.
- Piser: A five-year note is a lot less popular than it has been recently.
- Eccles: The whole question is, after all, a question of yield. That's what you're really down to.
- Bell: Question of earnings.
- Eccles: Of course it is. Naturally, the recipient likes to get the biggest return possible and the payor likes to pay the least possible. Now, it's pretty largely a question of whether the Treasury wants to get all the financing on a five-year basis and pay a lower return than on a bond. Banks and insurance companies would like to get a bond, get a higher yield.
- Harrison: With money rates as they are, to swap the September maturities for a five-year note is hardly a refunding at all; it's almost a cash payment. And they would much prefer to get a little higher yield.
- Sproul: That's an argument.
- H.M.Jr: Allan, what coupon would you put on a five-year? What coupon?
- Sproul: It would work out somewhere around five-eighths, I suppose.

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- H.M.Jr: You're below our boys.
- Sproul: What's the yield, three quarters?
- H.M.Jr: Three quarters is what our boys say.
- Eccles: Have to have some premium.
- H.M.Jr: With or without adjustment for interest?
- Hadley: Without adjustment.
- H.M.Jr: Without adjustment.
- Eccles: Isn't this what will happen if you refund a note with a note? These notes have been selling at a pretty high - giving rights a pretty high value. Now if they find that there is no assurance that notes are going to be converted into bonds, that they're going to be converted into notes, I think you'll see the rights of all notes substantially dropped.
- H.M.Jr: Well, that would be healthful, wouldn't it?
- Eccles: That's right.
- H.M.Jr: That would be healthy, wouldn't it?
- Eccles: Of course it would. I think the rights - it will be a temporary shock all right, but I think whenever you get the rights up where they are, then you feel more or less constrained to put bonds out at a high premium, and you have to give them a point and a half, a point and three quarters, or they're disappointed. Now, if the rights stayed around a half to a point, why, they wouldn't expect offerings to be made on a basis where they've got a point and a half to two points premium.
- H.M.Jr: Well, until the bankers can get themselves in the classification of the farmers, I don't see any justification for paying more than three quarters of a percent for a five-year note. I mean if they can get themselves in the same classification as the farmers, why, then we could give them a three percent twelve-year note and charge it up to Congress.

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Harrison: It's a good idea. Never thought of that one.

Eccles: Yes.

Bell: That's right.

H.M.Jr: Just a thought. The trouble with you fellows is - I mean you've got a weak lobby.

Eccles: Haven't got any lobby.

H.M.Jr: Oh, I wouldn't go that far.

Don't tell that to the legislative committee of the ABA.

Leach: Of course, you can sell some bills for less than three quarters.

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

Harrison: I've been in favor of the Treasury considering at some time getting away from this artificial rights basis, which has been a plague to all of us, and I've agreed with statements I've understood you to make in the past that that's something you couldn't do except gradually and with appropriate notice. Query: how it would be interpreted if this particular offering were opened up only for notes, with a very substantial cut in the value of the rights?

Bell: That wouldn't be a big cut - three quarters - would it, Hadley?

Hadley: Give them about a point premium.

H.M.Jr: What did we give them last time on the notes?

Hadley: Gave them about half a point. The notes were a long way from the bonds.

Harrison: Got a point and a half there, so the rights were worth a point and a half.

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- Sproul: One and $21/32$ nds.
- Eccles: That's what I'd say - so it's $21/32$ nds difference. But a point is pretty good on a five-year issue.
- Hadley: If you cut it down to five-eighths, that would get it down to around half a point premium.
- H.M.Jr: Gentlemen, I feel very much like a note for a note - an eye for an eye.
- Sproul: You'll have some higher maturity stuff coming due along at the end of five years that's going to be refunded then.
- H.M.Jr: It doesn't have to be - nothing within that time. And there is no note within six months of it now. This would be the first note this year.
- Harrison: May I ask, what is your objection to a bond, Mr. Secretary? On the theory that you've been trying to reach out with your maturities....
- H.M.Jr: I've got several objections. One of them is, why pay two percent for your money when you can get it for three quarters?
- Harrison: That theory would mean you would never lengthen your maturities.
- H.M.Jr: Well, how much have we reduced it on the notes, by three or four billion dollars?
- Seltzer: Four billion dollars in the last three years.
- H.M.Jr: The outstanding amount of notes has been reduced by four billion dollars. So we haven't been over-playing the notes. We just would be replacing note for note. So we still would have reduced the total amount by four billion dollars. And those all went into bonds, didn't they?
- Seltzer: Yes.
- Harrison: I'm afraid I differ with the Chairman a little bit.

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I think when you've got a chance to....

M.M.Jrs: You mean Mr. Eccles?

Harrison: Yes.when you've got a chance to lengthen your portfolio in the market, with conditions such as you've now got, it's good Treasury policy, good fiscal policy, to do so. You've got six billions of maturities within two years, and you may on top of that have to have some additional cash too. Not very much difficulty with market conditions as they are, true, but if you've got an opportunity in re-funding some of that stuff as it comes due, to reach out, why, I think that the burden of proof is on the other fellow to show why you shouldn't go out. And I'm surprised that your reason for it is merely that you can get it for three quarters rather than two percent; because, of course, if you want to have all of your maturities just short maturities, rolling over, you can reduce the interest payment on your whole debt very substantially. But that hasn't been your policy and I don't see any reason why you should change your policy now.

Eccles:

Well, of course, I've stated here before on several occasions that I don't like long-term obligations as a matter of principle; that the Treasury, which has a tremendous influence in controlling the money market - it may issue long-term securities for fifteen, twenty, twenty-five years, which are apparently very favorable to them at the time - they have an obligation, it seems to me, with regard to that issue - one that they may have difficulty in assuming. If the rate that they finance upon is extremely favorable to them, it may prove to be very unfavorable to the purchasers over the life of the issue, which would be bad from a Government standpoint, because after all they have some responsibility to the public. If, on the other hand, the Treasury offering is at a higher rate and proves to be extremely favorable to the market, then the Government is paying more for its money than it needs to pay. There is always that danger in a long-term financing program, and I feel that to fit into the proper monetary and fiscal program, shorter issues would be very much more

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desirable, and you get the benefit of low rates and the easy money period. You would have to pay higher rates when the situation called for a more restrictive money policy, if you had a condition of full employment, and so forth; but in the average you'd possibly pay no more interest, because the one would pretty well balance off the other. But you get long bonds and you pay three and a half, four percent, such as we have paid now for a long period of time; it takes an awful lot of very cheap money to offset that. So as a matter of principle, I like to see....

Harrison: Looks as though you're going to win.

Eccles: Well, I've argued for this policy for a long while - short-term financing; let the Treasury take the advantage of the cheap market whenever we needed cheap money, and let the people that borrow the money get low rates, because that's all they get anywhere else. They're not going to take any great loss, a depreciation, later. And when the market calls for a more restrictive policy and higher rates, the Treasury will pay higher rates and the owners of funds will get higher rates. That fits into a - it seems to me to be a situation where the Treasury and the Reserve System are the factors that they are in the management of the monetary situation.

In the days of the gold standard, when gold moved out you had a situation that was uncontrollable. That was very different. But today, with the control largely in the hands of the Treasury and the banking people, we have a very different responsibility than you had under a gold standard operation.

Harrison: Well, Marriner, to pursue that policy to its logical conclusion, you'd have all your Government debt of 40 billions under ten years during a period of deficit financing. Would you consider that wise fiscal policy?

Eccles: I would, absolutely, because you control the market, you control the excess reserve picture. Why isn't it?

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- Harrison: But you may get to the point where the market would have you in an awful jam, too.
- Eccles: Not if you had huge excess reserves.
- H.M.Jr: Well now, are you gentlemen for the moment finished?
- Harrison: I'm all through.
- Eccles: I'm agreeable to your program.
- H.M.Jr: I'm not going to go all around the room, but I'm going to ask anybody that has anything, who feels that the way I feel at this moment - a refunding with a five-year note, not in September - if they don't feel happy about it, would they please talk up?
- Piser: Well, I just want to repeat what I said before, that in view of the fact that comparatively few investors seem to be interested in such a low coupon issue, I think there would be less danger in putting out a bond in the twelve to fourteen year category. I think there would be some risk in putting out a five-year note at such a low coupon.
- Harrison: I don't believe there is any risk. There will be a lot of disappointments.
- Leach: Mr. Secretary, I've talked to about twenty or twenty-five leading investors in this Fifth District, and I think they'll be somewhat surprised and disappointed at the five-year note. I think it will go, of course. The banks were looking for something in the middle, and the insurance companies for something longer.
- H.M.Jr: But in view - put yourself in my place, with my responsibility. What would you do?
- Leach: Well, I think it would depend on how interested you were, or how important you thought it was to refund into long issues. I think you can do it either way.
- H.M.Jr: Of course, we've got a good record on that.

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Draper: I'd like to answer that question if I could, Mr. Secretary.

H.M.Jr: Please.

Draper: If I were in your place, I'd do just exactly what you're intending to do.

H.M.Jr: Five-year note.

Draper: Yes.

H.M.Jr: Thank you.

Well, who, if he were Secretary of the Treasury, would do something different?

Sproul: I've expressed myself. I would.

H.M.Jr: All right. Who else would?

Harrison: I would, definitely.

H.M.Jr: What would you (Matteson) do?

Matteson: I would give the market what I think it ought to have, and nearer what it has a right to expect. I don't think they're looking for notes any more. I think that situation has changed. I think, in my own opinion, it would be normal to give them a bond, and my own thought is, when you give them a bond, give them a bond out in the longer section, the long maturities, because that's where the demand is.

There is another little market angle which may or may not have any weight. I haven't really spoken of it to anybody. But insurance companies, when they want to get some securities, they want to get them. If they can get them in good-sized amounts when you have a cash issue, they'll take them. But I think they're an aggravation to the market in between when they can't get them; they're always what they call sounding out the market and ready to buy, but the market is against them and they have that pressure on the market in between. I

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think there is a little something in that, from the short view that I get of the market.

I would rather see, if it would meet the wishes of the Treasury - I'd like to see them refund the Septembers and put out some cash at this time.

H.M.Jr: Goldenweiser, you've been very quiet.

Golden'r: That's because I agree with you, Mr. Secretary.

H.M.Jr: Well, you ought to say so, make me feel good.

Golden'r: You asked for disagreements.

H.M.Jr: Well, you know...

Williams?

Williams: I feel the same way.

H.M.Jr: Which way?

Williams: In favor of short maturities in general.

H.M.Jr: Better get yourself a new economist, George.

Harrison: I've been wondering about that. I'm almost willing to sacrifice that in order to get Goldenweiser and Williams together.

H.M.Jr: Well, with these final words of wisdom, I'll let the thing soak during the day and will make some kind of announcement 10:30 tomorrow morning. And if anybody can think of some other reason, why, Bell and I are available.

Eccles: I'm willing to say that I'm very much surprised that you'd consider this. We hadn't even thought that - I'd talked about short financing so long and always been completely alone; I even quit thinking of talking about it any more. And now to see your proposal this morning - I must say I'm just about bowled over.

Harrison: Which is conclusive evidence that you think it's a complete reversal of Treasury policy, and that's one of my strongest reasons for opposing the note.

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- Eccles: Well, I think I'm for that very thing. I'm very much for that kind of a reversal in financing, myself.
- H.M.Jr: Well, as you said, to get Goldenweiser and Williams together - maybe it's worthwhile doing this to get Eccles and me together.
- Harrison: I was saving that for the concluding remark.
- H.M.Jr: Now, if we could get Eccles and Harrison together, it would be wonderful.
- Eccles: That would be harder than getting you and me together.
- Harrison: That would be reducing the three sides of a triangle to a point.
- H.M.Jr: Well....
- Harrison: I assume, Mr. Secretary, you don't want any more from us now.
- H.M.Jr: Oh yes, you've got until 10:29 tomorrow morning, Eastern Standard Time. My press conference is at 10:30.
- Bell: You're just going to announce that....
- H.M.Jr: Well, a note for a note.
- Bell: No cash.
- H.M.Jr: Yes, and go further. If it's going to be a note for a note, I'd say so.
- Bell: You wanted to announce that tomorrow morning.
- H.M.Jr: I'd say everything except the coupon.
- Harrison: Have you considered going all the way with Chairman Eccles, not doing anything about September?
- H.M.Jr: I didn't know what you meant by "all the way." You might have meant going with him and issuing silver certificates.

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Eccles: Yes. Listen, that's where George and I are together.

Harrison: No question about that. No question.

Eccles: I don't think the Secretary - I think we all three might get together on that one.

Harrison: I think that's our opportunity.

H.M.Jr: Can't tell. We may have another reversal of policy.

All right, gentlemen, thank you very much.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

May 31, 1939

For your information

Senator Wagner informed us this afternoon that the subcommittee of the Senate Banking and Currency Committee, which has our monetary legislation under consideration, has scheduled a meeting for Friday of this week, when, it is believed, the legislation will be considered in executive session.

We shall continue to keep you informed.

E. H. F. J.