

DIARY

Book 201

July 1 - July 6, 1939

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TREASURY DEPARTMENT

1

INTER OFFICE COMMUNICATION

DATE July 1, 1939

TO The Secretary
FROM Miss Lonigan *E.L.*

The total number of WPA workers on June 21, 1939
is 2,579,543.

The decrease from the week ending June 14 to the
week ending June 21 was 10,217 workers.

BA

WORKS PROGRESS ADMINISTRATION
 Number of Workers Employed - Weekly
 United States

| Week ending 1938 | Number of Workers (In thousands) |
|---------------------|-------------------------------------|
| October 1 | 3,228 |
| October 8 | 3,224 |
| October 15 | 3,266 |
| October 22 | 3,300 |
| October 29 | 3,346 |
| November 5 | 3,364 |
| November 12 | 3,359 |
| November 19 | 3,345 |
| November 26 | 3,319 |
| December 3 | 3,287 |
| December 10 | 3,241 |
| December 17 | 3,186 |
| December 24 | 3,124 |
| December 31 | 3,094 |
| 1939 | |
| January 7 | 3,070 |
| January 14 | 3,030 |
| January 21 | 3,001 |
| January 28 | 2,986 |
| February 4 | 2,966 |
| February 11 | 2,966 |
| February 18 | 3,011 |
| February 25 | 3,043 |
| March 4 | 3,032 |
| March 11 | 3,009 |
| March 18 | 3,015 |
| March 25 | 3,009 |
| April 1 | 2,980 |
| April 5 | 2,906 |
| April 12 | 2,761 |
| April 19 | 2,752 |
| April 26 | 2,751 |
| May 3 | 2,734 |
| May 10 | 2,660 |
| May 17 | 2,622 |
| May 24 | 2,609 |
| May 31 | 2,598 |
| June 7 | 2,594 |
| June 14 | 2,590 |
| June 21 | 2,580 ^{a/} |

Source: Works Progress Administration.
^{a/} Confidential.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Monthly
United States

| | Number of Workers (In thousands) |
|-----------|-------------------------------------|
| 1936 | |
| 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 | 3,053 |
| August | 3,153 |
| September | 3,219 |
| October | 3,346 |
| November | 3,319 |
| December | 3,094 |
| 1939 | |
| January | 2,986 |
| February | 3,043 |
| March | 3,009 |
| April | 2,751 |
| May | 2,598 ^{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.

July 1, 1939
12:30 a.m.

HMJr: Hello.

Operator: Mr. Foley.

HMJr: Right.

O: Go ahead.

HMJr: Hello.

Ed

Foley: Mr. Secretary.

HMJr: Yeah.

F: Taft is talking now. Tydings just finished and they're making much of the point that the power has lapsed and nothing can be accomplished at this hour, since it's past twelve, and they should go home, and Schwollenbach is saying, "Well, if the Senator is so confident of his position, let's take a vote. What are we waiting for?"

HMJr: Yeah.

F: If the powers had lapsed why then the vote is a nullity. If they haven't, why then the powers have been continued.

HMJr: Wait a minute. Just hold on a minute.

(Brief pause.)

Just a minute. Go ahead.

F: So, the whole thing is going to hinge on this opinion, and it's very, very fortunate that we've got it and they haven't sprung it yet. And these other fellows don't know they have it, and they -- they -- Taft has quoted from your press conference, in which you and the President said that the powers would lapse at -- at midnight and he's making a lot of the fact that yesterday Senator Barkley said that the powers would expire and after twelve o'clock they'd be dead as a door nail and nothing could revive them. So.....

HMJr: Who -- who are you quoting?

F: Barkley.

HMJr: Oh.

F: He quoted -- this Taft -- this is Taft quoting Barkley. Barkley is supposed to have said this yesterday. So -- so (laughingly) it's all going to point up to -- to this opinion when they spring it.

HMJr: I see.

F: I don't know whether they're going to get a vote or not. Senator Byrnes isn't sure that they've got enough votes.

HMJr: He is not sure?

F: Is not sure that he's got enough votes.

HMJr: Now, the ticker says that Garner has been very busy up there going around.

F: Well, he's not -- he's not out on the floor. Pittman is in the chair. I haven't seen.....

HMJr: Well, Garner evidently has been going around.

F: Yeah. Well, Byrnes is very active, and so is Senator Barkley.

HMJr: Well, both Barkley and Byrnes told the President, I talked to him shortly.....

F: Yeah.

HMJr:that they have the votes.

F: I see. Well, I -- Byrnes told us when -- when we went up in the gallery, the A.G. and I, that he wasn't sure that he had the votes, and he didn't know whether he could hold them.

HMJr: Now -- now.....

F: All the Republicans are there.

HMJr: Now, get this, and don't tell it to anybody else.

F: O. K.

HMJr: If the Bill passes, the President will sign it tonight.

F: Yeah.

HMJr: He's waiting.

F: Fine!

HMJr: And then we get out our regulations.

F: Yeah.

HMJr: But just -- that's just for you, and for you only.

F: O. K.

HMJr: Only to be used after it passes.

F: All right.

HMJr: But he said if they'll get the Bill down there, he'll sign it and then I'm to get out my regulations and he'll sign a -- the proclamation.

F: Fine. Fine. Well, we're all -- we're all ready on those.

HMJr: But they -- they can't get somebody in there to get a vote, huh?

F: No. You see the -- these -- these -- this time has been allocated to the opponents, Tydings and.....

HMJr: Well, having all.....

F:Taft and so forth.

HMJr: With all the Republicans being there it looks as though that they were on their guard.

F: Oh yes, they're on their guard. They're not willing -- they're not willing to take the dare and -- and let it go to a vote. (Laughingly) It's quite amusing.

HMJr: Yeah. Well.....

F: It's a damn good thing we've got this.....

HMJr: Yes, and it's a good thing that we got it over to the Attorney General in time too.

F: You -- you bet. Sure!

HMJr: I don't know how we happened to do that, but we got that over anyway.

F: (Laughs)

HMJr: What?

F: (Laughingly) Sure!

HMJr: O. K.

F: All right. I'll call you if anything happens.

HMJr: Goodbye.

July 1, 1939
12:35 a.m.

HMJr: Hello.

Leslie L.
Biffle: Hello, Mr. Secretary.

HMJr: Yes.

B: Biffle -- , I hope I didn't disturb you.

HMJr: No, I'm just waiting to hear from you.

B: Well, I don't like the looks of this thing tonight.

HMJr: You don't.

B: I'm going to suggest to them that they quit until Thursday -- yes, Wednesday, I meant to say. I don't like the looks of this vote. We're going to have to do something about it. I'm telling you this in confidence.

HMJr: Oh, really?

B: It's close as hell, Mr. Secretary.

HMJr: What?

B: It's close as the devil.

HMJr: Really?

B: I don't like the looks of it tonight at all, and.....

HMJr: Well.....

B:I'm going to suggest to Senator Barkley in a few minutes that if he can get some agreement to vote -- vote sometime on Wednesday.

HMJr: I thought they thought they had the votes.

B: Well, I don't know. This is strictly in confidence, of course.

HMJr: Yeah.

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B: Some of these silver folks are walking out.

HMJr: They're walking out? You mean they're leaving the floor?

B: They're not going to vote.

HMJr: They're not going to vote?

B: Wheeler and some others.

HMJr: Wheeler?

B: Yes, and some others.

HMJr: McCarran?

B: Probably.

HMJr: Uh-huh.

B: I'll talk with you further tomorrow morning if it's convenient to you when you get to the office if you'll call me.

HMJr: O. K.

B: I don't think we'll vote tonight. I'm pretty sure it will go over until Wednesday.

HMJr: I see.

B: I'm going to talk to Senator Barkley in just a minute about it.

HMJr: O. K.

B: All right. Good night.

HMJr: Good bye.

July 1, 1939
12:58 a.m.

11

HMJr: Hello.

Operator: Mr. Foley is in the gallery and I'm trying to get a message to him.

HMJr: Right!

O: Right!

12:59 a.m.

HMJr: Hello.

O: Mr. Foley. Go ahead.

HMJr: Hello.

Ed
Foley: Yes, Mr. Secretary.

HMJr: Ed.....

F: Yeah.

HMJr: I thought you ought to know that Biffle just called me up.....

F: Yeah.

HMJr:and whispered over the phone; he was -- seemed he didn't want anybody to hear it.

F: Yeah.

HMJr: And he says that we haven't got the votes.

F: Uh-huh.

HMJr: And he's going to tell Barkley that he thinks he ought to let them go home. He said that.....

F: Well.....

HMJr:Wheeler and some of the other silver Senate Democrats are walking out on us.

F: I see. I see. Well, I think it would be a mistake to bring it up if they haven't got them.

HMJr: Well, I thought Biffle may be a little tight.

F: Well, I don't think so. He's been right out on the floor.

HMJr: Well, he came -- he whispered this to me.

F: Yeah.

HMJr: But -- I don't want you to do anything, but I just want you to know what I know.

F: Sure. Sure.

HMJr: See what I mean?

F: You bet.

HMJr: I mean, I -- I just don't -- I hated to see Garner going around there.

F: Yeah. Well, he's doing that not on the floor. He must be in his room because I haven't seen him since I've been down here.

HMJr: I think I'll call him up.

F: (Laughs)
O. K. He probably is tight.

HMJr: I doubt it.

F: Uh-huh.

HMJr: I doubt it.

F: Uh-huh.

HMJr: Well, what's going on now?

F: Taft's still talking.

HMJr: Uh-huh. Well, the Republicans evidently don't think that -- that they've got the vote.

F: Well no, they're afraid to let it go to a vote. If they thought they did, you see, they'd let them vote.

HMJr: Yeah. It must be very close.

F: Well, I -- I think so. That's what Colonel Halsey told me, but he didn't -- he didn't -- he said it would be kind of close but he didn't say that we didn't have them.

HMJr: Yeah. Well, how come Wheeler walked out on this?

F: Well, I -- I just don't know.

HMJr: Yeah. Well, anyway I'm passing it for what it's worth.

F: Yeah.

HMJr: But don't spread it because maybe he's wrong.

F: Yeah. Well, I'll -- I'll tell -- I'll tell the A.G. if....

HMJr: No.

F: No. O. K.

HMJr: No.

F: All right.

HMJr; No. This is just for you.

F: O. K. And I'll -- I'll call you if there's any change.

HMJr: That's right. No, no, I don't want it -- I don't want to let anybody get discouraged.

F: All right.

HMJr: That's for you only.

F: All right, I won't mention it. O. K.

HMJr: Right.

F: O.K.

July 1, 1939
1:07 a.m.

Ed
Foley: Mr. Secretary.....

HMJr: Yes.

F: Senator Barkley is right here and I'll put him on.

HMJr: Right.

Alben
Barkley: Henry.....

HMJr: Yes, Alben.

B: I just came in here to tell Frank and Ed, we've been checking up on this thing and they won't let us vote tonight. They've got eight or ten more speeches.

HMJr: Uh-huh.

B: And it's -- it's dangerous anyhow.

HMJr: Really?

B: Some of our fellows are gone. We've been checking up and it's -- it's so damn close that we -- we may be taking a chance even if we could force a vote tonight. I've offered them the proposition that if they'll agree to fix some hour Wednesday.....

HMJr: Yes.

B:on which to vote, I'll adjourn.

HMJr: Yes.

B: Because tomorrow is Saturday;.....

HMJr: Yes.

B:Monday is sandwiched in between Sunday and the Fourth of July, and half of the Senate will be gone.

HMJr: Yeah.

B: I don't think it's a good thing to take a chance on voting until we've got our people all here.

HMJr: Yeah.

- 2 -

B: Well, that's -- that puts it off longer than I'd like.

HMJr: Yeah.

B: But that's better than getting licked.

HMJr: Yeah.

B: So we may have to do that. If they -- they're canvassing their fellows to see if they'll agree to fix an hour Wednesday. I don't care what hour. If they won't do that, why we'll adjourn until tomorrow and continue the debate, but they've got enough speaking tonight that we can't vote.

HMJr: Well, you're the boss.

B: Well, I just wanted you to understand -- and we have to sort of deal with things over here from hour to hour as they develop.

HMJr: I know.

B: When you haven't got much of a margin.

HMJr: Have you talked to the President?

B: Not lately.

HMJr: Uh-huh.

B: No.

HMJr: Uh-huh.

B: I suppose he's gone to bed.

HMJr: No, he told me he was going to.....

B: Huh?

HMJr:he said he was going to stay awake.....

B: I'll see if I can get him and talk to him.

HMJr: What's that?

B: I say, I'll call him then.

HMJr: Right! I know he's awake.

B: All right.

HMJr: Thank you.

B: Well, all right. Good bye.

HMJr: Thank you.

July 1, 1939
1:55 a.m.

Ed
Foley: Senator Barkley got his agreement and they've adjourned until Wednesday.

HMJr: Yeah.

F: And they'll vote not later than five o'clock.....

HMJr: Yeah.

F:on Wednesday. Senator Barkley is sitting here. I think he'd like to talk to you.

HMJr: I'd like to talk to him.
(Senator Barkley takes the phone)

Alben
Barkley: Hello.

HMJr: Hello, Alben.

B: Well, I got that agreement and then had the Attorney General's opinion.....

HMJr: Yeah.

B:read from the desk, and then put in a memorandum that I'd dug up today about the continuation of the power to loan money by the R.F.C. to the R.E.A. back in 1936.....

HMJr: I see.

B:which was revived by merely amending the same section in 1938.

HMJr: I see.

B: Which is really practically the same situation.....

HMJr: Yeah.

B:we have here. So I think -- I think that the legal side of it, although the other fellows will dispute it, is in pretty good shape.

HMJr: Well now, -- of course, between now and Wednesday you'll know whether you have or haven't got the vote.

B: Yeah.

- 2 -

HMJr: Is that right?

B: Yeah.

HMJr: Now, this is what we are proposing to do here in the Treasury. The mints are closed normally.

B: Yeah.

HMJr: Irrespective of the legislation, always on Saturday.

B: Yeah.

HMJr: Monday is a holiday and Tuesday is a holiday.

B: Yeah.

HMJr: So we'll not buy any silver between now and Wednesday morning.

B: Yeah. Well, that's right.

HMJr: Is that all right?

B: That's all right. I don't see how you could anyhow.

HMJr: Yes. And then we don't have to make up our minds until twelve o'clock Wednesday.....

B: Yeah.

HMJr:is when we announce the price.....

B: Yeah.

HMJr:what we'd do.

B: Well now, I'll tell you.....

HMJr: See?

B: I want to talk to you about that before you do it because psychologically.....

HMJr: Yeah.

B:it would be bad over here.....

HMJr: Yeah,

B:to reduce it before this vote.
to

HMJr: You mean/reduce the 64½?

B: Yeah.

HMJr: Well now, I'm interested to hear you say that because that's what I told the President a few minutes ago.

B: Yeah. It would be.....

HMJr: But he isn't sure that I'm right.

B: I -- absolutely!

HMJr: I say, he is not sure that I was right.
well

B: Oh, I'm sure -- I'm sure as far as the situation over here is concerned that you're right.

HMJr: Yeah. Well.....

B: You don't have to do it at noon.

HMJr: Well, what I want to do is.....

B: You don't even have to buy any at all.....

HMJr: No.

B:on Wednesday.

HMJr: No. But you'd like me to keep the.....
for

B: I'd like/you to keep the -- don't do anything to -- to scare off anybody over here.....

HMJr: Well now.....

B:on Wednesday.

HMJr: Before I do anything on Wednesday I'll talk to you.

B: All right.

HMJr: How's that?

B: That's all right.

HMJr: But between now and Wednesday morning I'm going to do nothing.

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B: That's right.

HMJr: Is that all right?

B: That's all right.

HMJr: Well, I -- you've certainly done -- done the best that anybody could do under the most difficult.....

B: Well, (Laughs) we have to -- we have to be governed by hour to hour developments over here in this bull pen.

HMJr: Yeah. Yeah.

B: Well, I think that's the right course, Henry.

HMJr: Well, I'll do nothing on Wednesday until I get a chance to consult with you.

B: All -- all right. Good bye.

HMJr: And -- good bye.

B: Well, good bye.

HMJr: Thank you so much.

B: Good luck!

July 1, 1939
9:01 a.m.

HMJr: Are you awake?

Harry
White: I was awake, yes.

HMJr: I told them not to wake you. Harry.....

W: Yeah.

HMJr: I wonder if you'd be thinking this thing over. In the daylight, this is my thought: On Wednesday morning I come to the Treasury and with the Senate agreeing to vote on monetary legislation at five o'clock, that I do nothing in the silver market, domestically or foreign, until after the vote at five o'clock.

W: Well, I think that would be all right.

HMJr: Yes.

W: I like that better than the other, provided that there's a price. I mean, provided that there is no lower price for the domestic.

HMJr: No, I wouldn't -- I -- no.

W: I mean, if you can do it without a quotation of a lower price.

HMJr: No, there'll be no quotations.

W: Well, of course, that's -- I think that's probably the better way out.

HMJr: I mean, let -- let me state my position again. That they'll ask me, "What am I doing"? And I say, "I'm sitting here waiting until I see what action the Congress of the United States takes."

W: Until Congress indicates clearly its.....

HMJr: Well I'd say, "until / I see what action..."

W:intention. I see.

HMJr: "...What action Congress takes with the vote at five o'clock, and pending that action I don't deem it's in the public interest that I -- that I do anything."

W: Now, under that circumstance then, there won't be any price quoted for domestic silver.....

HMJr: No.

W:by you, though there will be a price on the New York market but that presumable.....

HMJr: No.

W:can be interpreted as being for -- as before. Might, I think.

HMJr: No, I don't think that they'll -- I don't think Handy and Harman will quote a price either.

W: Well, of course, I think that will be the best way out.

HMJr: Well, we can ask.....

W:price quoted.....

HMJr: Well, we can ask them not to quote, you see.

W: Well then, that will be the best, because that won't get you in the dilemma.....

HMJr: No.

W:of maintaining the price. It may be questionable but at the same time it.....

HMJr: Let me ask.....

W:won't make the silver Senators think you're trying to put one over.

HMJr: Let me ask you.....(Talks aside) -- Archie thinks I'm right. I mean, that -- that Handy and Harman would not quote a price if we ask them not to. There would be no price, you see.

W: Yeah. Then of course the press will ask and you can merely say what you've just said, there'll be no price.

HMJr: No price.

W: Yeah. I've been thinking it over. I was wondering whether there isn't some way in Archie's thinking -- I can't find any myself, but there may be some way if only sterling

- 3 -

gets substantially weaker on Wednesday it would be a great help.

HMJr: Yeah, I know, but that's -- I thought of that too, but that's playing with fire.

W: Yeah, that's -- we could do it but it's very dangerous.

HMJr: Well, I think we'll have to let nature take its course and see what happens.

W: Well, maybe nature will help us in that way.

HMJr: Yeah. Well, I just wanted to get my latest thought over to you.

W: Yes. I think that that -- if that could be arranged, without any quotation, which would indicate the whole thing in a state of suspension.....

HMJr: That's right! You've got the idea now.

W: I think so.

HMJr: What?

W: If that can be arranged I think that's the best.

HMJr: Yeah, you've got the idea.

W: Yes.

HMJr: Well, I hope you get some rest.

W: (Laughs) I was going in for a little while and see what they're doing.

HMJr: Well, I'm going to leave here at nine thirty.

W: Oh! Well, I'll.....

HMJr: I'm -- I'm going to leave.

W: Yeah.

HMJr: So I doubt if there'll be anything doing.

W: I see.

HMJr: I'm cheerful.

W: Well, that's good.

HMJr: Yeah.

W: I think -- I was -- as I was thinking it over this morning, -- I didn't get up intentionally, but kind of -- you know, couldn't sleep -- the thought occurred to me that the President doesn't have to really do much bargaining. I think that the -- the silver group will be so worried now that I think that they'll do the stirring around a great deal because you see the fix they're in if this thing falls through and the price of the silver drops.

HMJr: Well.....

W: They're in an awful fix, because they're -- they'll be held completely responsible by their own constituents. They simply have got to get something through.

HMJr: Well -- and I think that this latest idea that I have would assist.....

W: Yeah.

HMJr:the...

W: Yes, that will make them worry and at the same time it won't -- they won't be able to say that you're putting the screws on.

HMJr: Yeah.

W: Yeah. I think so.

HMJr: Well.....

W: O. K.

HMJr:-- I mean, of course I -- I am putting the screws on.

W: Well, but I mean, they can't.....

HMJr: But I have -- I -- I.....

W: They -- they know it, but they can't -- it won't appear so.

HMJr: I have some justification.

W: Yes. Yes, definitely!

HMJr: Righto !

W: O. K.

HMJr: Goodbye.

July 1, 1939

1:25 a. m.

Present:

Mr. Gaston
Mr. Bernstein
Mr. Lochhead
Dr. White
Mr. Duffield
Mr. McReynolds
Mrs. Klotz
Mr. Cochran (for the last part)

HM, Jr: First, Biffle called me a little while ago and said they did not have the votes, and Barkley called and said they did not have the votes and he would let them go home and take a vote on Wednesday. I just had a long talk with the President and told him that everybody in the Treasury was in agreement that between now and Wednesday we should not buy foreign or domestic silver. I take it everybody is in agreement on that. Which way is your head going, Harry?

Dr. White: Oh, I agree!

HM, Jr: Well, you didn't say anything.

I told the President the mints are all closed and it was the normal thing -- if we had no legislation it would be the normal thing.

Mr. Duffield: Are the mints closed tomorrow?

HM, Jr: Yes. The normal thing is they are closed Saturday, Monday and Tuesday and we would not buy any silver.

Now, he put this up to me. I said to him I thought on Wednesday, to show our good faith, we ought to buy on a 24-hour basis domestic silver at 64½ cents

-2-

and he said no; he thought we ought to buy it on a world price basis. "But," he said, "don't take anything as final".

Mr. McReynolds: 64½ cents. I would never buy at the world price. Then you admit the thing is out.

HM, Jr: Why do you admit it's out?

Mr. McReynolds: Not necessarily, but the assumption would be that your legislation was out, wouldn't it?

HM, Jr: Why at 64 any more than at 70?

Dr. White: I would keep it at the same price.

Mr. McReynolds: I mean if you reduce it to the world price; 64 cents is all right.

HM, Jr: I don't follow Mac.

Mr. Duffield: Mac means if you buy at the world price, you concede that the power at which you bought at 64 cents is gone.

HM, Jr: You are not conceding anything. It's gone!

Mr. Gaston: Of course it's gone.

Mr. Duffield: That's what I agree with.

Mr. Gaston: If you pay above the world price you are just being a good fellow to the Western silver senators and I don't know what warrant of law or what authorization there is for paying more than the world price.

Dr. White: If it had not been for the position taken by the Treasury that if the law passes it is still extended, I should agree with you fully, but in view of the fact that discussion is continuing, I take it there is not going to be any lapse and under those circumstances I think there is something to be said for not acting

-3-

HM, Jr: You wouldn't buy any silver, Harry?

Dr. White: I would pay 64 cents.

Mr. Gaston: That does not count with me at all, because admittedly the power is suspended. The only thing that would count is that we had some expression of Congressional intent by which we could be guided in fixing the domestic price, but that's quite arbitrary. I should be inclined to pay the world price and of course you will not get any silver at the world price, or pay the world price and not buy any silver of any kind.

Mr. Lochhead: Domestic price. The Silver Purchase Act is still on the books.

Mr. Gaston: You could go ahead at a fix price if domestic silver wants to offer, but they won't have any to offer. They won't offer any so you just take at your fixed price whatever bullion is offered in the market. It's an empty gesture to say you will pay 64 cents for domestic silver. You won't get any. There isn't any.

Mr. Bernstein: It seems to me, as far as it's being arbitrary, the President did not think it was arbitrary up to midnight June 30th to pay 64 cents. It was discretionary.

Mr. Gaston: No. But he had the power. He was instructed.

Mr. Bernstein: It was discretionary. And I take it he fixed it that that price was in the public interest. That discretion the Secretary has under the Silver Purchase Act, so the question whether you pay 64 cents or the world price or no price ought to turn on which is more desirable politically.

HM, Jr: If you people will listen, I would like to tell you what the President said. He said when he got to the world price on Wednesday that would give him something to trade with with some of the silver Senators and I told him that we had been told that Wheeler and

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McCarran had walked out on him and he said that would give him something between now and Wednesday. You people can all think it over, but what I wanted to get -- I said everybody in the Treasury was in agreement; that we were in agreement that between now and Wednesday we would not buy any kind of silver.

Mr. Gaston: Perfect!

Mr. Bernstein: That's right.

HM, Jr.: Now the other thing. Let's all think about it. I don't know. He will take it in his own hands anyway. All I want to do is, as of tonight, was to sow the seed that he knows that between now and Wednesday we don't have to do anything so he does not go shooting off in the air. And the other thing, I know perfectly well between now and Wednesday he will be making all kinds of trades.

Mr. Gaston: Of course there won't be any domestic silver offered on the market Wednesday, Thursday, Friday or Saturday.

HM, Jr.: You are wrong.

Mr. Gaston: Newly mined domestic silver, because they have been cleaning up everything that has been smelted as fast as they could make transfers.

Mr. Lochhead: Silver mined on Thursday, Friday or Saturday is sold for delivery within five months.

Mr. Gaston: I don't think they will offer anything under 71 cents, so your 64 cents will just be an empty gesture and I don't think it's any good.

Dr. White: It's a two-way bet. They are not at all sure there will be a 77 cents price.

Mr. Gaston: They will wait and see.

Dr. White: As against a possible chance they will have to sell for 40 cents.

Mr. Gaston: Slim chance.

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HM, Jr.: I want you all to think about this price. I don't have to get him to sign anything tomorrow?

Mr. Bernstein: No. That's right. If you are not going to take any action tomorrow.

(Mr. Cochran came in to the Secretary's office.)

HM, Jr.: Cochran, just sit down a minute.

If this legislation does not go through tonight the President -- will you make some notes please -- the President said I think you ought to send word to the English that this situation is in a legislative tangle and all we are doing is taking advantage of a four-day holiday through Tuesday and nothing we can say at this time; only that it is a legislative tangle and has to unscramble itself and we hope everything will come out all right and not to get excited because we are not excited. I said "This also goes for the French?" and he said, "Yes; tell them not to get excited because we are not excited."

The thought is that ought to go through the State Department to all the Tripartite members, so if you would get that off.

Mr. Cochran: That's a cablegram.

HM, Jr.: Yes. Can I rely on you to see that that goes to all members of the Tripartite. That's all five of them.

Mr. Cochran: Yes, sir. Surely.

Mr. Duffield: The newspaper men are starting to worry me about what we are going to do about the Tripartite Wednesday morning.

Mr. Lochhead: There is nothing in the Tripartite that mentions the Stabilization Fund.

Mr. Duffield: Their only question is in dealings in foreign exchange.

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HM, Jr: The Tripartite Agreement is one to stop competitive devaluation.

Herbert, just to get it in the back of my head, what price do you think we should pay on Wednesday?

Mr. Gaston: The world price.

HM, Jr: You agree with the President?

Mr. Gaston: Yes. Make no distinction between foreign or domestic.

HM, Jr: Make no distinction?

Mr. Gaston: Make no distinction. Buy any silver wherever it comes from at our fixed price. I would follow London.

HM, Jr: It might be 35 cents Wednesday.

Mr. McReynolds: The London price may break very sharp.

HM, Jr: What surprises me is the President suggesting this message. I think that that is important.

The other thing he said was he was sure that when Hitler wakes up tomorrow this will be the best news he has had in a long time, this plus neutrality.

Mrs. Klotz: He said he and Mussolin will have a grand party in camp.

Mr. Bernstein: I have a question to make about the statements of October 13th and November 24th. We say we will sell gold to these countries on a satisfactory reciprocal basis. I take it their agreement is to sell us gold at a fixed rate in terms of their currency -- England in the case of sterling; France in the case of francs, and so on. If we have no power to buy Sterling as such, if we have no power to buy francs, what are they giving us that we can justify our saying that we are receiving reciprocal treatment?

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Mr. Lochhead: That's a detail.

(HM, Jr at this point read aloud the ticker announcement that the Senate had agreed to vote on the Administration's monetary bill not later than 5 p. m. next Wednesday.)

HM, Jr: This reminds me of sitting up at the Chicago Convention.

Dr. White: You don't have to make up your mind until Wednesday morning on price, because I don't find myself in agreement with Herbert.

HM, Jr: I am not making it up any more than I did with the President, but I wanted to get his mind to thinking and all I have to do is to clear it between now and Wednesday. Archie did not express himself.

Mr. Lochhead: I wouldn't have a price for domestic silver. I would either pay the world price or if there was any doubt about that I would make no price for domestic silver.

Mr. Gaston: That's the same thing. Anybody offers you silver, you take it at the world price.

Mr. Lochhead: If it came to Wednesday and there is no other legislation, I would announce our price as usual at noon.

HM, Jr: You mean any kind of silver from wherever it comes?

Mr. Lochhead: That's right.

HM, Jr: You mean if noon it is 35 cents in London you would make it 35 cents?

Mr. Lochhead: That's right. I think, as the President said

Mr. Gaston: I think you ought to wait until Wednesday.

HM, Jr: Say, between now and Wednesday he will

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make plenty of trades. He will have to use that left hand very hard.

Dr. White: He has got to now. The fact he has these three days gives him every chance.

HM, Jr: Thanks everybody for the night watch.

July 1, 1939

2:05 a. m.

Present:

Mr. McReynolds
Mr. Bernstein
Dr. White
Mr. Lochhead
Mrs. Klotz

HM, Jr: I will give you the last thing.

I talked to Barkley. I said, "I just want to tell you that between now and Wednesday we are not going to buy any silver. Is that all right?" He said, "It is." I said, "I don't have to do anything until noon Wednesday." Then he said, "Whatever you do at noon, please don't drop the price of silver." He said, "We don't want to scare any of our friends off."

I said, "That's what I recommended to the President, but I don't think he agrees with me." I said, "I promise you, Alben, before I do anything at noon I will consult you." He said, "You are perfectly right and the President is wrong, but," he said, "don't scare off any of our friends."

I just wanted to tell you people so you would have the last word. That was my reaction. God! We have gone along at this rate, if anybody wants to deliver any newly-mined silver at 64- $\frac{1}{2}$ cents, so what!

Dr. White: Just an unpleasant gesture. A mean gesture.

HM, Jr: Now, up to now they can't say with sincerity or honesty that I have done anything mean or dirty.

Mr. McReynolds: Nor vindictive.

HM, Jr: I wanted you fellows to have the last word.
Goodnight.

oOo-oOo



TREASURY DEPARTMENT

WASHINGTON

July 1, 1939

TO THE SECRETARY:

The Stabilization Fund, which by law was deposited with the Treasurer of the United States, is in about the same category as a no-year appropriation or funds deposited with the Treasurer of the United States by a corporation whose authority to do business has expired. The Stabilization Fund is, therefore, available after June 30, 1939, for the purpose of liquidating any obligations actually incurred prior to that date. It is not available for new obligations after June 30.

As there are no directions in the Gold Reserve Act as to the disposition of the fund after the authority of the act expires, the fund may be maintained in its present status as long as you deem advisable.

awf

TELEGRAM SENT

JR

GRAY

July 1, 1939

11 a.m.

AMEMBASSY

LONDON (ENGLAND)

193.

The Secretary of the Treasury desires that you inform the Chancellor of the Exchequer that the present legislative confusion on American monetary questions will continue through Wednesday. Secretary Morgenthau hopes that the legislative session scheduled for Wednesday will see these questions satisfactorily resolved.

HULL
(FL)

EA:FL:LWW

RECEIVED

JUL 2 1939

TELETYPE UNIT

U.S. DEPARTMENT OF THE TREASURY

TELEGRAM SENT

JR

GRAY

July 1, 1939

11 a.m.

AMEMBASSY

PARIS (FRANCE)

Circular.

The Secretary of the Treasury desires that you inform the Minister of Finance that the present legislative confusion on American monetary questions will continue through Wednesday. Secretary Morgenthau hopes that the legislative session scheduled for Wednesday will see these questions satisfactorily resolved.

HULL
(FL)

SAME TO:

AMEMBASSY, BRUSSELS, BELGIUM

AMLEGATION, THE HAGUE, NETHERLANDS

AMLEGATION, BERN, SWITZERLAND

EA:FL:LNW

RECEIVED

JUL 2 1939

THE SECRETARY OF THE TREASURY
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

July 1, 1939

12:45 a.m.

Present:

Mr. Lochhead
Mr. Bernstein
Mrs. Klotz

HM, Jr: Let's do this thing. Sterling rising.
What do we do?

Mr. Lochhead: Sterling Rising. Things we
could do. Sterling rising, we could sell gold to
London.

HM, Jr: Sell gold. Where? On this side?

Mr. Lochhead: Yes. We could do it either
on this side or the other.

HM, Jr: Sell gold to London. Now, the thing
has lapsed. Sterling is going up tomorrow. What
do you do?

Mr. Lochhead: If England bought enough dollars
and asked us for gold, you have power to give them gold,
sell them gold, if you want to.

HM, Jr: Under what authority?

Mr. Bernstein: Section 9 of the Gold Reserve
Act; maybe get Presidential approval.

Mr. Lochhead: We are doing it now out of Stab-
ilization, but we could do it out of the General Fund.

HM, Jr: Now under the Stabilization Fund. We
would have to, would operate under the General Fund?

Mr. Bernstein: Right. And I have all the
papers ready.

-2-

HM, Jr.: From the General Fund. Now, who has to sign it?

Mr. Bernstein: I have a letter from you to the President. This is only so the President knows that you are now doing it out of the General Fund rather than the Stabilization Fund, which you have been doing. I have a letter from you to the President; copy sent to the New York Federal and Assay Office in New York. Arrangements would be that the Assay Office would supply gold to the Federal when the Federal says it has to the credit of the Treasury \$35.00 plus 1/4%.

HM, Jr.: That's when we want to sell gold.

Ms. Bernstein: That's when we want to sell gold.

HM, Jr.: That would be when Sterling rises.

Mr. Lochhead: That's right.

HM, Jr.: Now, Sterling falling.

Mr. Lochhead: Sterling falling: England could sell us gold in England.

HM, Jr.: Let's say we buy gold from England.

Mr. Bernstein: They will sell you the gold. You have unquestionable authority.

HM, Jr.: That gold goes to the General Fund?

Mr. Lochhead: Yes.

HM, Jr.: That gold would go into the General Fund.

Mr. Lochhead: Sometimes buy gold from England in London.

HM, Jr.: Could we do that?

Mr. Lochhead: Yes. We could do that.

-3-

HM, Jr: What else?

Mr. Bernstein: The only exception, I take it when Archie says "buy gold in London" you do it against dollars?

Mr. Lochhead: Against dollars.

Mr. Bernstein: Because if you have to go through Sterling, especially if you have to stay over with Sterling, it might be a question, but if you can do it with dollars there is no question whatever.

Mr. Lochhead: We will do it with dollars.

HM, Jr: What cant we do?

Mr. Lochhead: We can't buy Sterling in New York with Sterling doing down. We can't buy Sterling.

Mr. Bernstein: Or London.

HM, Jr: That would go for francs too?

Mr. Lochhead: That would go for all currencies.

HM, Jr: How much of a handicap is that?

Mr. Lochhead: At the present time, the way it is operating, the Federal Reserve is buying Sterling in New York for account of the Bank of England. Then England pays them dollars for it.

HM, Jr: Then they transfer the dollars into gold.

Mr. Lochhead: Yes.

Mr. Bernstein: On the other hand, if they wanted to let Sterling slip and you wanted to buck them, up to midnight you could have gone in and bought Sterling even though they would not sell gold.

HM, Jr: Yes, but the chances are Sterling is more apt to fall than to rise and the only thing we can do is buy Sterling as long as they are willing to

-4-

give us gold for it and settle each night.

HM, Jr: Then we have no power to threaten, like we did in December.

Biffle just called me and said they haven't got the votes. He's going to recommend letting them go home.

Mr. Bernstein: You mean the people are not around?

HM, Jr: No. He said the silver Senators have walked out. Political. You see, every Republican Senator is there and some of the Silver Senators walked out on them. Biffle says they haven't got the votes.

Mr. Bernstein: If that were true and the Republicans knew it, they would come near to bringing the thing up to vote, wouldn't they?

HM, Jr: Well, I guess they don't know. They are counting noses right now.

Geel! I would hate to see us lose this thing. I would really feel very badly. Are the banks open tomorrow?

Mr. Lochhead: No.

If the silver Senators are not standing by, would you be buying any domestic silver? You would not be doing that tomorrow. How about when Wednesday came?

HM, Jr: Well, I have time to see the President up at Hyde Park.

Mr. Lochhead: I don't look for any decline in the rates because England would be accused of taking advantage of the situation and they can't afford to do that with the international situation what it is right now.

Mr. Bernstein: Why isn't it likely, especially is there is any difficulty in Europe over the weekend --

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that stimulus plus the stimulus from our being on a rigid gold standard -- would result in considerable outflow from Europe and perhaps an indication from Europe to let it slide

HM, Jr.: What do you mean we are on the gold standard?

Mr. Bernstein: In the sense you don't have any Executive Power, as far as Europe knows.

HM, Jr.: Now, wait a minyute! Don't you think they know it as well as you do that the President under the Gold Reserve Act can change the price of gold?

Mr. Bernstein: I don't know to what extent they are really conscious. Speculators are conscious of that.

HM, Jr.: I know. I have said I am back to 1933. I don't consider I am on the old gold standard.

Mr. Bernstein: You are not, Mr. Morgenthau, because if they thought you were on a rigid standard if they tried to get hold here they can't without your permission. They can't get any the way they did before.

HM, Jr.: I have all the licensing things. What's that under?

Mr. Bernstein: Gold Reserve Act, the sections that don't expire.

HM, Jr.: I would like to make the price of gold tomorrow \$35.01, and then what?

Mr. Bernstein: Then we can repeat what you did in April 1933.

HM, Jr.: And then the next day make it \$34.99. What would that do?

Mr. Lochhead: It would show them you had the powers.

HM, Jr.: How much gold did England lose?

Mr. Lochhead: They lose \$28,000,000 yesterday and \$15,000,000 today.

oOo-oOo

My dear Mr. President:

Under the reciprocal arrangements for the purchase and sale of gold between the United States and the treasuries, fiscal agencies, and exchange equalization or stabilization funds of foreign countries, set up pursuant to the press statements of October 13, 1936 and November 24, 1936, and letters approved by you on September 27, 1936 and November 6, 1936, sales of gold have been made by the United States pursuant to authority contained in section 10 of the Gold Reserve Act of 1934 which established the Stabilization Fund. The authority conferred by that section expired on June 30, 1939.

Section 3699 of the Revised Statutes as amended by Section 9 of the Gold Reserve Act of 1934 authorizes the Secretary of the Treasury to sell gold in any amounts, at home or abroad, in such manner and at such rates and upon such terms and conditions as he may deem most advantageous to the public interest. If you approve, I propose, under the authority of that section, to continue to sell gold to the treasuries, fiscal agencies, and exchange equalization funds of foreign countries in accordance with the press

- 2 -

statements of October 13, 1936 and November 24, 1936 and on the same basis as heretofore except that the gold will be sold from the General Fund of the Treasury only rather than from the Stabilisation Fund. I shall appreciate it if you will signify your approval by signature of the notation at the foot of this letter.

Faithfully yours,

The President

The White House.

Approved: , 1939

The White House.

JBF:dhm 6/29/39

Dear Sirs:

There is enclosed for your information a copy of a letter approved by the President.

You are authorized until further notice, as fiscal agent of the United States, to sell gold bars in accordance with the announcements contained in the enclosed statements to the press dated October 13, 1936 and November 24, 1936. Such gold bars may be obtained by you for such sale from the New York Assay Office against credit therefor on your books in favor of the Treasurer of the United States of \$35 (plus one-quarter of one per cent) per fine ounce of gold. The authorization contained in this Department's letter to you dated October 12, 1936 is hereby revoked.

Enclosed for your information is a copy of a letter I have sent to the New York Assay Office.

Very truly yours,

Secretary of the Treasury.

Federal Reserve Bank of New York,

New York, New York.

Approved _____, 1939

The White House.

Enclosure

JBF:dhm 7/5/39

Dear Sir:

Enclosed is a copy of a letter of authorization sent to the Federal Reserve Bank of New York.

You are hereby authorized and directed, upon receipt of the certification signed by the President, or a Vice President, of the Federal Reserve Bank of New York to deliver gold bars for sale by the Federal Reserve Bank, as fiscal agent of the United States, in accordance with the announcements contained in the press statements issued on October 13, 1936 and November 24, 1936, copies of which are enclosed, provided that the certification of the Federal Reserve Bank states that the gold is to be sold in accordance with such announcements and that a credit has been established on the books of the Federal Reserve Bank of New York in favor of the Treasurer of the United States for such gold at the rate of \$35 (plus one-quarter of one per cent) per fine ounce.

Very truly yours,

Secretary of the Treasury.

Superintendent,
United States Assay Office,
New York, New York.

Enclosure.

JBF:dmh 6/29/39

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Mexico City

NO.: 138

DATE: July 1, 1939, 1 p.m.

CONFIDENTIAL

Reference is made to your 178, June 30, 1 p.m.

There will continue to be confusion with reference to monetary legislation until Wednesday, when there will be a vote on the conference report in the Senate. At the present time the legal situation is that the Silver Purchase Act of 1934 continues to be effective. It has been announced by the Secretary of the Treasury that through Tuesday night the Treasury will be out of the silver market because of the holidays which Government offices will have. He has made no announcement of the action which may be taken by him Wednesday under the powers which will continue to be his according to the provisions of the Silver Purchase Act.

HULL

RECEIVED

JUL 1 1939

TREASURY DEPARTMENT

EA:EB

July 1, 1939

9:30 am

Present:

Mr. Gaston
Mr. Lochhead
Mr. McReynolds
Mr. Duffield
Mrs. Klotz

HM, Jr: This is the way it looks to me this morning. My thought is when I return --- this is the way I look at it in the daylight and this is what I want everybody to think about -- that Wednesday morning, of course with the consent of the President, that pending action on the part of the United States Congress I do not feel it is in the public interest for the United States Treasury to buy either domestic or foreign silver.

Mr. McReynolds: I have no objection to that at all. Only objection I had was messing up on prices. If you want to say "no silver bought", that's fine.

HM, Jr: "It's not in the public interest pending action." That does not mean if they take no action. I say "pending action".

Mr. Duffield: I agree.

Mr. Gaston: O. K. I like it!

HM, Jr: The only thing that Harry asked, "Could we keep from having any quotations?" and Archie thinks we can. Just ask Handy and Harmon not to quote.

(At this point, the Secretary spoke to Ed Foley on the phone and copy of their conversation follows:

-2-

Mr. Duffield: People are going to ask me Wednesday morning is the Tripartite still in effect? Of course Wednesday is another day.

(At this point, HM, Jr spoke to Mr. Bell and copy of their conversation follows this page:

Mr. Duffield: I was asking about the status of the Tripartite?

HM, Jr: After all, the Tripartite Agreement says it's a mutual agreement against devaluation. Simply say that as far as you know

Mr. Gaston: Nobody has denounced the Tripartite.

HM, Jr: It exists.

Mr. Duffield: They will say, "Are you functioning under it?"

HM, Jr: You say "I can't get Mr. Morgenthau. He's gone out to pick raspberries."

Mr. Gaston: For Congress.

oOo-oOo

July 1, 1939
9:32 a.m.

HMJr: Hello, Ed.

Ed
Foley: Yeah.

HMJr: Have you brushed your teeth?

F: (Laughs) I'm about to.

HMJr: Good!

F: I was just getting up.

HMJr: Well, I didn't think you'd be beyond that. Ed, this is my thought for the morning.

F: Yeah.

HMJr: That on Wednesday morning the Treasury will say -- now get this, "Pending action on the part of the United States Congress, the Treasury will buy no silver, domestic or foreign, at any price."

F: Yeah.

HMJr: See?

F: Yeah.

HMJr: Now, it -- if there's -- I said, "Pending action." If there's no action, why then we can decide what we're going to do.

F: I think that's right.

HMJr: But pending action, we'll buy no silver.

F: Yes.

HMJr: So -- and -- because we don't feel it's in the public interest.

F: That's right.

HMJr: See?

F: That's right.

HMJr: We don't feel it's in the public interest.

F: That's right. I think that we have to make some statement like that on Wednesday. I wouldn't make it before then.

HMJr: Oh, no, no, no, no. And I've got to clear it with Barkley because I gave Barkley my word.....

F: Yeah.

HMJr:that I wouldn't take any action without first consulting with him on Wednesday.

F: That's right.

HMJr: And I'll be coming down with the train with the President Tuesday, and I'll have a chance to talk to him.

F: Yeah. Now, Barkley said last night when I was leaving him that he wanted to introduce the Public Works Bill on Wednesday.

HMJr: Oh, really?

F: Yeah.

HMJr: The new Public Works Bill?

F: Yeah.

HMJr: What's the Public Works Bill?

F: Well, the self-liquidating bill.

HMJr: Oh, you mean the.....

F: Our legislation.

HMJr: You mean the -- the Foley Bill.

F: (Laughs) No, the Barkley Bill.

HMJr: Really? Well now, will he leave in the -- well, does that have -- does that do anything for the foreign loans or not?

F: Well, that's what we'll have to decide.

HMJr: Well, the President said, -- I -- I won't have a chance to talk with him again, he said for the time being leave it off.

Q: Yeah.

EMJr: Leave the foreign stuff off.

Q: That's right. Well they -- Byrnes -- both Byrnes and Barkley spoke to me a little bit about it last night and wanted to know if I had cleared with Claude Hamilton, and if we were together, the R.F.C. and the Treasury.

EMJr: I think I'd leave it off.

Q: And.....

EMJr: I'd leave it off. I've been waiting to say this to you for a long time, just the way you left off that public utility part without saying anything to me.

Q: (Laughs)

EMJr: A little weak -- a little weak. You -- you can think up an answer by Wednesday.

Q: (Laughter) All right.

EMJr: A little unfair, a little bit below the belt, but I can wait until Wednesday. No, I think from what the President said to me -- he said, "Take that pink stuff off the chart," referring to foreign loans, I'd leave that out of the bill.

Q: Yeah. Well, we talked to -- we talked to Hayden about the -- about the public roads thing and he said that it was entirely all right with him and all the things that he had talked to the President about in connection with that Federal Land Corporation that he wanted were in this bill, and he was satisfied. The only thing that he was worried about was that the three hundred and fifty million dollars, which is the maximum for non-federal P.W.A. loans, wasn't big enough.

EMJr: Well.....

Q: He said if we didn't raise it he wouldn't make an -- he would move on the floor to increase it.

EMJr: That's all right. That -- I -- I think I'd send it in minus the foreign loans.

Q: All right.

HMJr: And I'll take the responsibility for this one.

F: All right. (Laughingly)

HMJr: All right.

F: Ah.....

HMJr: Have some fun over the weekend.

F: Are you going up now?

HMJr: I'm going to leave right away.

F: All right, Mr. Secretary. Thank you very much. I'll be over on the Eastern shore if you want me.

HMJr: O. K.

F: All right, sir.

HMJr: Good bye.

July 1, 1939
9:36 a.m.

HMJr: Hello.

Operator: Mr.....

Daniel
Bell: Yes?

HMJr: Dan.....

B: Good morning.

HMJr: Good morning. Now, you don't have to transfer the Stabilization Fund into the General Fund today, do you?

B: Well, I don't think so. I was just looking up that Gold Reserve Act to see how it's worded. I think it's just like any other appropriation; it can stay on the books until you've covered it informally.

HMJr: Well.....

B: And -- that it's available -- certainly part of it would have to be available for liquidating obligations incurred prior to June 30th.

HMJr: But you wouldn't do anything -- you see, they're going to vote on this bill at five o'clock Wednesday.

B: Yeah.

HMJr: I mean -- and I -- and the question I'm raising, you feel it's perfectly proper to do nothing until then?

B: Well, that's the way I feel about it tight now, yes. And I wouldn't do anything without talking to you.

HMJr: Have a memorandum for me on it Wednesday morning so I can explain -- explain why -- what we've done, or why we haven't done anything.

B: All right.

HMJr: Will you?

B: Yes, I will. I'll look into it right away.

HMJr: Well, Wednesday morning will be time enough.

B: All right.

- 2 -

HMJr: Foley feels that -- taking the position that this legislation can be passed any time and if it is passed Wednesday evening that everything goes back to the status quo as it was before.

B: Uh-huh.

HMJr: And he said that would include the Stabilization Fund?

B: Well, I wanted to look at it from the standpoint of criticism to you too; as to whether or not you ought to take action in view of the fact that Congress has allowed it to lapse.

HMJr: All right. Well have -- well have a good.....Hello?

B: Yeah.

HMJr: Have a memorandum for me on it Wednesday.

B: I will.

HMJr: In the meantime hold everything.

B: Yeah, I will. Sure.

HMJr: Righto!

B: All right.

July 1, 1939

Dear Pinsent:

Many thanks for your note of June 30th enclosing a copy of the questions and answers which we discussed on June 29th.

The enclosed copy of the Provisional Regulations issued under the Gold Reserve Act of 1934 has been checked by Mr. Bernstein's Office and I am sure is a complete copy.

Sincerely yours,

(Signed) Archie Lochhead

Archie Lochhead

Mr. G. H. S. Pinsent,
Financial Counselor,
British Embassy,
Washington, D. C.

Enclosures



BRITISH EMBASSY,
WASHINGTON, D. C.

June 30th, 1939

Dear Lochhead,

I enclose a copy of the questions and answers which we discussed during our talk on the 29th instant, as I promised.

The copy of the provisional regulations under the Gold Reserve Act which Mr. Bernstein was kind enough to give me turns out to have two pages missing. I wonder if you would be kind enough to have a complete copy sent to me.

Yours ever,

Jerry Pinson

Mr. Archie Lochhead,
The United States Treasury,
Washington, D. C.

SECRET.

QUESTIONS.

1. Should we not call for a report of holdings of all gold and foreign currency or other foreign assets held by United Kingdom residents, and not only of securities, as in Regulation 97 (1) ? This is to give us a general conspectus of the position, and to check improper disposal of such assets.
2. Should not this report be called for not only from the owners, but from other parties concerned as custodians, etc., e.g. banks?
3. What about gold or foreign currency assets held in Great Britain by non-resident persons (e.g. American tax dodgers).
4. What about assets held abroad by British nationals resident abroad? These might be obtainable by cooperation with the Government concerned.
5. What do we intend to do in the Colonies, e.g., the Bahamas?

ANSWERS

1. It is not necessary to call for a report of holdings of gold and foreign currency as well as of securities because the intention is to requisition gold and foreign exchange immediately on the outbreak of war, and to call for such a return before war broke out would no doubt have an unsettling effect.
2. To some extent the above answers question 2 as well as question 1. As regards securities we do not want to infringe the tradition of banking secrecy by asking banks to disclose the state of the accounts of their customers. The banks will, however, be acting as our agents and it seems probable that they would in fact tell us if any large-scale evasion were attempted.
3. As a matter of policy we do not wish to try to requisition gold and foreign exchange which may be held in London by non-resident foreigners.
4. The question of assets held abroad by British nationals resident abroad will be considered, but at first sight it looks more likely than not that such an attempt would not yield an amount sufficient to compensate for the difficulties involved and might result in making such persons stay permanently out of the United Kingdom.
5. The position of each colony has to be considered separately. It clearly would not be worth while in some colonies at least to try to impose regulations of this sort. In others

we/

-2-

we should probably ask the local government
to make arrangements on the same sort of
lines as we are doing.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: July 1, 1939, 1 p.m.

NO.: 1236

FOR THE TREASURY DEPARTMENT.

There was nothing of particular interest in the unofficial dealings which took place this morning on the exchange. There was no comment in the press regarding the Senate's failure to renew the administration's monetary powers since the news was received too late.

The JOURNAL OFFICIAL of today announced the issue on July 1 by the Autonomous National Defense Board of two-year three-and-a-half percent tax-free "armament bonds". No limit is set to the amount of the issue.

Under a further decree the interest rate of eighteen-month bonds issued by the Board is reduced from three and a half to three percent.

The amortization fund has decided to suspend the issue of two-year national defense bonds after July 1.

BULLITT

EA:EB

RECEIVED

JUL 1 1939

TREASURY DEPARTMENT

WASHINGTON, D. C.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin

DATE: July 1, 1939, 4 p.m.

NO.: 579

The following is a resumé of a press account published last night of Funk's speech before the general meeting of the Reichsbank yesterday:

With regard to the capital market Funk stated that its practically complete monopolization by the Government in recent years has reduced its ability to meet the needs of private investment. In this situation of capital market insufficiency the fiscal policy of the Government was a determining factor and the capital market could not function unless certain tax facilities and reductions are accorded. Funk stated that he was at present conducting a series of conferences with the Finance Minister with a view to restoring the capital market to a point where it could meet the needs of private industry and remarked that he had approved of the "new finance plan" (see my telegrams No. 220, April 1, 10 a.m., and No. 298, April 29, 10 a.m.) because it contained possibilities of tax abatements. It is understood that he referred to those sections of the plan giving the Finance Minister authority to make exceptions and abatements in cases of hardship resulting from

the

the application of the new "additional income tax" and previous income tax legislation.

Funk insisted that the disequilibrium between the output of investment and consumption of goods was no cause for "any pessimism" in view of the continuing economic expansion in Germany.

He emphasized again the necessity of increasing exports and referred to the conflicting "claims and tenets" of other branches of industry. He insisted that the present situation of German export trade cannot be considered as unfavorable.

He gave further details concerning the composition of the Advisory Council foreshadowed in the new statutes of the Reichsbank (see my No. 506, June 16, 4 p.m.) which he said would consist of sixty or seventy members made up of experts in various economic fields. The Advisory Council will be divided into six committees. There will be the credit committee, a currency committee, an export committee and a stock exchange committee. The other two committees were not defined.

In concluding his speech Funk asserted that there exist possibilities of strong expansion of German economy provided that the state through regulation and organization maintains the leadership and direction in its hands.

Significance

-3-

Significance is attached to Funk's speech because of the tacit criticism contained therein of excessive expenditure and borrowing by the state, excessive taxation and too much emphasis on the production of investment goods to the detriment of consumption goods, that is, to the detriment of the standard of living. It is also regarded as significant by reason of the admission that concern is being caused to the Third Reich's economic authorities by the present export situation.

It has been reported that Funk forecast in his speech the necessity of eventually reducing the expenditure for armaments and that he insisted that it would be possible to make without difficulty the transition from armament to economic output. These remarks were not, however, reproduced in the German press.

Repeat to Treasury as No. 43 from Heath.

KIRK

EA:EB

RECEIVED

DEC 2 1941

TRADE MARKS
 U.S. PATENT OFFICE
 PHOTODUPLICATION SERVICE

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE July 3, 1939.

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

J. W. McKeon

Mr. Bolton called me at 10:50 today and asked if there was anything doing in exchanges; also if there was any news from Washington in connection with the monetary bill. I told him that exchanges were quiet and business was practically nil; today and tomorrow being holidays ^{in Washington} all government agencies were closed, with the result that we would have to wait until Wednesday for any news from Washington. However, if there was anything that he wanted to do in connection with exchanges or gold I was prepared to refer any of his questions. He said there was nothing at the moment but that his colleagues had been asking a few questions in connection with the monetary bill. He suggested we wait until Wednesday at which time I promised to call him if there were any new developments.

JWMcK:KW

RECEIVED

JUL 7 1939

TELETYPE UNIT
FEDERAL RESERVE BANK
OF NEW YORK

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin

DATE: July 3, 1939, 6 p.m.

NO.: 583

A member of the Embassy staff was told yesterday by an authoritative German source that for several days conversations on Soviet-German commercial matters have been in progress in Berlin between the economic section of the Soviet Embassy and a German group headed by Schnurer. It was said that because of a conflict of views within the Reich Government it has not yet been solved. No decision had been taken to send Schnurer to Moscow. The informant was skeptical of any real results coming from the trade talks now in progress.

RECEIVED
JUL 4 1939
INTERNATIONAL INFORMATION
SECTION
U.S. DEPARTMENT OF STATE

EA:FL:LAR:EB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin

NO.: 584

DATE: July 3, 1939, 7 p.m.

The administrative/^{head}of the Reichsbank, Mr. Puhl, is leaving for Brussels tonight for the purpose of consulting with Lamont tomorrow with reference to the defaulted Austrian dollar bond situation. Today he invited Heath to lunch, apparently to impress upon him that in spite of the fact that at this moment it is very difficult for him to leave Berlin because of the reorganization which has recently taken place and because of the new duties of the Reichsbank, a special effort was being made by him to meet Lamont because he hoped that the way to a solution of the Austrian bond question would be opened by this meeting.

This telegram has been repeated to Brussels for Lamont.

Please repeat to Treasury.

KIRK

RECEIVED

JUL 11 1939

EA:EB

ML

GRAY

London

Dated July 3, 1939

Rec'd 1:48 p.m.

Secretary of State

Washington

934, July 3, 5 p.m.

FOR TREASURY FROM BUTTERWORTH.

The absence of any specific adverse developments in the international situation has had a somewhat calming effect on the city. Consequently although the dollar has been bid the amount of business done has not been large. The British authorities have supplied dollars both spot and forward, holding the former rate at around 468 $\frac{1}{8}$ and bringing the discount in the latter to two. It is generally anticipated that the United States monetary legislation will be forthcoming shortly and both silver and gold fixing were small.

KENNEDY

EMB:RE

RECEIVED

JUL 5 1939

TREASURY DEPARTMENT

WASHINGTON, D.C.

FEDERAL RESERVE BANK
OF NEW YORK

67

OFFICE CORRESPONDENCE

DATE July 3, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

DM D. J. Cameron

WITH BANK OF FRANCE

I called Mr. Cariguel and was connected with him at 1:10 PM. I referred to his cable instructions of June 28, to receive \$350,000 from the Guaranty Trust Company, value June 30, for conversion into gold in the Bank of France Bullion Account "S", which funds were available for earmarking today.

I informed Mr. Cariguel that today was a Treasury Department holiday and that we would like to carry the earmarking over until Wednesday, July 5, tomorrow, July 4 being a National holiday. Mr. Cariguel stated that that would be satisfactory to him. He asked if I had any news from Washington and I told him that we had heard nothing definite and probably would not until Wednesday. He asked if he should carry on in the usual way and I advised him that he should, that I felt certain that everything would be straightened out within the next few days.

RECEIVED

JUL 11 1939

RECEIVED
JUL 11 1939
FEDERAL RESERVE BANK
OF NEW YORK

CJ

GRAY

PARIS

Dated July 3, 1939

Rec'd 1:11 p.m.

Secretary of State,
Washington.

1247, July 3, 4 p.m. (SECTION ONE).

FOR THE TREASURY.

Surprisingly little comment has appeared in the French financial press upon the situation created by the failure of the Senate to renew the President's monetary powers. The financial editor of LE TEMPS points out that the situation apprehended by the action of the Senate is provisional and that it can only become definitive after a formal vote by that body. He goes on to say that the most obvious consequence of the Senate's action is the very serious disturbance of the international silver market. In his view it is the most serious blow that has ever been administered to the "vain and dangerous" policy of re-monstization of silver. He concludes by observing that the influences on the Paris center of the problems raised by the action of the Senate was practically nil for the reason that the Paris market had "other subjects of more immediate preoccupation".

BULLITT

CJ

GRAY

PARIS

Dated July 3, 1939

Rec'd 1:08 p.m.

Secretary of State,
Washington.

1247, July 3, 4 p.m., (SECTION TWO).

Under decrees published in the JOURNAL OFFICIEL of July 2, approvals for armament under the 1939 budget were increased by about 6,500,000,000 francs and the various national defense ministries were authorized to contract additional expenditures totaling 7,201,000,000 francs to be charged to future budgets.

Trading in exchange was on a small scale today and without any important change in rates. The fund did not intervene at any time apparently. Sentiment on the security market was more cheerful and rentes made slight gains.

(END OF MESSAGE).

BULLITT

EMB

RECEIVED

JUL 2 1939

RECEIVED
OFFICE OF THE
SECRETARY OF STATE

MG

GRAY

Brussels

Dated July 3, 1939.

Rec'd 10:30 a.m.

Secretary of State,
Washington.

84, July 3, 3 p.m.

Referring to Department's circular July 1,
11 a.m., officials of the Belgian mint informed
today through Foreign Office.

DAVIES

EMB

JRL

RECEIVED

JUL 5 1939

DEPARTMENT OF STATE
RECEIVED
JUL 5 1939

CA

GRAY

MEXICO CITY

Dated July 3, 1939

Rec'd 8:45 p.m.

Secretary of State
Washington

184, July 3, 5 p.m.

Bank rate of exchange opened today at 550 and 555 pesos. By 11:30 a.m. peso weakened to 570 and 575 pesos with bank depositors showing decided uneasiness over silver situation with resultant increase in withdrawal of deposits. Free market reached 580 pesos to dollar. By 1:00 p.m. peso had strengthened to 560 and 565 pesos. Withdrawal of deposits not yet alarming. Bank of Mexico now has approximately 65,000,000 pesos in silver coins in reserve.

DANIELS.

RECEIVED

JUL 5 1939

CA

THE SECRETARY OF STATE
WASHINGTON, D. C.
RECEIVED

Well, this is a copy
of the material Mr. Foley
gave to Senator Barkley
on yesterday in connection
with the Senate vote on the conference
Report on H.R. 3325

Statement To Be Read By Senator Wagner

7-5-39
73

In view of some of the statements which have been made both on the floor of the Senate and elsewhere as to the effect of the adoption of the Conference Report, (No. 1006 accompanying H. R. 3325), now before the Senate for consideration, I feel that as Chairman of the Senate Committee that has handled this legislation, and on behalf of the Senate conferees who approved the Conference Report, it would be appropriate to indicate very briefly what is intended to be accomplished by the Conference Report.

By paragraph (b) (2) of Section 43 of the Act of May 12, 1933 the President was given certain powers with respect to the fixing of the metallic content of the dollar and the coinage of silver. Section 10 of the Gold Reserve Act of 1934 set up a stabilization fund of \$2,000,000,000 and granted certain powers to the Secretary of the Treasury and the President to deal with the stabilization fund for certain specified purposes. The Gold Reserve Act of 1934 provided that both the stabilization fund powers and the aforementioned powers in the Act of May 12, 1933 were to expire on January 30, 1936, unless the President extended the powers for an additional year. This the President did by Proclamation on January 10, 1936. By the Act of January 23, 1937 the Congress extended all these powers until June 30, 1939. The bill now before the Senate for consideration is in precisely the same form as the Act of January 23, 1937 except that the date, June 30, 1941, is substituted for the date June 30, 1939.

- 2 -

It was the intention of the Congress by the Act of January 23, 1937 to extend until June 30, 1939, all of the powers specified in paragraph (b) (2) of Section 43 of the Act of May 12, 1933, as amended, and all of the powers of Section 10 of the Gold Reserve Act relating to the stabilization fund. It is the unquestioned intention to accomplish by the conference report and the bill now up for consideration an identical extension of powers until June 30, 1941. And in so far as it is a question of congressional intention, it is completely immaterial whether the Act of January 23, 1937 was, and the bill now before the Senate for consideration is, adopted before or after the expiration of the existing powers. If the conference report and the bill are adopted, the Congress, knowing of the expiration of the powers on June 30, 1939, will have intended thereby to continue the aforementioned powers unimpaired and to continue to make the stabilization fund available for the purposes specified in Section 10 of the Gold Reserve Act, as amended, precisely as such powers and stabilization fund existed up to midnight of June 30, 1939.

It is believed that the language employed in the conference report and the bill, which are identical with the language employed by this Congress in 1937, adequately and properly expresses the aforementioned intention to continue the stabilization fund and these monetary powers. I take this opportunity to state for the record that such is the intention of the Congress in adopting this conference report and bill. When this bill is enacted into law there can be no question as to the intention of the Congress to continue the existence of the stabilization fund and aforementioned powers of the Secretary of the Treasury and of the President with respect to the stabilization fund, the fixing of the content of the dollar and the coinage of silver just as they had existed up to last Friday.

Whether the enactment of H. R. 3325 will be sufficient to extend the powers relating to the devaluation of the dollar and the stabilization fund although these powers expired at midnight on June 30 is solely a question of the intent of Congress, the intent is to be ascertained from the language of H. R. 3325 as enacted and the legislative history of the bill preceding its enactment.

The courts have reiterated time and time again that "the one fundamental and venerable rule of statutory construction—a rule which at once defines the province of the judiciary and marks the boundary of their legitimate authority—is that the object of all interpretation is to seek out and enforce the actual meaning and intention of the law-making body". Black on Interpretation of Laws (Second Edition) 101, et seq. As the Supreme Court of the United States said in Atkins v. The Integrating Co., (1873) 18 Wall. 272, 301 "The intention of the lawmaker constitutes the law", or as the Supreme Court said in a more recent case, U. S. v. Stone & Dowson (1927) 274 U. S. 225, 239, "In this case, as in every other involving the interpretation of a statute, the intention of Congress is an all important factor". There are literally scores of cases supporting this proposition, most of them early, and the proposition is so firmly established that the courts no longer deem it necessary to cite authorities.

In the present situation since every member of Congress is fully cognizant of the fact that the powers under consideration expired at midnight on June 30, it is clear that if H. R. 3325 is enacted at any time after June 30, the clear intent of the majority of Congress was that such powers be continued.

In order for the statute to be removed from the statute books, it would be necessary for Congress expressly to repeal it. Obviously, this has not been done. To the contrary, H. R. 3325, whether passed before or after June 30, 1939, merely extends the limitation as to the period within which the powers under the statute may be exercised by the President and constitutes a new cut-off date.

Furthermore, this is not a case where a statute has been repealed and wiped from the statute books by Congress, but rather a case where powers conferred by a statute may no longer be exercised. That there is a distinction between statutes which have been repealed and statutes such as the one under consideration, is

The moneys in the "stabilization fund" did not pass into the Treasury as a result of the failure of the Congress to enact H. R. 3325 prior to midnight, June 30,

The moneys in the Fund were appropriated out of miscellaneous receipts in the Treasury, and are now held on deposit with the Treasurer of the United States, subject to the control of the Secretary of the Treasury with the approval of the President, having been taken out of the Treasury pursuant to an appropriation act and deposited by the Secretary of the Treasury.

- 2 -

Unexpended balances of appropriations do not pass into the Treasury automatically. Section 305 of the Revised Statutes of 1873, as amended (U.S.C. title 31, sec. 305) it has been ruled that money is not covered into the Treasury until the Secretary of the Treasury signs a covering warrant. (1907) 14 Comp. Dec. 20. No covering warrant has been signed with regard to the balance in the Fund. It is, of course, that the Fund is not now "in the Treasury", and is not, therefore, subject to the prohibition in Article I, Section 9, Clause 7, of the Constitution, which prohibits the drawing of money from the Treasury except in consequence of an appropriation by law.

The only Federal statute relevant to the present problem is section 5 of the Act of June 20, 1874, 18 Stat. 110, as amended (U.S.C. title 31, sec. 713). Under this statute, even though H.R. 3325 were not enacted, the unexpended balance of the Fund would not have to be covered into the Treasury until June 30, 1941. (1897) 10 Comp. Dec. 623, 627; (1901) 8 Comp. Dec. 369, 374; (1929) 9 Comp. Gen. 43, 45. During this period of two years this Fund would remain available for the liquidation of commitments made out of the Fund during the period when the President and the Secretary of the Treasury could exercise their powers under the Act. Obviously, the Secretary of the Treasury could cover the money into the surplus fund of the Treasury at any time within the two years liquidation period but he would not be obliged to do so until June 30, 1941.

Since the moneys in the Fund are not "in the Treasury", they need not be appropriated, and an expression of the intent of Congress that they be made available until June 30, 1941, for the purposes for which originally appropriated is all that is necessary to make such moneys so available. If an "appropriation" is needed, H.R. 3325 constitutes such an appropriation. If H. R. 3325 is enacted the Fund will be available for the purposes therein specified until June 30, 1941.

July 5, 1939.

MEMORANDUM



TO: Secretary Morgenthau
FROM: Mr. Gaston

Leslie Biffle called at 2:50 to say that he thought they would get a vote in about an hour and a half. He wanted to know if you had heard anything in regard to Senator Reynolds. I told him I thought not, that you had mentioned to me trying to get in contact with him but that I didn't believe you had heard anything before you left for the White House at two o'clock. He said the situation looked better than it did a few hours ago and he was rather hopeful. He added that he had never worked so hard on anything in his life as on this proposition. He has been extremely busy arranging pairs, which he says are of the first importance in a situation of this kind. I told him I knew he had been doing a swell job and he said he didn't want to claim any credit, that this was what he was there for, but he merely wanted to let us know how things were going. He said he would call again.

Senator Hayden's office called about a report that the Treasury was going to issue a statement on the monetary situation. I told them I knew of no statement in preparation and the Senator's secretary said that's all he wanted to know. I had a call during the morning from the American Mining Congress based on the same rumor.

July 5, 1939 5 pm

Diary

78

File

FLASH

SENATE APPROVES MONEY BILL

7/5--E500P

THE SENATE APPROVED THE MONETARY BILL CONFERENCE REPORT GIVING PRESIDENT ROOSEVELT THE POWER FURTHER TO DEVALUE THE DOLLAR AND EXTENDING THE STABILIZATION FUND.

7/5--E502P.

ADD MONETARY BILL APPROVED
THE VOTE WAS 43 TO 39.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 5, 1939

80

TO Secretary Morgenthau

FROM W. H. Hadley

Review of the Government Market

Week ending July 1, 1939

The government security market moved sharply and steadily downward during the past week. Forces bringing about this decline appeared to be mainly unsettlement in foreign markets, caused by incidents in Tientsin and rumors regarding Dansig. The market was extremely thin and although selling was not large a lack of bids helped to exaggerate the decline. Purchases for Treasury investment account helped to steady the market at times but the underlying tone was for further easiness. Losses ranged in the neighborhood of 1 point to 1 1/4 points in the intermediate and long bonds, and from 1/4 to 3/4 point in the shorter issues. Long Treasury bonds are now down an average of 1 3/4 points from the high of June 5. Treasury notes showed losses up to 1/2 point, with the new 3/4% issue closing the week at 100.18 bid, down 16/32nds. Guaranteed issues were off from 1/4 to 3/4 point.

Monday, July 3, the market was inactive and practically unchanged but today, July 5, there was substantial firmness in view of a better tone in the foreign markets.

Dealers' Portfolios

Dealers' total holdings continued to decline, with a reduction of \$6 million. However, a decrease of about \$11 million in 1 to 5 year notes was neutralized by an increase of \$11 million in Treasury bond position. Other changes were of little significance.

(in Millions)

| | Week ended <u>June 24</u> | Week ended <u>July 1</u> | <u>Net Change</u> |
|----------------------------|------------------------------|-----------------------------|-------------------|
| Treasury bonds | 20.3 | 31.1 | + 10.8 |
| Treasury notes (1 year) | 23.0 | 19.7 | - 3.3 |
| Treasury notes (1-5 years) | 33.8 | 23.0 | - 10.8 |
| Treasury bills | - | 0.4 | + 0.4 |
| H.O.L.C. bonds | 23.3 | 21.0 | - 2.3 |
| F.F.M.C. bonds | <u>5.6</u> | <u>4.8</u> | <u>- 0.8</u> |
| | 106.0 | 100.0 | - 6.0 |

Volume of trading was extremely light. Daily average was in the neighborhood of \$100 million, with Treasury bonds accounting for about two-thirds of this volume.

New Security Issues

The new security market was unusually active during the past week and offerings of five large issues totaling \$118 million moved smoothly into the market in spite of general market easiness. Four new corporate bond offerings totaling approximately \$88 million were offered through syndicates while one \$30 million issue was sold privately to insurance companies. Of the total, only \$25 million was for new cash. This was an issue of 3-1/4% 20-year bonds by Bethlehem Steel Corporation. The other offerings were all by public utilities with coupons ranging from 3-1/4% to 3-3/4% and maturities from 25 to 30 years.

Corporate Bond Market

With the exception of public utility issues and most high grade bonds, the corporate bond market showed substantial declines. High grade issues were practically unchanged on average at the end of the week although during the middle of the week they had reached a new all-time high. On the other hand, second grade issues showed losses of over 1 point on average and are now about 2 points below the high level reached in March.

Treasury Investment Accounts

The only transaction for Treasury investment account amounted to purchase of \$5 million Treasury bonds of 1960-65 for account of Government Life Insurance Fund.

HOLC Bonds

Total HOLC 1-1/2% bonds remaining to be sold, of the \$100 million authorization, amounts to \$54,100,000. No sales were made during the week.

Federal Reserve System Account

The only transaction by the Federal Reserve was the partial replacement of \$44,885,000 maturing Treasury bills. Only \$31,507,000 bills were purchased while the balance of \$13,378,000 was allowed to run off. Total System holdings were thus reduced because of the difficulty of purchasing bills to complete replacement.

July 5, 1939
9:40 a.m.

HMJr: Hello.

Operator: I'm calling Mr. Sproul out of a meeting. Mr. Doughton is calling you.

HMJr: Doughton?

O: Yes.

HMJr: All right. Let me -- all right, go ahead.

O: All right? Go ahead.

Robert
Doughton: Hello.

HMJr: Hello.

D: Hello, Mr. Secretary. How are you?

HMJr: Oh, I'm fine. How are you?

D: All right. I hope you had a fine rest, and a pleasant vacation.

HMJr: Yeah.

D: I see you've been to North Carolina and New York and everywhere else.

HMJr: No, I haven't been to North Carolina.

D: Why a man told me this morning you were down there, at the Manteo.

HMJr: Down to North Carolina?

D: North Carolina, yeah. I thought that must be a mistake.

HMJr: No, I wouldn't go there without first calling you up.

D: (Laughs) Thank you, thank you. Well, what I called you about, Mr. Secretary, was this: We are going on with these hearings. Mayor LaGuardia is to be here this morning about his tax exempts.

HMJr: Yeah.

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D: You haven't some representatives here sitting in. Mr. Hanes is gone, I understand, for a month.

HMJr: That's right.

D: Now there ought to be some -- in my opinion, it would be helpful at least -- I won't say there ought to be, but it would be most helpful if after -- have somebody sit in here that'll digest these -- the testimony of these folks who are testifying in opposition to our purpose and make a rebuttal statement....

HMJr: Well.....

D:for the record.

HMJr: I tell you what we'll do. We'll have at least one or two people up there. When do you start?

D: When?

HMJr: What time do you start?

D: We start this morning at ten o'clock.

HMJr: Today?

D: Yeah. We need somebody, you know, to keep -- I think you've had some men here all the time.

HMJr: Yeah.

D: And if they kind of take note of all these different statements on the tax that are being made by the representatives of the states and the taxing authorities of the states -- they make a terrible tax on this proposition.

HMJr: What time do you start, Bob?

D: Ten o'clock this morning.

HMJr: Well, we'll have people up there.

D: Another thing, I -- I want to talk to you pretty soon about....

HMJr: Yeah.

D: I thought maybe it might be necessary to have a meeting with you and the President and Mr. Cooper and myself about just a little further light on and a little further understanding about the studies we are to make

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on the tax subject during the recess of Congress.

HMJr: Fine!

D: There are a great many features to it. There have been several suggestions about separate committees and advisory committees and all that. I am of the opinion that our sub-committee would not like for any procedure to be adopted that would leave them out.

HMJr: I see.

D: You -- I'm kind of of that opinion now by hearing them express themselves. I've reached no opinion about -- no decision about it at all, but -- I don't know whether the President has in mind and whether you all have in mind a further study of the tax or review of the removal of deterrents or whether he has in mind primarily raising more revenue.....

HMJr: Yeah.

D:or just what he has in mind.

HMJr: Well now, is that -- is that a committee of the -- of the House and the Senate?

D: Well, that's a question to decide -- whether or not we should make it -- there's been some talk of a special committee; there's been some talk of a committee of the House and the Senate; there's been some talk of just a sub-committee in the House. Why I haven't reached any decision about it at all.

HMJr: Well, supposing I ask the President and tell him that you've raised the question.

D: Yeah.

HMJr: Supposing I do that. I'll try to.....

D: I think this. Yes, you tell him that I thought, my opinion was that a conference in which he and you and myself, and probably Senator Harrison, if you wanted, and Jere Cooper, if you would like to have him.

HMJr: Yeah.

D: Those that are most directly interested in -- in formulating the policies, deciding just what we do before Congress adjourns.

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HMJr: Right! Well, I'll -- I'll bring it up the next time I talk to him.

D: Yeah, you bring it up with him.

HMJr: Right!

D: And tell him that I want a -- before I can come -- reach any understanding at all, I want to talk to him further about it and with you further about it, and he can have whoever in that conference/ he wants.
then that

HMJr: O. K.

D: All right.

HMJr: I'll do it first -- next time I talk to him.

D: Thank you very much.

HMJr: Thank you.

D: Good bye.

July 5, 1939
9:59 a.m.

Operator: Go ahead.

Constantine
Oumansky: Hello.

HMJr: Hello.

O: Good morning, Mr. Secretary.

HMJr: How are you?

O: I'm all right. I'M sailing in half an hour, and before doing so I wanted to say good-bye to you over the telephone and tell you that I have some preliminary action to our talk.

HMJr: Really?

O: Yes.

HMJr: Do you care to tell me?

O: I would like to and I don't see any other way of doing that except right now over the telephone.

HMJr: Well, I think you're moderately safe.

O: (Laughs) Well, Mr. Secretary, the reaction is that while the suggestion so far is not quite complete.....

HMJr: Yes. I see.

O:we think -- we think that this matter could constitute a subject for meditation and consideration between the two Governments.

HMJr: Well, that's very interesting. Now, don't you think we better wait though until you get back?

O: I certainly think so, but the -- the only difficulty I see at this particular stage is that I'll be asked many questions along what lines and so on, what the basis -- the suggested basis is. I will not be able to make any.

HMJr: No.

O: You understand?

HMJr: That's right.

O:practical suggestions.

HMJr: That's right.

O: But, as you see, your hand did not remain suspended in air.

HMJr: Well, (laughingly) that's very interesting, and after all it's -- every time I've taken anything up with you....

O:so far we always do something constructive.

HMJr: Correct.

O: That is correct.

HMJr: And you move very fast.

O: (Laughs)

HMJr: Now, I have really nothing to add. I -- I know you saw our President. I don't know whether you raised this question.

O: He did. He mentioned that generally. I didn't go into that.

HMJr: But he did raise it.

O: He mentioned that as one of the desirable things to improve the affairs.

HMJr: Well then, I'm glad that he did bring it up.

O: Yes, he did.

HMJr: And I think -- the more I think of it on account of the various questions that you raised.....

O: Yes.

HMJr:that it'll -- this debt question will be a good excuse for your Government and ours, as I've said, to take all the crossword pictures in the puzzle.....

O: Yes.

HMJr:and try to make one picture out of it. And unless there's somebody that you have confidence in, I'd rather wait until you get back.

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O: Yes. I don't -- unfortunately I cannot recommend anybody so far.

HMJr: Well then I think that I'll just have to be patient.

O: Right!

HMJr: And wait until you return.

O: Very good. Well, I wish you a pleasant summer.

HMJr: And I wish you a very pleasant and -- I continue to pray for peace.

O: Well, thank you. Thank you, Mr. Secretary. Good bye.

HMJr: Good bye.

July 5, 1939
10:20 a.m.

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Lowell
Mellett: Hello.

HMJr: Hello, Lowell.

M: Say, Henry, that -- all plans for today are off, aren't they?

HMJr: Yes. He said he's going to do it Friday now.

M: Is -- is it fixed?

HMJr: No, we'll have to push him on it. I don't think that we ought to push him today, but I do think we ought to push.....

M: Well, that's all -- I wanted to be sure.

HMJr:tomorrow.

M: Because some of these people are calling me to find out.

HMJr: No, he said Friday.

M: And -- so I shall tell them that.....

HMJr: It's -- it's set for Friday.

M: The date is set for Friday.

HMJr: Yeah.

M: That will be Friday morning or afternoon, do you suppose?

HMJr: Ah -- well, I don't know. I think he's having his regular press conference. I don't know when that is, Lowell.

M: All right. Fine, Henry.

HMJr: But from the way he spoke, he said the press conference Friday.

M: Yeah.

HMJr: But we'll have to keep after him, but I wouldn't do it until we get this legislation fixed up tonight.

M: And it's no good until we have a talk with that chap anyhow.

HMJr: What's that? And I -- I reminded him that he must talk to Jesse Jones.

M: If that isn't done then it would be better not to have it.

HMJr: Well, he hasn't talked to Jesse yet.

M: And -- and not only that, but talk to him and know what he's going to say when he -- when he takes part.

HMJr: Yeah.

M: Yeah.

HMJr: I impressed it on the President again last night, you know.

M: Yeah.

HMJr: I think he'll get around. He's only -- today he's only thinking of one thing and that's the monetary bill.

M: I imagine so. Righto! Fine!

HMJr: But I'm here to help and -- but I thought that maybe if you would jog me up tomorrow, we'll try to jog the President on this.

M: Righto!

HMJr: O. K.

M: Righto!

HMJr: Thank you.

July 5, 1939
10:37 a.m.

Operator: Go ahead.

HMJr: Hello. Hello.

Outside
Operator: Hello.

HMJr: Hello.

O: Hello.

Bill
Bullitt: Hello.

HMJr: Hello, Bill.

B: Hello, Henry.

HMJr: How are you?

B: Fine! How are you, sir?

HMJr: I'm very well. Bill, this is what I'm calling you for.
As you know, the Senate is going to vote at five o'clock....

B: Yes.

HMJr:on the Monetary Bill.

B: At five o'clock Washington time.

HMJr: What's that?

B: At five o'clock standard time?

HMJr: Five o'clock standard time.

B: Yes.

HMJr: Now, during the day we are going to keep everything in
suspense.

B: Yes.

HMJr: We're going to not do any business.

B: Yes.

HMJr: And on July 3rd.....

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B: Yes.

HMJr:the French wanted to buy three hundred and fifty thousand dollars.

B: Yes.

HMJr: On July 5th they wanted to buy a million and fifty thousand dollars.

B: Yes.

HMJr: Now, what I would like you to tell Paul Reynaud.....

B: Yes.

HMJr:that if he would hold everything for today.....

B: Yes.

HMJr:we would appreciate it.

B: All right. Fine!

HMJr: If there is any pressing reason why he must have this gold today.....

B: Yes.

HMJr:why we would be glad to take it under consideration.

B: Yes.

HMJr: And in this case, the fact that we are holding in suspense and everything.....

B: Yes.

HMJr:and if it should get around among the financial circles in Paris, why I would not shed any tears.

B: Yes, that's just -- in other words, you're not going to enter in the market at all today?

HMJr: No, this is -- they -- they -- you see, they have dollars that they want to exchange for gold.

B: Yes.

HMJr: And we're just going to sit tight.

B: You're not going to exchange any dollars for gold today?

HMJr: No, not unless the French say, "Well, it's a matter of tremendous importance."

B: Yeah.

HMJr: And then we'd be glad to take it under consideration.

B: Yes.

HMJr: But of course, under the Tripartite Agreement, the agreement is that we should give up gold.

B: Yes, sure.

HMJr: Now, if they're terribly excited about it, why I'd like you to phone me.

B: Yeah. Well now, Henry, why do you want to hang on -- why do you want to hang onto it? Can I give them some reason?

HMJr: Well, just that we're waiting to see what the Senate is going to do.

B: All right. Fine.

HMJr: Now -- and then if you would tell him to let the Bank of France know this, because they carry out the order, you see?

B: Now just a minute, let me say -- I'll try to repeat to you exactly what you want me to say to him.

HMJr: Please.

B: You want me to say to him that the Senate is voting at five o'clock and until then we're just -- you want to keep everything in suspense and you would appreciate it if he did not ask you to give up any gold in exchange for dollars.

HMJr: That's right.

B: And however, if there is any pressing reason why they desire it, I'll tell him you will be very glad to take the matter under consideration and that they -- you -- this will hold simply for today.

HMJr: That's right.

B: That's your request.

HMJr: And if he would pass that word along to the Bank of France.

B: That he pass -- ask him if he'll pass it on to the Bank of France, and if there's anything, to telegraph.

HMJr: Yes.

B: All right.

HMJr: You -- you get the significance? Hello?

B: No, I don't see particularly the -- just why we stop the whole business.

HMJr: Well, I -- going on the assumption/ ^{that} somebody is listening...

B: Yeah.

HMJr:if you'll take me on good faith and I came down on the train last night with the President.

B: Fine! All right, Henry. Fine!

HMJr: O. K.

B: Good luck to you. I'll do it right away.

HMJr: Thank you.

B: Thank you.

July 5, 1939
10:43 a.m.

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HMJr: Hello.

Operator: Mr. Welles. Go ahead.

HMJr: Hello, Sumner.

Sumner
Welles: Yes, Henry.

HMJr: I asked for Mr. Hull and they say he's not in.

W: Yeah.

HMJr: And I'd like to give you this information and then if you would pass it on to him as soon as you can.

W: Yes.

HMJr: The President and I decided that as far as doing anything in the monetary field today, everything is in suspense, and we are giving no information of any kind to the press. We're not going to help them out at all - whether Stabilization is in the General Fund, whether it isn't, whether we are going to buy any gold or not, et cetera, et cetera.

W: Yes.

HMJr: And we've even gone so far as a million three hundred thousand worth of gold due the French, and -- today, in exchange for dollars, and we've asked them to hold off. I called up Bill Bullitt and said, "Now, if it's a matter of great importance, we'll be glad to take it under consideration," but we'd appreciate their waiting until the Senate has voted.

W: I see.

HMJr: And we simply felt by doing nothing -- well, that it might be helpful.

W: All right, Henry. I'll tell him that the minute I see him.

HMJr: And the lid is on here in the Treasury. We're just not -- and you undoubtedly will get inquiries from some of the diplomats.....

W: Yes.

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HMJr:and I thought you'd like to know that until the Senate takes action.....

W: Yes.

HMJr:why, over here the lid is on.

W: All right, I'll see that that's done here. Could you give me for my own confidential information any estimate as to what's -- what will happen?

HMJr: Well, -- as to the vote?

W: Yeah.

HMJr: The President is very hopeful.

W: I see.

HMJr: Now that was before he'd seen Barkley. Now, what happened between him and Barkley this morning, I don't know.

W: I see.

HMJr: I think the odds are on our side.

W: Um-hm.

HMJr: And I'm moderately hopeful.

W: Good!

HMJr: But.....

W: Well, that will be one tremendous relief if we get that **done**.

HMJr: Oh, my! Of course, we -- by doing nothing, you see, it's -- it's going to throw an awful scare into the silver people, because we're not going to buy any silver today at any price.

W: Yes.

HMJr: And it's much easier to say we're doing nothing than simply to say well, we're not doing anything in silver.

W: Of course.

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HMJr: And that's why, after talking it over last night, we decided we'd -- just would sit tight and not do anything in the monetary view whatsoever.

W: All right.

HMJr: The calls are coming in to the Federal Reserve of New York from all over the world asking questions and we just told them to say nothing.

W: Naturally. All right, I'll see that he gets that immediately.

HMJr: Thank you.

W: Just as soon as he gets here.

HMJr: Right!

W: All right. Thank you very much, Henry.

HMJr: Good bye.

W: Good bye.

July 5, 1939
11:02 a.m.

HMJr: Hello.

Operator: Mr. Graves.

HMJr: Hello.

Harold
Graves: Good morning, sir.

HMJr: Hello, Harold. Harold, the President is particularly interested that we try and do a real job on the section 102. That's on the.....

G: Yes, sir.

HMJr: ..ah..withholding of dividends.

G: Yes, sir.

HMJr: And I wish that you'd look into that and give me a report - who's handling it and.....

G: Yes.

HMJr:is it a section, of what's going on, et cetera, et cetera. See?

G: I'll be very glad to. How much time do I have?

HMJr: Oh, you've got from now until next Monday.

G: Now until next Monday.

HMJr: Yeah.

G: I'll be ready.

HMJr: I want -- I want a complete story on that.

G: Yes, sir. I'll be ready.

HMJr: O. K.

G: Fine! Good bye.

HMJr: Good bye.

July 5, 1939
11:17 a.m.

HMJr: Hello.

Alben
Barkley: Hello.

HMJr: Hello, Alben.

B: How are you?

HMJr: Oh, I'm fine.

B: Well, so am I.

HMJr: I gave you my word that I would not do anything on this silver business without talking to you.

B: Yeah.

HMJr: And I don't give my word lightly.

B: Well, that's what I understand.

HMJr: And I just wanted to tell you that the understanding I had with the President last night was that we should sit tight and do nothing today.

B: Yeah.

HMJr: And I wanted to know whether that was agreeable to the Democratic leader of the Senate.

B: Well; it's not only agreeable but I think it's entirely wise.

HMJr: Well, I gave you my word and I -- the time.....

B: Well, I appreciate that. I think that's the thing to do.

HMJr: And we're not only not going to do anything, but we're not saying anything.

B: Well, that's right. I think you're right there too.

HMJr: See? Now, is that all right with you?

B: Now, let me ask you another thing. I was just -- I just put in a call. I didn't know you had called me here and I put in a call there for Ed Foley.

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- HMJr: Yeah.
- B: He told me Friday night that this Stabilization Fund would not revert to the General Fund for two years. Some of the fellows over here are -- are going on the assumption that Taft made that statement Friday night that -- at midnight, that this Stabilization Fund automatically went into the General Fund of the Treasury and could not be taken out without new legislation.
- HMJr: No, that is not.....
- B: Foley told me Friday night that this -- that would not happen for two years.
- HMJr: No.....
- B: I was just trying to call him to see what the situation is.
- HMJr: Well, neither statement is correct.
- B: Well, what is the truth?
- HMJr: The truth of the statement is this: This -- when the legislation passed, the Stabilization Fund was put into the fund of the Treasury of the United States, and the only way to get it out of the Treasury of the United States into the General Fund, is for me to sign a warrant.
- B: Yes.
- HMJr: I have to do it.
- B: I see.
- HMJr: And the action is entirely up to me unless Congress passed some legislation.
- B: Well, very frequently Congress -- I mean, sometimes it provides that upon the happening of a certain contingency, or the failure to happen of a certain contingency, that a certain fund would go into the Treasury.....
- HMJr: Well now.....
- B:go into the General Fund. I mean, like an appropriation unexpended at a certain time.

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HMJr: Well, I've got just about two hundred -- or a hundred words here if I could read it to you, from Danny Bell.....

B: Yeah.

HMJr:in which Foley concurs.

B: All right.

HMJr: He says, "The Stabilization Fund which, by law, was deposited with the Treasurer of the United States, is in about the same category as a no-year appropriation or funds deposited with the Treasurer of the United States by a corporation whose authority to do business has expired.

"The Stabilization Fund is, therefore, available after June 30th for the purpose of liquidating any obligations actually incurred prior to that date. It is not available for new obligations."

B: Um-hm.

HMJr: "As there are no directions in the Gold Reserve Act as to the disposition of the Fund after the authority of the Act expires, the Fund may be maintained in its present status as long as you deem advisable."

B: Yes.

HMJr: Now, what we're doing -- Foley has gotten several things covering this and other things which he's going to clear with the Attorney General which he'd like to give you in writing to put in the record.

B: Yeah. Well, I'd like to have that.....

HMJr: And I.....

B:before we close. I probably will close the debate. We got an agreement for a thirty-minute limitation debate.....

HMJr: Yeah.

B:voting at five o'clock.

HMJr: Fine!

B: And I probably will take up the last thirty minutes.

HMJr: Well, I will tell.....

B: I'd like to have them get it over here to me early enough that I can go over it.

HMJr: What do you call early?

B: I mean, sometime -- two or three o'clock.

HMJr: I'll try to -- well now, he'll have to get it to you before two because the President sent for Jones and me and Foley at two.

B: Yeah.

HMJr: I guess that was the result of your seeing him.

B: Probably so.

HMJr: And.....

B: I want to -- I -- I told him he ought to get you all together on this lending bill and -- and see what could be done without law and what couldn't.

HMJr: Right. I'm all.....

B: And get that thing started.

HMJr: Yeah.

B: So that's what he wants with you I'm sure.

HMJr: Well, I'll see that Foley gets up on the Hill before two o'clock.

B: All right.

HMJr: Now, may I ask you one question?

B: Yeah.

HMJr: How does it look to you?

B: Well, it looks fairly good. Not as good as I'd like. We've got four or five fellows here that are uncertain that might -- may decide it.

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HMJr: Uh-huh.

B: I can tell you who they are.

HMJr: I'd like to know.

B: Herring and Hitch -- and Hitchcock of Iowa.....

HMJr: Yeah.

B:Clark of Idaho, Reynolds of North Carolina, and Wheeler, and McCarran.

HMJr: Uh-huh. I see.

B: Some of those are pretty hard nuts.

HMJr: Yeah. Yeah. Yeah.

B: But I don't see how the silver fellows, any of them, can vote against this thing.

HMJr: Well, I take it that the President is going to work on these boys, isn't he?

B: Well, I -- he will on some of them. There's nothing he thinks he can do with Reynolds or McCarran.

HMJr: Uh-huh.

B: We've got to work on him through other sources.

HMJr: Uh-huh.

B: But we'll do the best we can.

HMJr: Well.....

B: I think it's all right but -- but I'm not comfortable over it.

HMJr: Uh-huh. I see. Well, all I can do is to sit here and keep the lid on.

B: (Laughs) All right.

HMJr: O. K.

B: Good bye.

HMJr: Thank you.

July 5, 1939
11:24 a.m.

HMJr: I just got through calling -- talking to Barkley.

Ed
Foley: Yeah.

HMJr: And he's very -- for instance, he wanted the details on what happened to the Stabilization Fund, et cetera, et cetera.

F: Yeah.

HMJr: Now, he'd like to have that before two o'clock so that he, personally, can introduce that into the record.

F: All right. He -- he wants to do it rather than Wagner.

HMJr: He asked for it.

F: Uh-huh.

HMJr: Now -- ah -- and you've got to go over with me at two o'clock to see the President.

F: Yeah.

HMJr: So you and the Attorney General have got to get busy.

F: Between now and two.

HMJr: Yes, because.....

F: Sure!

HMJr:you are to be at the White House.

F: That's right.

HMJr: Now, on this thing for a lawyer for Customs.....

F: Yes.

HMJr:there are thirty lawyers over there and I'd like you to go over with McReynolds and look those over, because I'd like to first give the men -- the regular men, the first opportunity.

F: Yeah.

HMJr: And that's what I've been wanting to say to you.

F: All right.

HMJr: Now, amongst those thirty, see if there isn't some fellow that has spent his life working there and here's a chance for promotion and -- and he -- if he's -- if there is one man that's worthy of it, I want to give it to him.

F: All right. All right.

HMJr: Now the -- the other man that you suggested is doing a very good job for Procurement as far as I know.

F: That's right.

HMJr: And.....

F: And he -- he does -- he handles the Customs work when Huntington Cairns is away.

HMJr: Well, I -- I.....

F: And he'd be -- he'd be acceptable to both Huntington and Bill Johnson.

HMJr: Well -- no, but I want you to look over the thirty lawyers.....

F: Yes, I -- I understand that and if there is anybody over there that we can recommend, why we'll do that.

HMJr: Yeah. And then on the other thing, I very much want Huntington Cairns to keep on with the Customs.

F: Sure! Yes.

HMJr: I mean, as one of his things.

F: Yes. Well.....

HMJr: Very much. I'm pleased with the way he's doing it and I very much want him to stay on that.

F: Well, there -- there'd be no change there, Mr. Secretary.

HMJr: No.....

F: No matter who was made Chief Counsel.

HMJr: Pardon me?

- 3 -

F: There'd be no change insofar as Huntington's duties are concerned no matter who was made Chief -- Chief Counsel.

HMJr: Yeah. You needn't do anything today, we're all busy. But if -- Thursday or Friday you'll talk with McReynolds....

F: Yeah.

HMJr:and look over the thirty lawyers and see if amongst them there's one that isn't worthy of promotion.

F: Yeah.

HMJr: And then talk to me again.

F: All right. You see, most of those lawyers are -- are not in the legal division any longer. They -- when -- when Johnson was made -- you know, we -- we created that technical division over there.....

HMJr: I know.

F:and most.....

HMJr: There's thirty fellows over there that -- I'll bet you there's some who have been there twenty, twenty-five years.

F: Oh, sure!

HMJr: And let's give them the break first if -- if they've proven worthy of it.

F: All right.

HMJr: That's all -- just -- I want to keep up the morale.

F: Sure! O. K.

July 5, 1939
11:30 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Arthur H.
Vandenberg: Hello.

HMJr: Hello.

V: Henry.....

HMJr: Yes, Arthur.

V: Where is the two billion dollars this morning?

HMJr: Where is the two billion dollars?

V: Yeah. Is it in the Stabilization Fund or in the
General Fund?

HMJr: The two billion dollars is in the office of the
Treasurer of the United States.

V: Is in the what?

HMJr: Is with the Treasurer of the United States.

V: Well, where is it credited?

HMJr: Excuse me?

V: Where is it credited?

HMJr: To the Treasurer of the United States.

V: Well, is that the General Fund?

HMJr: No. No.

V: Well, is that the same.....

HMJr: It's -- it's just where it has been ever since it was
authorized. We haven't -- it's just exactly in the
same position.

V: In other words, you never drew down but two hundred million you mean?

HMJr: I think that's correct. I'd rather give you -- give it to you in writing than I would attempt to do it over the phone.

V: Well, except that I'm rather interested to know this morning.

HMJr: I know, and now look.....

V: Yeah.

HMJr:may I send for Danny Bell and let him talk to you? I think I could get him down here.....

V: No, I talked to him and he was just as vague as a London fog.

HMJr: Good for him!

V: Everybody seems to be very canny this morning.

HMJr: No, this isn't -- ah.....

V: I thought you -- I thought you said last week that if this power lapsed on Friday night, this money went back into the General Fund.

HMJr: It does when -- when I draw a check on the Treasurer.

V: Well, when are you going to do that?

HMJr: I don't know. There's no hurry.

V: (Laughs)

HMJr: What's the hurry? Where's the fire?

V: Uh-huh. Well, you -- you -- are you proceeding this morning on the theory that you still have a Stabilization Fund?

HMJr: I'm proceeding on the theory that the body is in suspense.

V: That the body is in what?

HMJr: Suspense.

V: In suspense?

HMJr: Yes. It's hanging between heaven and earth.

V: I see. That's -- that's a new stage in mortality that I'm not familiar with.

HMJr: Well, the President spoke about a seance.

V: Yeah.

HMJr: And that when they're good they have the body in suspense.

V: Yeah.

HMJr: Just hanging in the air.

V: I see.

HMJr: And that's where she is.

V: Are you operating the Stabilization Fund this morning?

HMJr: Am I?

V: Yeah.

HMJr: Everything is in suspense.

V: There's no operations in the Stabilization Fund?

HMJr: No, I'll -- everything is in -- is in suspense.

V: Yeah. Including you?

HMJr: Including me. (Hearty laughter)

V: (Hearty laughter)

HMJr: How -- how about you?

V: All right, me too, Henry.

HMJr: All right.

V: Good bye.

HMJr: Good bye.

July 5, 1939
11:53 a.m.

Leslie L.
Biffle: Good morning, Mr. Secretary.

HMJr: How are you?

B: Just fine, thank you. I hope you had a little rest over the weekend.

HMJr: Yes, I did.

B: Good!

HMJr: Are you where you can talk?

B: Yes, in a very good position right now to talk.

HMJr: Good! Well, what do you think about the.....

B: I'm trying to bring some pressure to bear on Clark of Idaho, Reynolds, and trying to get McCarran to stay out.

HMJr: I see.

B: Herring is all right; I'm doubtful about Gillette.

HMJr: Gillette of.....

B:Iowa.

HMJr: Well, isn't -- wouldn't Henry Wallace help there?

B: Yes, I think so.

HMJr: What?

B: Yes.

HMJr: Wasn't he for Gillette?

B: It was my understanding he was for him.

HMJr: Yeah. Yeah.

B: Being that -- I might suggest this, Mr. Secretary,.....

HMJr: Yeah.

B:if he's not willing to vote with us, ask him to stay out, or make a pair, or something like that.

HMJr: Well, Wallace will be back here about noon.

B: Oh well, then there's plenty of time, because we're not going to vote before five o'clock.

HMJr: Well, he'll be back -- now, let me just get these. Gillette of Iowa.....

B: Yes.

HMJr:and.....

B:Reynolds of North Carolina.

HMJr: Reynolds. Well, I've got in a call for Johnny Hanes.

B: Good!

HMJr: And I'm going to put him to work on Reynolds.

B: Fine! Fine! Well, he's against us, and Clark of Idaho.

HMJr: Well now, what's the matter with him?

B: I don't know -- I'm trying to locate Senator Borah.

HMJr: Oh!

B: Because Borah's with us.

HMJr: Yeah. Well, I couldn't help there.

B: No, but I have someone who can reach Senator Borah and ask him to talk to Clark.

HMJr: Yeah.

B: Because Clark will do most anything Borah says.

HMJr: I see. But I think I can help on Reynolds.

B: Fine! Well, that will help a lot. One vote.....

HMJr: Is it that close?

B: It's -- it's pretty -- it's very close. I just don't know what three or four are going to do. When I've found out definitely how they are going to vote, why I'll know what the situation is exactly. May I call you after while sometime?

- 3 -

HMJr: I tell you what I'd like you to do. I'm going to the White House at two on this.....

B: I'll let you hear from me.

HMJr: Could you call me about ten minutes of two?

B: I'll call you before -- before you leave to go to the White House.

HMJr: Will you?

B: Sometime between one-thirty and.....

HMJr: And.....

B: Yes, I will. About a quarter of two.

HMJr: A quarter of two would be perfect.

B: Fine! Well, I'll call you.

HMJr: And if there's anybody else -- but I'm working on Reynolds and Wallace will be back. And as I remember it, in the fight, he sided with Gillette, I think.

B: He helped him some, yes.

HMJr: Yeah. Yeah.

B: But Herring is all right. That's for your own information.

HMJr: Herring is all right?

B: Yes.

HMJr: Well, that's good.

B: He came around a while ago to see me and we talked it over and he's all right.

HMJr: Swell!

B: I'll let you hear from me after while.

HMJr: Thank you.

B: Be good.

July 5, 1939
12:12 p.m.

Operator: Waiting.

Leslie L.
Biffle: Hello.

HMJr: Hello.

B: Mr. Secretary.

HMJr: Yeah.

B: You needn't call Secretary Wallace on Gillette. I think we've done something about it already.

HMJr: Swell!

B: He's just told -- come to me and called me aside and told me he's going to be all right.

HMJr: Ah.....

B: Now, Reynolds.....

HMJr: Yeah.

B:has promised me that he will stay out and be -- be in North Carolina. He'll not try to get back unless -- well, he just said if he was here he'd have to vote against it, that's all. So I'll ask him to stay out.

HMJr: So you think we -- I better not try to do anything.

B: I don't think it will do any good, Mr. Secretary.

HMJr: Well then.....

B: I tell you, let it go for about an hour.

HMJr: Well, I have the call in for.....

B: Well, that's all right, go ahead. If you can do it, why that's all right. It'll help -- if you can persuade him to come, it'll be all right.

HMJr: Well, supposing -- where is he now?

B: He's in North Carolina, but ready to leave to get here - fly up.

HMJr: Oh!

B: But if you can reach him why it will help.

HMJr: Well, why not put it on this basis, that unless he feels he could vote, he'd better stay in North Carolina.

B: That's just the way I put it too.

HMJr: Well, where is he down there?

B: I didn't -- I didn't ask him where he was talking to me from. He called me on the phone.

HMJr: Well -- well, I've got the call in for Hanes and I think I'll leave it that way. That's.....

B: That's.....

HMJr: If he can't vote, stay on down there.

B: That's right. That's right. That's the way I put it.

HMJr: Well, you're gaining, aren't you?

B: Yes, we've picked up one or two and it looks a little better than it did.

HMJr: Wonderful!

B: We're trying to reach Lundeen and see if I can't do something with him. He usually listens to me pretty well.

HMJr: Lundeen, yeah.

B: Shipstead is against us.

HMJr: Yeah.

B: But Lundeen, I'm trying to reach him and see if I can't do something with him.

HMJr: I see.

B: I'll give you a report a little later.

HMJr: I wonder if the Farm Bureau could do anything for us.

B: Yes.

FMJr: What?
B: The Farm Bureau could help on it.
FMJr: On Lundeen?
B: Yes, on Lundeen.
FMJr: I think I'll call them up.
B: Fine! Fine!
FMJr: Lundeen.
B: All right, fine!
FMJr: I -- I'll tell them to go to work on Lundeen.
B: That's right. That'll help a lot.
FMJr: O. K.
B: All right, sir.
FMJr: Thank you.

July 5, 1939
12:16 p.m.

HMJr: Hello.

Allan
Sproul: Hello, Mr. Secretary. Allan Sproul.

HMJr: Yeah.

S: Cariguel is going to call us at one-thirty our time;
that's in about ten minutes.

HMJr: Yeah.

S: I wondered if there was anything.....

HMJr: Well, I spoke to Bullitt and Bullitt said he would talk
to Paul Reynaud and have Paul Reynaud advise the Bank
of France.

S: I see.

HMJr: That's just the way I did it. I said if it was a matter
of life and death to them they should tell us so and we
would take it under consideration.

S: Yeah.

HMJr: But pending that, why we'd like to let everything -- hold
everything today.

S: Well then, he may just be calling to tell us it's all
right to let it go.

HMJr: Well, after he's talked, will you talk either to me or
Lochhead?

S: Yeah.

HMJr: Please.

S: And let -- we'll let you know.

HMJr: Please.

S: All right.

HMJr: Thank you.

July 5, 1939
12:41 p.m.

Operator: Ready.

HMJr: Hello.

W. R. Ogg: Hello.

HMJr: Mr. Ogg.....

O: Yes, sir.

HMJr: Henry Morgenthau, Jr.

O: Yes, sir.

HMJr: I know how much the Farm Bureau is interested in this Monetary Bill.

O: Yes, we certainly are very much concerned about it.

HMJr: Now, Senator Lundeen -- we're worried about his vote.

O: I see.

HMJr: Could the Bureau help?

O: Well, I don't believe we could a great deal with him, but I know some people that might be able to that I could contact.

HMJr: Do you -- any dairymen, or something like that, or.....

O: The Farmers Union people would be the main ones to work on him. I -- I -- I don't know how strongly they favor this bill, but I'll be glad to see what I can do with them.

HMJr: Would you? Because every vote counts.

O: Of course, we can register with him ourselves, ^{we} but / haven't got a very strong organization there.

HMJr: In Minnesota.

O: Oh -- pardon me, I'm mixed up. I was thinking about the man from South Dakota.

HMJr: No, this is Lundeen.

O: Lundeen, -- oh, yes!

HMJr: Minnesota -- haven't -- I thought you said.....

O: Oh, yes, we've got a crackerjack there in Minnesota.

HMJr: That's what I thought.

O: I was thinking about the South Dakota man.

HMJr: That's what I thought.

O: Yes. Well, I think we can do some good there. I'll get in touch by telephone and also contact him myself.

HMJr: Yeah, and -- if you could. I -- because I was under the impression that you had a good organization.....

O: Yes, we have. Splendid, and I'm sure they'll be glad to help.

HMJr: Fine!

O: Now, is there anything more we could do.....

HMJr: No, it's -- just now, Lundeen is the one that, they've asked me about and the thing looks pretty good.

O: We've sent -- we've sent a strong letter to every Senator, you know, before.

HMJr: I know, but it's getting down to counting noses.

O: If anybody wanted to use that statement they could.

HMJr: No, it's -- if -- if you could bring all the influence you could to bear on Lundeen.....

O: Well, we'll do that.

HMJr: Righto!

O: All right. I certainly hope we win all right.

HMJr: Well -- and will you let me know later on?

O: Yes, I'll be glad to.

HMJr: What -- what luck you have?

O: I'll be glad to do that.

HMJr: Thank you.

O: Yes, sir.

HMJr: Goodbye.

July 5, 1939
1:10 p.m.

John
Hanes: Hello, Henry.

HMJr: Hello, Johnny.

H: How are you?

HMJr: I'm fine.

H: Good!

HMJr: How are you?

H: Oh, I couldn't be better. I've just had a marvelous rest so far.

HMJr: Good! Johnny.....

H: Yes.

HMJr:as you've seen from the papers, our vote comes up at five o'clock.

H: This afternoon?

HMJr: Yes, -- on the Monetary Bill.

H: Yes, on the money bill.

HMJr: Yes.

H: Yes.

HMJr: And this is the situation in regard to your friend Bob Reynolds.

H: Yeah.

HMJr: He has agreed to stay in North Carolina as long as he's opposed to it. Hello?

H: Yeah.

HMJr: He's in North Carolina now.

H: Yeah.

HMJr: But I wondered whether you'd care to try through Max Gardner to see whether they could convince him to vote for it.

H: Well, if we got him on -- could -- could he do it there, you think, by telephone?

HMJr: No. They say he's got an aeroplane down there. He's ready to come up.

H: Yeah.

HMJr: But if he doesn't -- if he -- if he's adamant and doesn't want to vote, why we'd rather keep him down there.

H: Yes. Sure.

HMJr: See?

H: Sure. Well, I'll get -- I'll get -- I wonder if -- I wonder if Mrs. Spangler could switch me through to -- to Max?

HMJr: Sure, she could try.

H: Well, if she can do that, I can get Max and I believe I can get him.

HMJr: Fine! And then if you talk to him maybe you could let....

H: Huh?

HMJr: Yes, just a minute, I'll ask her. Just a minute, I'll see if I can get her.

H: I tell you -- Henry?

HMJr: Yeah.

H: My boys know Max's number; - I've forgotten what it is myself.

HMJr: Well, just a minute.

Operator: Operator.

HMJr: Mrs. Spangler?

O: Yes.

HMJr: Mr. Hanes wants to talk to you.

O: All right.

HMJr: And then I'll hang up.

O: All right.

(Brief pause)

Operator: Go ahead.

HMJr: Hello.

Hanes: Hello, Henry.

HMJr: Yes.

H: I've just -- I couldn't get Max. He's off -- he's down in North Carolina. He's about twenty miles away from Bob Reynolds right now.

HMJr: Oh!

H: So I -- I got his partner on the phone.....

HMJr: Yeah.

H:and this boy's name is Fred Morrison.

HMJr: Yeah.

H: Fred Morrison.

HMJr: Yes.

H: Now, he's going to call Max right away on the phone and get Max to go over to see Bob.

HMJr: Oh!

H: And you might keep in touch with him. Just tell him that I told you to call him up later to find out how he was getting along with it.

HMJr: Yeah. Did he say he'd call me if he had anything?

H: Well, I didn't -- I didn't tell him to call you because I didn't know whether you wanted to be identified with it or not.

HMJr: I think I'd better leave -- keep out of it.

- 4 -

H: All right. I just didn't know whether you wanted to be or not, so I didn't say anything. I just told Fred to go to work on it.....

HMJr: Yeah.

H:and get Max to see Bob and that there was a -- that -- I told him that there was a plane available down there. Is that correct?

HMJr: So -- well, that's what the people on the Hill tell me.

H: Yes.

HMJr: That's what they tell me on the Hill.

H: Yes.

HMJr: But I didn't check it.

H: Yes.

HMJr: But you told him that if he's agin' it we'd rather have him stay in North Carolina?

H: (Laughs) Oh, sure, that -- that goes without saying. I told Max -- I told him to tell Max that it would mean a lot to me if he could get Bob persuaded to take that plane and come on up here and vote for that thing.

HMJr: That's right.

H: Now tell -- how -- how close is it going to be?

HMJr: It's going to be close, but they -- they're -- they think they have enough to be favorable.

H: Good! Good!

HMJr: It's going to be close.

H: Is that just passing the same bill over or passing a new one?

HMJr: No, the same bill over.

H: I see.

HMJr: Yeah.

- 5 -

H: How are you?

HMJr: Well, I'm just -- I'm -- I'm -- my nose is above the water anyway.

H: Good.¹

HMJr: And I'll feel better after tonight. I'll either feel better or worse anyway.

H: Yeah; well, I hope you feel better.

HMJr: So do I.

H: Fine, Henry.

HMJr: All right.

H: Let me know if I can do anything more.

HMJr: Thank you.

H: Now will you.....

HMJr: Good bye.

H:get Mrs. Spangler for me?

HMJr: Do you want Mrs. Spangler? Yeah, just a minute.

H: Yes, thank you.

Operator: Yes, sir.

H: Mrs. Spangler, will you give me my office?

O: Yes, I will.

July 5, 1939
1:28 p.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Allan
Sproul: Hello, Mr. Secretary.

HMJr: Yes?

S: Cariguel said that if, on account of discussions on this side, we'd rather wait.....

HMJr: Yeah.

S:on giving him gold today and tomorrow, which he had asked for; he doesn't mind at all.

HMJr: That's very nice.

S: He says credit our account "T" with dollars and they'll give us gold if we'd rather. Also if we have to sell any francs for them today and get dollars, where ordinarily we would earmark immediately, to credit that -- the dollars to his account in that case also.

HMJr: I see. Well then, the -- in that case -- I mean, that wouldn't -- that doesn't touch the Stabilization Fund at all.

S: No.

HMJr: No.

S: So as far as he's concerned everything is in the clear. We have our instructions to credit dollars and to let the gold earmarking go.

HMJr: Well then -- then everything is lovely as far as that goes?

S: That's right.

HMJr: Fine!

- 2 -

S: I hope they'll clean up this mess today.

HMJr: I hope so

S: Yeah.

HMJr: Even more than you do.

S: I know it. (Laughs)

HMJr: All right.

S: All right.

HMJr: Thank you.

HMJr: Hello.

Operator: Waiting? Hello.

HMJr: Is Miss Spangler on?

O: Hello. Yes, sir. Hello. Yes, sir.

HMJr: Who is this?

O: Miss Carr.

HMJr: Miss Carr, is anybody listening on this?

O: No, that was the New York operator came in on there.

HMJr: Well, I want this telephone conversation I just had with Mr. Sproul copied right away.

O: All right.

HMJr: And a copy of it given to Mrs. Klotz.

O: All right.

HMJr: Please.

O: Right.

July 5, 1939
3:39 p.m.

Operator: Go ahead.

HMJr: Hello.

Leslie L.
Biffle: Mr. Secretary.

HMJr: Yes.

B: From the way it looks right now, this vote will probably be 42 to 40.....

HMJr: Ah -- oh!

B:in favor of it.

HMJr: 42 to 40.

B: Now of course it's -- I'm having -- the only way I can win this vote is to mention transfers of pairs. You know what -- when you have eight or ten or twelve Senators absent.....

HMJr: Yeah.

B:I'm able to make some pairs and I'm able to make some transfers, and that's the only way we're going to win this vote.

HMJr: Now they -- they've sent me word that Reynolds is not coming back.

B: That's right, I have that.

HMJr: And that his vote is not paired.

B: That's right. I -- he talked with me the second time on that.

HMJr: Is that correct?

B: He is not coming back and he's not going to -- I'm not making a pair for him.

HMJr: Has anything happened on Lundeen?

B: I've just been talking with him and he's still a little inclined to vote against it.

HMJr: I put the "bee" on him.

B: And I've got Norris talking-- Senator Norris talking to him right now, to be frank with you.

HMJr: Uh-huh.

B: I have Senator Norris talking with him.

HMJr: Uh-huh.

B: And Worth Clark is in all of a stew.

HMJr: Which Clark?

B: Worth Clark of Idaho.

HMJr: Yes.

B: He's -- he's against it, but he's worried to death. He doesn't know what to do.

HMJr: Uh-huh.

B: But the way it stands right now, if -- if they vote according to my prediction, it'll be 42 to 40.

HMJr: Uh-huh. Where -- where is Brown of Michigan?

B: He's out of town and I'm not pairing him at all. He'd be against it if present.

HMJr: Yeah. He's left town?

B: Yes, sir.

HMJr: And he's not paired?

B: Not paired.

HMJr: Well, that's good.

B: Yes, I'm not going to make a pair for him. I.....

HMJr: Uh-huh. Uh-huh.

B: Those that are not with us, there's no use to worry about.

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

- 3 -

B: It looks now like it might be 42 - 40. I might miss it one or two but it will be about that.

HMJr: My God, don't miss it more -- don't miss it.....

B: No, we can't miss. Well, I -- it will be that way -- I mean.....

HMJr: What?

B: We're to the good right now.

HMJr: Uh-huh. Uh-huh. O. K.

B: It's too close to be fooling with, however,

HMJr: Yeah. Well, I'm sitting here.

B: All right, I'll keep you advised. We'll vote before five, I believe.

HMJr: 'Attaboy!

B: I think we'll vote before five.

HMJr: Thank you.

B: Sure.

HMJr: Don't hesitate to call.

B: I'll call you right away when -- as soon as it's over.

HMJr: Well, or even before.

B: Oh, before, yes, if I find anything worth while.

HMJr: If it changes any.

B: Yes, either way.

HMJr: O. K.

B: All right.

HMJr: Thank you.

July 5, 1939
4:07 p.m.

Operator: Go ahead.

HMJr: Hello.

Harold
Ickes: Hello, Henry.

HMJr: Hello, Harold.

I: I don't know whether you can do this for me or not, but here's what I -- I'd like, if you can.

HMJr: I'll try to. I don't know what it is.

I: You know, Colonel McCormick of Chicago, the famous gentleman.

HMJr: Herbert?

I: Yes, ~~Herbert~~ . From 1908 to 1920.....

HMJr: Yeah.

I:he put his name in front of that law firm out there.

HMJr: Yeah.

I: A Kirkland firm.

HMJr: Yeah.

I: McCormick, Kirkland, Patterson and Fleming.

HMJr: Yeah.

I: Now the fellow -- he never finished law school;.....

HMJr: Yeah.

I:he was admitted to the Bar; he -- I don't believe he ever was in court and he never -- a client never consulted him.

HMJr: Yeah.

I: And he was just -- damn it, he was just a 'cur' that was all.

HMJr: Yeah.

I: Now, of course, I -- the reason I want -- that I'm -- I'm writing a book on the press.....

HMJr: Yes.

I:in which I go after McCormick pretty sharply.

HMJr: Uh-huh.

I: What I would like to know and what I don't know.....

HMJr: Yeah.

I:is whether his income tax returns during that period showed any earnings from this law firm. I don't -- I don't give a damn about the amount.

HMJr: Well, I couldn't answer you, Harold.

I: Yeah.

HMJr: I couldn't give you that information.

I: Well, that's all right then.

HMJr: As much as I'd like to.

I: Yeah.

HMJr: You'd much rather have a straight answer.....

I: Oh, sure.

HMJr:knowing you.

I: That's right.

HMJr: Huh?

I: All right.

HMJr: Give me something easy.

I: Well, I thought maybe you couldn't but I.....

HMJr: (Laughter) That's right.

I: No use in -- always.....

HMJr: Nothing.....

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I:not even a try, you know.
HMJr: Nothing ventured, nothing gained.
I: That's right.
HMJr: O. K.
I: All right, Henry. Goodbye.
HMJr: Goodbye.

July 5, 1939
4:26 p.m.

HMJr: Please.

Operator: Go ahead.

W. R.
OGG: Hello.

HMJr: Hello.

O: Hello. This is Ogg.

HMJr: Yes.

O: After I got your call I immediately called by telephone J. S. Jones of Minnesota, the Secretary of the Minnesota Farm Bureau.

HMJr: Fine. Can you talk a little louder?

O: I say, after you called this morning, I got ahold of J. S. Jones by telephone at St. Paul.....

HMJr: Yes.

O:He's Secretary of the State Farm Bureau there;.....

HMJr: Yes.

O:explained the situation that we needed help and he said he doesn't have a very good contact, personally, with Lundeen but he'd register with him anyway very strongly and he also said he'd get in touch with some of the Farmer Labor leaders up there...

HMJr: Fine!

O: He thought they could do more than he could with him.

HMJr: Fine!

O: And I tried to get to him but he's tied up in -- on the floor, but I sent a very strong statement in to him.

HMJr: Fine!

O: And I hope it will do some good. Now, in addition, I've also sent a strong statement by messenger into Capper and Hayden, Shipstead, Gillette and Herring.

HMJr: Wonderful!

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O: Some of these men, you know, voted against it before.

HMJr: Yes.

O: All of them except Gillette.

HMJr: Yeah.

O: And I don't see any reason why they wouldn't be for us. They ought to be.

HMJr: Right!

O: So I.....

HMJr: Well,.....

O:hope it will do some good.

HMJr:we're a little bit to the good, but it's awful close.

O: Well, I -- they're getting ready to vote up here now and.....

HMJr: Are they? Fine!

O: In a very few minutes. Well, I hope we'll have good luck.

HMJr: Thank you.

O: Yes, indeed.

July 5, 1939
5:00 p.m.

Operator: Go ahead.

Leslie L.
Biffle: Hello.

HMJr: Hello.

B: Mr. Secretary.

HMJr: Yeah.

B: Biffle.

HMJr: Yeah.

B: The vote will be announced in about a minute. It will be 43 yeas and 39 nays.

HMJr: 43 to what?

B: 39.

HMJr: To 39?

B: That's right.

HMJr: We've won?

B: Yes, sir. 43 to 39.

HMJr: Wonderful! What's your favorite liquor?

B: Oh, just forget that. Thank you very.....

HMJr: No, what is it?

B: No, no, that's very kind, Mr. Secretary.

HMJr: No.

B: No, no, thank you very -- I appreciate that thought very much indeed.

HMJr: It's 43 to 39?

B: That's right. That'll be the vote. It'll be announced in a minute or two.

HMJr: Thank you.

B: Yeah.

HMJr: Wonderful!

July 5, 1939
5:08 p.m.

HMJr: Hello.

W. R. Ogg: Hello. Well, we had good luck.

HMJr: Fine! I'm ever so much obliged. I see it was 43 to 39.

O: These six fellows that we registered very strong with today -- we won over. Two of them changed their vote from nay to yea. One who didn't vote voted yea.

HMJr: Yeah.

O: That's three votes.

HMJr: Yeah.

O: The other three -- we couldn't do anything with them.

HMJr: Uh-huh.

O: Of course, I don't mean that we did it all. There are other people working on it too, I reckon.

HMJr: What did Lundeen do?

O: He voted nay.

HMJr: Nay.

O: I -- he's a Farmer Labor fellow. I don't know, we can't do very much with him.

HMJr: Well I'm.....

O: But Hayden changed his vote from nay to yea. Herring and Gillette -- Herring also, / Gillette, who didn't vote before voted yea. and

HMJr: Fine!

O: Capper, Lundeen and Shipstead voted nay. We -- we worked on them.....

HMJr: Well.....

O:but it didn't have much good.

HMJr: I'm ever so much obliged.

O: Well, we were glad that we could help a little bit anyway.

HMJr: Thank you. Good night.

RE POSSIBLE TREASURY ACTION AGAINST
JAPAN

July 5, 1939.
9:45 a.m.

Present: Mr. Foley
Mr. Lochhead
Mrs Klotz
Mr. Bell
Mr. White
Mr. Bernstein

White: You're letting the Japanese thing remain quiescent?

H.M.Jr: I haven't - no one, Harry, has given me an opinion, a legal opinion, that we should do anything on Section 303 towards the Japanese.

White: No one's given you a legal opinion on that?

H.M.Jr: I have nothing from the General Counsel's office.

White: Well, they'll get busy today.

Foley: I've not been asked.

(At this point other matters were
discussed for several minutes)

H.M.Jr: But, again, Professor White asked me why I don't do something on the Japanese and, for the record, I say I'm not doing anything because there's nothing before me. Anybody challenge that remark?

White: Your - the legal staff will have a busy day - shall I say "unusual"?

H.M.Jr: Well, you (Foley) better lay off them until this thing (monetary legislation) is over. Start on them tomorrow morning.

RE POSSIBILITY OF RUSSIAN DEBT
SETTLEMENTJuly 5, 1939.
10:00 a.m.

Present: Mr. Foley
Mr. Lochhead
Mrs Klotz
Mr. Bell
Mr. White
Mr. Bernstein

H.M.Jr: (After telephone conversation with Russian
Ambassador Oumansky)

That's interesting. I've raised the debt question
with Russia.

Foley: Oh. Was that Oumansky?

H.M.Jr: Yes. When did we do it?

Klotz: Last week.

H.M.Jr: He said he wouldn't have any answer until he could
talk with his number one man. Then he started to
raise all these questions about things and wanted
to get right down to brass tacks, and I said, "I
can't..." - I said, "I just want the idea."

RE COUNTERVAILING DUTIES AGAINST ITALY

July 5, 1939.
3:30 P. M.

Present: Mrs. Klotz
Mr. White
Mr. Duffield
Mr. Foley
Mr. Johnson

H.M.Jr: (On phone) Ed, I'm waiting for that Italian document. - - Yes. - Uh-huh. - At 3:30 he lets you know. - - Did he tell you where he was? - Good. - Johnson is in my outer office. When you come in, pick him up, will you.

White: If there are any questions on the Italian silk, we still have that man who was there and who keeps right on top of it.

H.M.Jr: Did you see the cable from Wait?

White: Yes.

H.M.Jr: Well, there isn't anything left.

White: There's nothing. As a matter of fact, he anticipated that they would say exactly that in a memo to us.

I shouldn't worry too much about their claim of retaliation, because they buy from us only absolutely what they have to have, what they can't get elsewhere.

H.M.Jr: The only thing I'm worrying about is that I haven't carried out the law sooner. I don't get in on policy matters.

Duffield: The thing leaked out from Rome. Did you know that?

H.M.Jr: What?

Duffield: That the report was in. The AP had a cable from Rome that the Treasury had its report on dumping of Italian goods; didn't know what it was.

(Foley and Johnson come in)

H.M.Jr: Hello, Johnson. Is this all right, Johnson?

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Johnson: Yes, sir.

H.M.Jr: No doubts

Johnson: No doubts whatsoever.

H.M.Jr: All right.

Duffield: Sounds like Ed has some doubts.

Foley: I've got no doubts.

(H.M.Jr. signs countervailing duty order)

H.M.Jr: Jesse Jones tried to make him the whipping boy over at the White House.

Foley: Want to put the date down there and the time?

Klotz: July 5, 3:30.

H.M.Jr: Make it 3:35.

Foley: This is to notify the State Department.

H.M.Jr: That ought to go over by hand.

Johnson: This is not to notify the State Department on this. It's to require certain information on consular invoices.

H.M.Jr: It ought to all go over by hand.

Johnson: We'll send them a copy of this.

Foley: Yes.

Duffield: I just want to check that against the thing we got on Saturday.

H.M.Jr: Copies of everything to Mrs. Klotz.

Foley: Mrs. Klotz. I think maybe the quickest thing is for him to take it to Miss McQuire and she'll bring copies to you.

Klotz: That's the way I suggested.

H.M.Jr: All right.

JUL - 5 1939

My dear Mr. Secretary:

Enclosed is a copy of a Treasury decision giving notice of the payment or bestowal of bounties or grants, within the purview of section 303 of the Tariff Act of 1930 (U.S.C., title 19, sec. 1203), on silk goods exported from Italy to the United States.

The amount of the bounty or grant (called quota price adjustment) received by Italian exporters is calculated on the basis of the silk content of the exported product but will take into account where appropriate the loss in weight due to the removal of natural gum and perhaps other waste, as well as any weight added in processing. Another factor in the calculation is the difference between the fixed price of domestic simple drawn silk and the average New York-Yokohama price of similar silk at the time of purchase of the silk used in the manufacture of the exported articles. The latter factor is published in official gazettes in Italy semi-monthly. Therefore, all factors necessary to a determination of the amount of bounty or grant paid or bestowed upon the exportation of silk goods are within the knowledge of the exporter at the time of exportation.

In the above connection attention is directed to section 481 (a) (9) of the Tariff Act of 1930 (U.S.C., title 19, sec. 1481 (a) (9)), which requires that all rebates, drawbacks and bounties, separately itemized, allowed upon the exportation of the merchandise, shall be shown in the invoice. The above-mentioned Treasury Decision will become effective as to all Italian silk goods entered for consumption or withdrawn from warehouse for consumption on and after August 13, 1939, and the provisions of section 481 (a) (9) of the tariff act will be rigidly enforced in respect of all shipments of Italian silk goods arriving on or after that date.

It is requested that appropriate notice be sent to all consular officers concerned.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

V-1-39
File No. 60490

The Honorable

The Secretary of State,

Sent by hand to Secy of State at 3:30 PM. 7/5/39

del by W.R.G + E.H.F.G.

(T. D.)

COUNTERVAILING DUTY - SILK GOODS FROM ITALY

Collectors of customs instructed to suspend liquidation of entries covering silk goods from Italy pending declaration of amount of countervailing duty to be collected - Deposit of estimated countervailing duties required.

**TREASURY DEPARTMENT,
OFFICE OF THE COMMISSIONER OF CUSTOMS,
WASHINGTON, D. C.**

TO COLLECTORS OF CUSTOMS AND OTHERS CONCERNED:

Official reports before the Department establish to its satisfaction that bounties or grants are paid or bestowed directly or indirectly in Italy on the export to the United States of silk goods which are dutiable under the provisions of the Tariff Act of 1930.

Notice is hereby given that pursuant to the provisions of section 303 of the Tariff Act of 1930 (U.S.C., title 19, sec. 1303), countervailing duties equal to any bounty or grant found to have been paid or bestowed will be collected on dutiable merchandise composed in whole or in part of silk and imported directly or indirectly from Italy, when entered for consumption or withdrawn from warehouse for consumption after thirty days after publication

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of this notice in a weekly issue of TREASURY DECISIONS, whether imported in the condition in which exported from Italy or changed in condition by remanufacture or otherwise.

The liquidation of all entries covering merchandise described above and entered for consumption or withdrawn from warehouse for consumption after thirty days after publication of this notice in a weekly issue of TREASURY DECISIONS shall be suspended pending the declaration of the net total amount of the bounty or grant determined or estimated to have been paid or bestowed and the net amount of the countervailing duties to be collected. A deposit of estimated countervailing duties shall be required at the time of entry. The foregoing instructions, however, shall not apply to importations consisting of gifts for the personal use of the donee or of articles purchased at retail for personal use. The amount to be deposited shall be calculated in accordance with the following table and predicated on the net weights of the silk (including schappe and bourrette) contained in the imported products, plus $33\frac{1}{3}\%$ of such weights if the natural gum has been removed from the silk used in the production or manufacture of the imported product:

- (a) Raw silk yarns, dyed, simple or twisted of double cocoons; lire 32.8 per kilogram
- (b) Yarns of silk waste (schappe) including sewing thread; lire 49.2 per kilogram

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- (c) Yarns of combings (bourrette); lire 8.2 per kilogram
- (d) Raw silk doubled and twisted, drawn, dyed silk, silk sewing thread; lire 84.5 per kilogram
- (e) Woven materials, velvets, ribbons, tulle, crepes, knit goods and stockings, in raw state; lire 87 per kilogram, subject to the following variations:
 - (1) For every kilogram of double yarn lire 34.8
 - (2) For every kilogram of yarn of waste content lire 52.2
 - (3) For every kilogram of yarn of bourrette content lire 8.2
- (f) Woven materials, velvets, ribbons, tulle, crepes, knit goods and stockings, exported in the dyed or finished state; lire 89.5 per kilogram of silk content (not weighted), subject to the following variations:
 - (1) For every kilogram of double yarn content lire 36.8
 - (2) For every kilogram of yarn of waste content lire 55.2
 - (3) For every kilogram of yarn of bourrette content lire 9.2

The facts in regard to each importation shall be reported promptly to the Bureau of Customs. The entry and related papers shall accompany the report.

(Signed) James H. Moyle

Commissioner of Customs.

APPROVED: July 5, 1939 at 3:35 P.M.

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Sec'y wrote the date and the time in in longhand

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE
Wednesday, July 5, 1939.

 Press Service
No. 18-16

The following Treasury Decision to be published in the July 13 issue of TREASURY DECISIONS was issued today by the Commissioner of Customs.

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(T. D.)

COUNTERVAILING DUTY - SILK GOODS FROM ITALY

Collectors of customs instructed to suspend liquidation of entries covering silk goods from Italy pending declaration of amount of countervailing duty to be collected - Deposit of estimated countervailing duties required

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WASHINGTON, D. C.

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of this notice in a weekly issue of TREASURY DECISIONS, whether imported in the condition in which exported from Italy or changed in condition by remanufacture or otherwise.

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- 3 -

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The facts in regard to each importation shall be reported promptly to the Bureau of Customs. The entry and related papers shall accompany the report.

James H. Meyle,
Commissioner of Customs.

APPROVED:

H. Morgenthau, Jr.,
Secretary of the Treasury,
3:35 p.m., July 5, 1939.

--oOo--

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 5, 1939

TO THE SECRETARY
FROM Mr. Gaston

The following is a copy of a Memorandum I wrote for my files:

Saturday, July 1st. 1:00 P.M. - The President called me at home. He asked if his recollection was correct that the 10 days grace given as to countervailing duties on Italian cocoon silk expired today or tomorrow. If so, we should act. "We can't give them any more leeway" he said. I told him I would have to inquire of the customs people and asked if I should go ahead in case I found the grace time had expired or should call him back. He said "No, go ahead, but tell Sumner Welles what you are doing." I asked if I should report back if Welles objected, and he said "No," that Sumner would no doubt call him if that was the case. He added that his reports from London and Paris were very disturbing, that the action of the Senate yesterday might well be a turning-point toward war. I said I had noticed in Paris reports great disappointment at the Senate's action. He said if the newspaper men should ask us about these reports, we might say that we hoped for the best, but that what had happened was definitely encouraging to the aggressors and a deterrent to peace. I called W. R. Johnson and he told me that additional time to Wednesday, July 5, had been allowed on account of the funeral of Ciano, President of the Chamber of Deputies and father of Galeazzo Ciano, Mussolini's son-in-law, which had taken officials out of town; but that we had a report from our man Wait confirming our opinion and that we

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7-5-39

would be ready to shoot with the order on Wednesday. I called the President back and told him this. He said "That's fine." Later I called Ed Foley and reported the situation. Foley thought we were not bound to wait until Wednesday, since the delay was only on Wait's account and at his request and we now had his report. I agreed that we should try to get Welles and the Secretary. We couldn't get Welles, who was driving to White Sulphur, but finally got Herbert Feis at Cold Spring Harbor. He thought there was no definite commitment to the Italians to delay, but that we should notify them before acting and suggested we get hold of Jimmie Dunn. In the meantime we had tried to get Wait at Rome, but he had left for Lake Como, and we tried for Conkrite, his assistant, but got a report he couldn't be found at the Embassy or his home. The Secretary was reached at 4:00 P.M. He said he had a definite commitment to Welles not to act until July 5th and he thought it was better not to rush, anyway. Herbert Feis' suggestion for advance notice was silly he said: we had no such obligation. He would just call Welles up Wednesday noon and tell him we were issuing the order. He asked my opinion and I agreed. Foley was satisfied.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE July 5, 1939

TO Secretary Mergenthau
FROM Mr. Haas *[Signature]*
Subject: The Business Situation,
Week ending July 1, 1939.

Conclusions

(1) Business activity continued to improve during the latter part of June, and informal estimates of the Federal Reserve Board point to an index of 97-98 for the month. Some slackening in the seasonally-adjusted business indices over the holiday period seems likely to be followed by a renewed uptrend during July, with the steel industry taking a leading place.

(2) Our estimated basic business indices for May show conditions favorable for a further advance in industrial production, though a dynamic upturn like that of last year is not indicated except perhaps in the event of a strong advance in commodity prices. Our indices of "basic demand" and of the offtake of manufactured goods remained unchanged during May at some distance above the level of production.

(3) Sensitive commodity prices last week rose somewhat further, but over the holidays a renewed weakness has developed in Reuter's index. Declining stock prices in this country and abroad have reflected increased apprehension over the foreign political outlook.

The current trend of business

A further gain of 0.7 was made by the New York Times index of business activity during the week ended June 24, carrying it to 91.3, the highest point since January. Moderate gains were shown by the indices of automobile production, steel production, and cotton mill activity, while other components

Secretary Morgenthau - 2

held about unchanged. Preliminary data for the following week indicate a moderate further upturn in the index of steel production, but a substantial decline in automobile production in preparation for a changeover to new models has brought a sharp drop in the adjusted automobile index.

It is of interest that the adjusted indices for both steel production and cotton mill activity, representing the two leading industries in the FRB index, have risen to the highest levels since December. They provide an indication that industrial production currently is probably above 100 for the FRB index. Unofficial estimates of the Federal Reserve Board indicate that the FRB index for June may be 97 or 98, according to data so far available.

Prospects for second half of 1939

At this time, with the second half of the year just beginning, indications point rather clearly to a continued forward movement in business activity during the remainder of the year, subject to possible unsettlement in the event of a serious political crisis abroad. A rapid business rise is not anticipated, except in the event that a strong improvement in commodity prices leads to inventory accumulation.

Confirmation of this prospect is provided by our calculated indices of basic business trends, which are now available for May. (See Chart 1.) Both the index of "basic demand" and the index of sales, representing the movement of manufactured goods into consumption, continued during May at the April levels. Since these indices during April were substantially in excess of production, it appears that the business outlook has been strengthened by a further reduction in stocks of manufactured goods.

The index of new orders during May (lower section of chart) rose from the relatively low April figure, whereas a decline in May is usual. Increased orders were reported particularly for textiles and building materials, with gains also shown in orders for steel products, railway and electrical equipment, and machine tools.

Chief support for the expected further advance in industrial production during the second half of the year is likely to be derived from the automobile industry (affecting steel

Secretary Morgenthau - 3

production), the textile industry, and the lumber industry. The current positions of these industries are indicated by the respective levels of production in relation to basic demand. (See Chart 2.)

Automobile production during May showed the largest deviation from the basic demand level (representing the potential level of retail automobile sales). The effect of the high basic demand has already become apparent in the contra-seasonal rise in sales and in automobile output during June. Looking ahead to the fall months, an excellent sales response to the 1940 automobile models seems indicated, and probably a rise in production during the fall to a level above that of 1938. A recent field check found automobile company officials optimistic over the outlook for the industry during the new model season. A threatened strike of all die and tool workers in the General Motors plants, which would hold back the introduction of new models, adds some uncertainty to the outlook.

Steel outlook promising

The steel industry, as in the fall of 1938, will derive a strong impetus during the next few months from purchases of automobile steel. Recent trade reports indicate that scarcely any of the steel contracted for by automobile companies during the period of price weakness in May has yet been delivered, despite attempts of the steel companies to require early specification and delivery on the cut-rate orders. It is believed in the trade that the production of this steel will contribute to a sharp rebound in the operating rate after the holiday week, and raise the average rate of operations during July. While the rate this week is curtailed to 38.5 per cent of capacity, an immediate rebound is looked for. Activity in the Youngstown district, after the holiday, for example, is expected to reach the highest rate in nearly two years, when two blast furnaces, idle for several months, will go into production.

Textile production turned upward in May, as indicated in Chart 2, but has further to go to reach the basic demand level. Recent heavy orders for textiles have strengthened the outlook for the industry, and have doubtless been responsible for the new high established by the New York Times index of cotton mill activity in the week ended June 24.

Secretary Morgenthau - 4

Lumber production, having the fourth heaviest weight in the FRB index (8.3 per cent), has continued for more than a year below the estimated level of basic demand. While the earlier part of this period served to correct a previous period of over-production, it seems evident that shortages of finished lumber are developing. The FRB index of lumber production began to rise in April, and gained further in May.

Prices weaken abroad

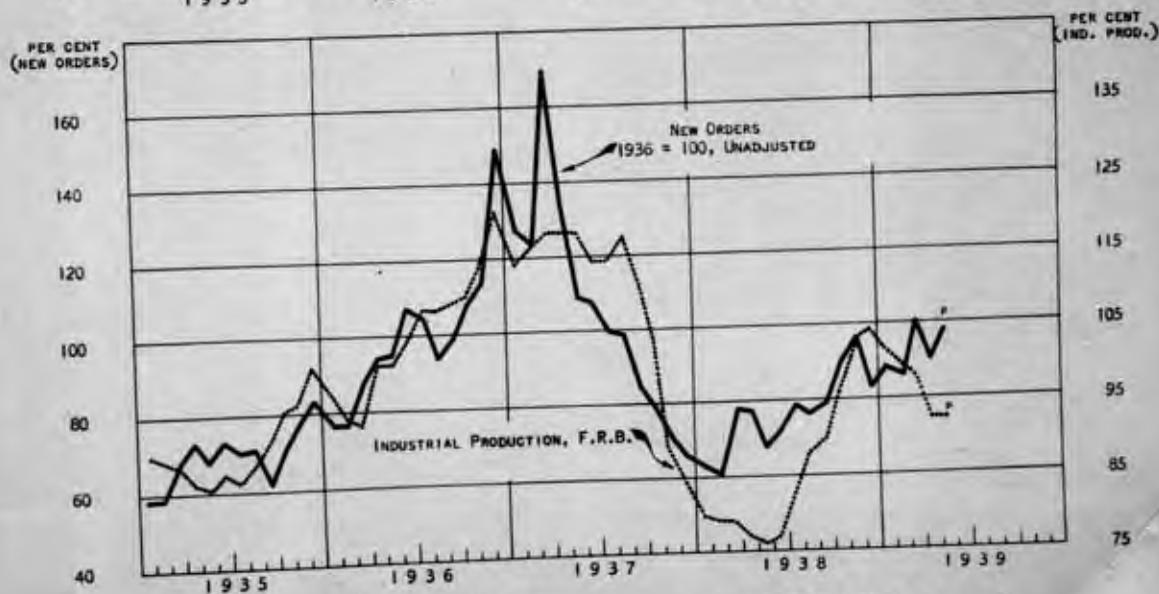
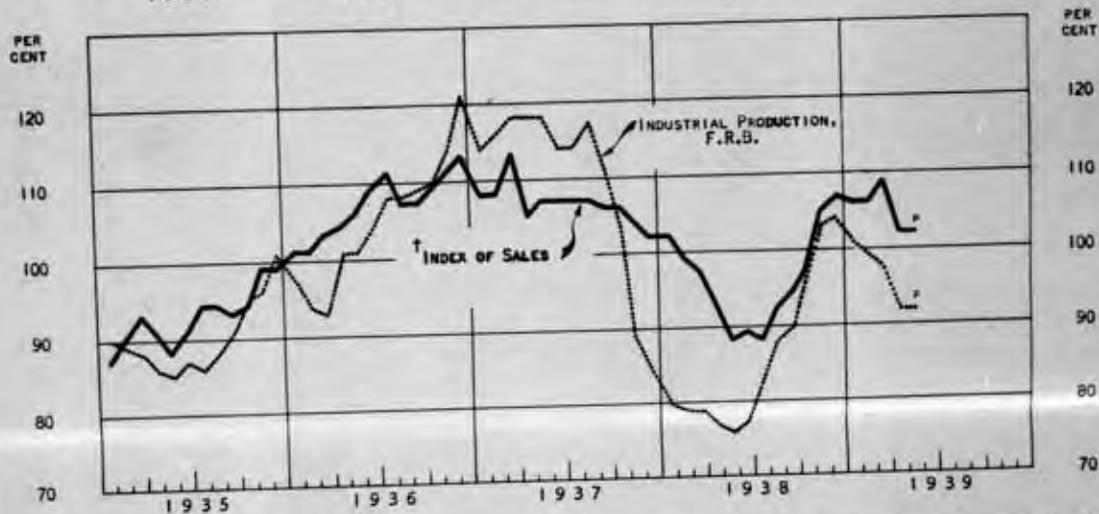
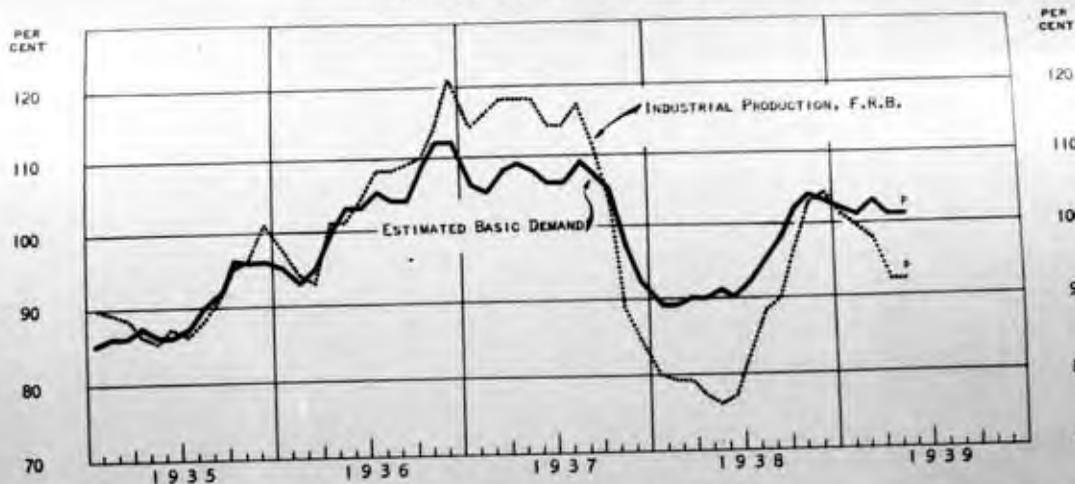
Prices of sensitive commodities in Great Britain, represented by Reuter's index, declined over the holiday period to new lows for the past two months. (See Chart 3.) Sensitive prices in this country last week averaged somewhat higher, but turned down at the close of the week on apprehension over the political developments abroad. Security prices in this country, as well as in England and France, have turned noticeably weaker.

It is of note that prices of industrial and war commodities have been firmer than others recently. Sugar in London has reached the highest price in eight years. Cotton futures have reached new highs for the season, with Liverpool quotations gaining substantially over New York. Prices of rubber, tin and lead have also improved. On the other hand, prices of a number of farm and food products have declined.

An unusually large foreign purchase of copper strengthened copper prices at the end of the week, and raised the total volume of sales on Friday to perhaps a new day's record since the World War. France is rumored to have taken the bulk of the 23,580 ton order.

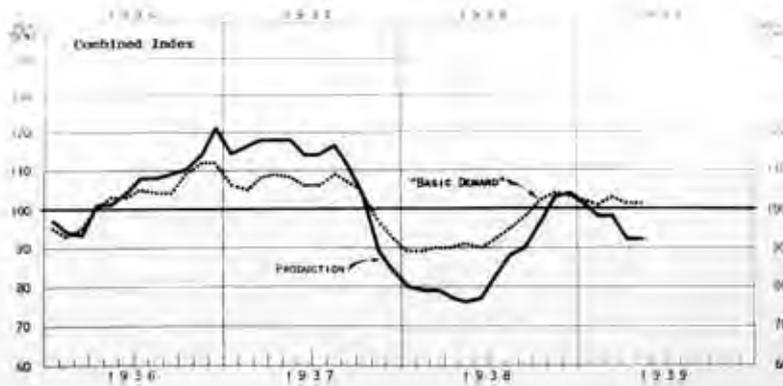
INDICES OF BASIC BUSINESS TRENDS COMPARED
WITH INDUSTRIAL PRODUCTION

1923-'25 = 100, SEASONALLY ADJUSTED*

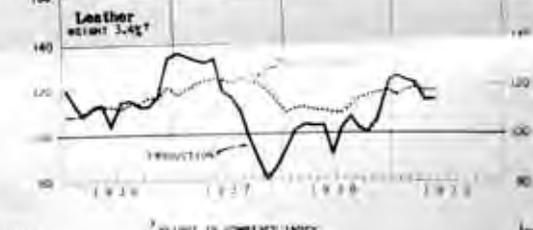
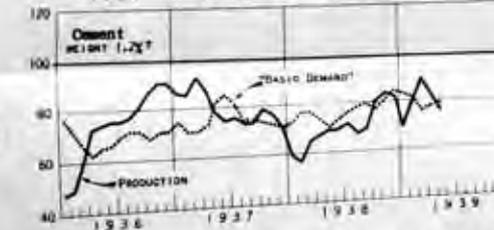
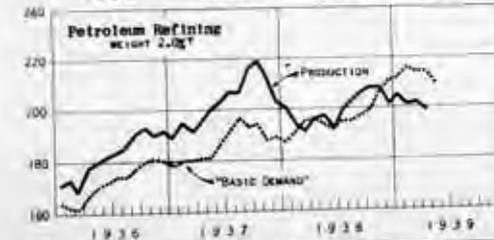
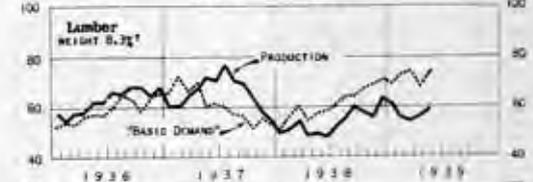
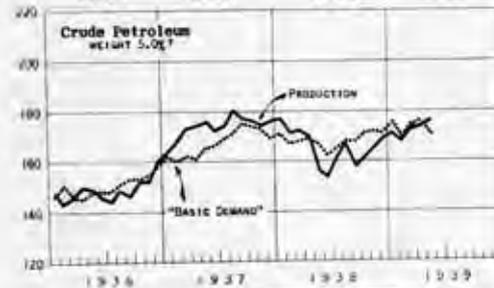


*EXCEPT NEW ORDERS
†REPRESENTS "OFFTAKE" OF MANUFACTURED GOODS, IN PHYSICAL VOLUME

ESTIMATED BASIC DEMAND COMPARED WITH PRODUCTION, BY INDUSTRIES
1923 - '25 = 100, Adjusted



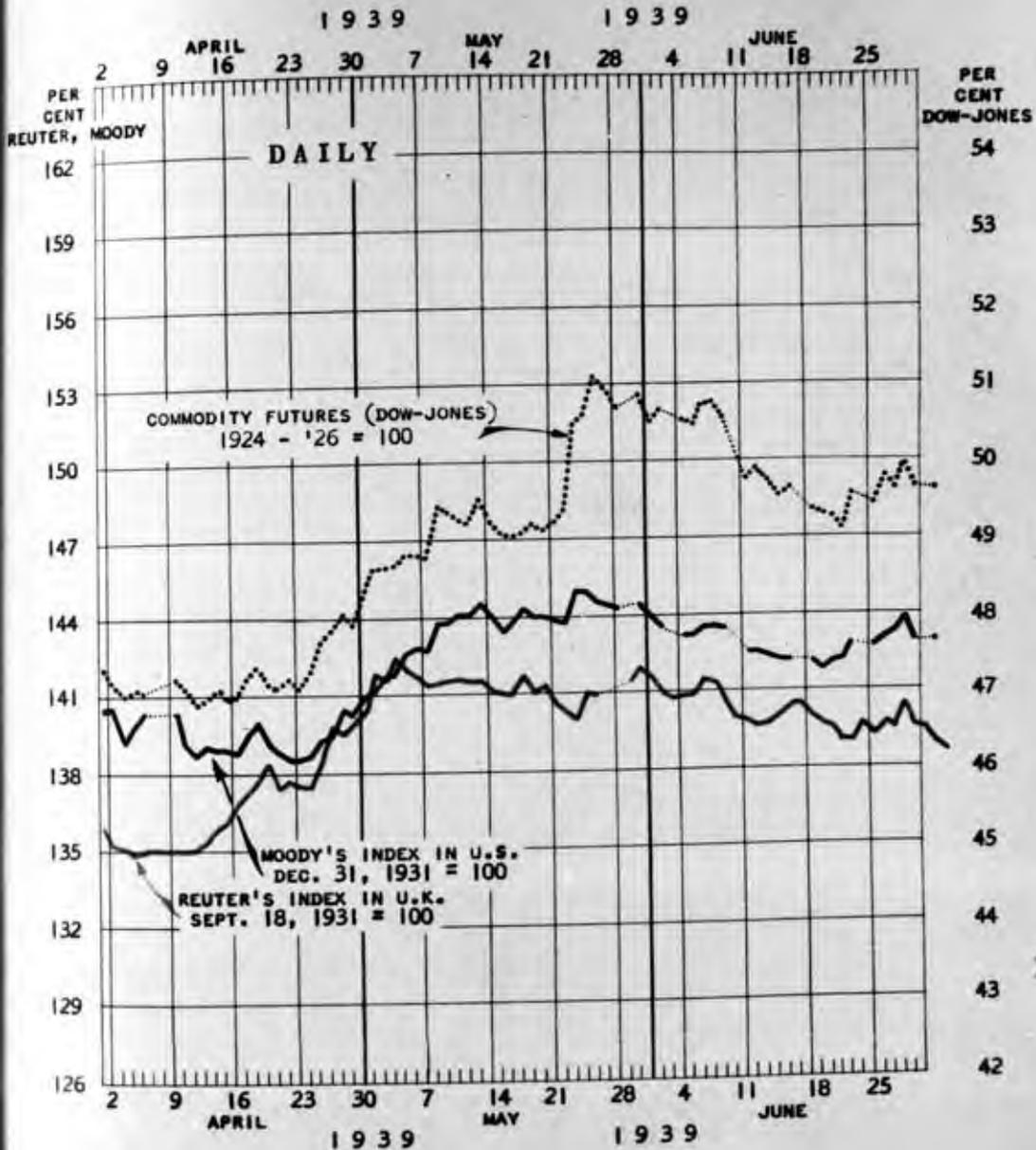
Selected Industrial Groups



NOTE: LATEST FIGURES ARE PRELIMINARY IN MOST CASES

* WEIGHT IS COMPOSITE INDEX

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



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 5, 1939

TO SECRETARY MORGENTHAU
FROM MR. GASTON



Drew Pearson called to ask if you could find time tomorrow or the next day to see Carlos Davila, former President of Chile and former Ambassador to the United States. Davila is helping the Chilean Consul General in New York, Hara, to develop a plan for Export-Import Bank credits to Chile. Davila has taken the lead in the preliminary negotiations since the Chilean Ambassador here does not speak English. The Consul General is coming to Washington with Davila tomorrow but plans to sail for Chile on Saturday. Drew said that Duggan of the State Department thought it would be a "grand idea" for you to see Davila. Davila was exiled from Chile eight years ago by the former administration but is very close to the present liberal regime. He is living permanently in New York.

Seven A.M.
11 tomorrow (Thursday)

TREASURY DEPARTMENT

100

INTER OFFICE COMMUNICATION

DATE

JUL - 5 1939

TO Secretary Morgenthau
FROM Mr. Foley

You will recall that a few days ago Mr. Greenbaum sent you some material relative to a plan designed to encourage the investment of private capital in housing, pointed out that it is being explained before the Temporary National Economic Committee on July 12, and suggested that you assign some one to attend the hearing.

Mr. O'Connell, who is the Treasury representative on the Committee, is acting as counsel for the Committee in the hearings on housing now going on, and I have instructed him to prepare a report on the plan referred to in Mr. Greenbaum's letter as soon as it has been discussed before the Committee.

In general the plan, which is denominated as a "yield insurance plan" is a modification of the FHA mortgage insurance principle, but applying only to equity financing. In other words, it proposes that some Federal agency (presumably the FHA) be authorized to guarantee a minimum return per year on the amount of the investment in privately financed housing projects, the total amount payable under the guarantee being limited to a certain percentage (10 to 14 per cent) of the total original investment. The obligation under the guarantee is to pay to the owner in any year the amount necessary to give the owner a net yield on his investment of the percentage guaranteed ($2\frac{1}{2}$ to $3\frac{1}{2}$ per cent). As I understand it, the plan is designed to encourage the construction of large scale rental housing projects through equity financing only, and its proponents claim for it many advantages over FHA mortgage insurance. A more complete report on the proposal will be made to you immediately after it has been presented to the TNEC.

Attached is a letter, prepared for your signature and addressed to Mr. Greenbaum, on the same general subject, in answer to his letter of June 27.

E. W. F. H.

TELEGRAM SENT

161

CJ

GRAY

July 5, 1933

7 p.m.

AMEMBASSY

HABANA (CUBA)

79.

Please inform the Department as to how the Cuban Government is handling the dollar exchange obtained under the DECREE of June 10. Are dollar funds in excess of those needed for governmental obligations being sold in the exchange market, or is the Government building up dollar exchange balances? If dollar exchange balances are being built up, where is the Treasury obtaining the pesos which it is paying out to exporters? How much foreign exchange has the Government acquired and how has it been utilized?

HULL
(SW)

RA:EGC:CZS

EA

RE MONETARY LEGISLATION

July 5, 1939.
9:10 A. M.

Present: Mr. Foley
Mr. White
Mr. Lochhead
Mrs. Klotz
Mr. Bernstein
Mr. Bell

H.M.Jr: Now, Archie, tell us where we are at.

Lochhead: We have received word from the Bank of France to receive certain sums of dollars - two amounts, their total \$1,300,000 - which they want us to convert into gold.

H.M.Jr: The two together amount to....

Lochhead: About \$1,300,000, roughly; it may be 50 thousand one way or the other.

H.M.Jr: May I interrupt you a minute to give you, strictly confidential - this is what I suggested to the President yesterday afternoon. And I had three quarters of an hour again with him on the train. I suggested that during the day we do nothing, the way I suggested. He said, "That's right."

And then he said, "I don't want - are you going to have a press conference?"

I said, "No."

He said, "Well, that's luck." He said, "Well, don't even say anything, don't give any implication of any kind." He said, "Everything is in suspense."

So with that background....

(On phone) Tell Bell to come down, please.

And the President was good on the stabilization fund. He compared it to a seance where the body is floating in suspense. He said that's the way the stabilization fund is. And fortunately I talked to Bell on Saturday and I told him to keep it that way and give me a memorandum today justifying it. I don't know whether he's worked with you fellows or not.

- 2 -

Foley: Well, we're working on it. We want to get something in the Record on that through Wagner today. A little later on I want to talk to you about that.

H.M.Jr: Well, we will.

Foley: Yes.

Lochhead: The first lot....

H.M.Jr: Just a minute, let me clean this thing up.

(To Kieley) On the 9:30 group, simply tell them it's in suspense until I send for them. I want plenty of time for this. It's in suspense. But I do want Mr. Bell.

White: Suspense is the order of the day.

Lochhead: The first lot of \$350,000 was in on Monday. Speaking informally, Mr. Bell thought that the stabilization fund had a right to clear up any transactions that had been entered into before the date of the suspension. On the other hand, we spoke to the Federal Reserve....

H.M.Jr: Who thought so?

Lochhead: I talked on Saturday with the Fed; they thought it would be better not to do anything, that with the Assay Office closed on Monday we could just simply say there was nothing doing.

(Bell comes in)

H.M.Jr: Let me just go over this once more for Bell. In discussing the matter with the President, he and I came to an agreement that we'd hold everything in suspense today, that pending the legislation we'll say nothing in the Treasury; we don't want to say anything. And if you'll notice, at his press conference he was asked the question, "Where is the stabilization fund?" and he said, "It's like a man at a seance meeting; the body is floating, it's in suspense."

So now the question comes up - he's (Lochhead) had to do it three times, but go ahead.

- 3 -

- Lochhead: So that at the present time we have orders from France to convert about \$1,300,000 in dollars into gold, and it's just a question under what - how we want to convert that into gold, whether we want to do it through the stabilization fund, or shall we do it through the Assay Office by way of the Federal Reserve. The Federal Reserve on Monday wanted to go ahead and handle the gold under general powers. I told them not to do anything.
- H.M.Jr: This is to sell gold to France?
- Lochhead: To sell gold to France.
- Bell: Is this a new transaction, Archie, or is it one that's hanging over?
- Lochhead: The one that hangs over is \$350,000. The other million didn't hang over, as far as we can trace from the cables. And there will be new ones coming along from day to day.
- H.M.Jr: Which one is the hang over?
- Lochhead: The one for 300,000-odd dollars hangs over.
- H.M.Jr: Let me read what Bell has written.
- "The Stabilization Fund, which by law was deposited with the Treasurer of the United States, is in about the same category as a no-year appropriation or funds deposited with the Treasurer of the United States by a corporation whose authority to do business has expired. The Stabilization Fund is, therefore, available after June 30, 1939, for the purpose of liquidating any obligations actually incurred prior to that date. It is not available for new obligations after June 30.
- "As there are no directions in the Gold Reserve Act as to the disposition of the fund after the authority of the Act expires, the fund may be maintained in its present status as long as you deem advisable."
- Now, I want to get - "is in about the same category as a no-year appropriation." I don't know that term.
- Bell: Congress appropriates money to be available for a certain purpose and doesn't say it will be available

- 4 -

during the fiscal year 1939. That goes on our books under a title just like the stabilization fund, without any year attached to it. Now, when the authority to obligate the fund expires, the fund is not necessarily covered into the Treasury by expiration of the authority to do business. It just stays on the books until some formal action is taken through a warrant.

H.M.Jr: Well now, where would that action originate? Where would that originate?

Bell: In our office upstairs. That is, it's a Secretary's warrant.

H.M.Jr: I mean where does the initial action come from?

Foley: You.

H.M.Jr: Not from Congress.

Bell: No, sir. Of course, Congress could do it, but they haven't done it in this case.

H.M.Jr: How long could I leave it there?

Bell: Just as long as you want. I'd leave it there certainly for a reasonable time.

H.M.Jr: Could I leave it there for 90 days?

Bell: Yes.

Now, the stabilization fund appropriation is exhausted. You see, we took the appropriation off the books; this money, this two billion dollars, went out of the Treasury as an expenditure, so far as the appropriation books are concerned.

H.M.Jr: When?

Bell: When you transferred it to the Treasurer of the United States. It's in a special account with the Treasurer. Now, in order to get it back into the Treasury, you'd have to draw a check on the Treasurer for two billion dollars and cover that into the Treasury as miscellaneous receipts.

H.M.Jr: I'd have to.

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Bell: Yes.

H.M.Jr: I think you ought to give a copy of this to the General Counsel. Have you got a copy?

Bell: I have upstairs.

Foley: I want to get into the Record, Dan, through Wagner, the Chairman of the Committee who's handling it - to which the bill was referred, this statement and also a clarification of the continuation of the powers statement, so that we'll have the best expression of Congressional intention in the Record if the legislation is ever assailed and we have to defend it in court.

H.M.Jr: You haven't said what you want him to say.

Foley: Well, I'm having it written up now.

H.M.Jr: Oh.

Foley: It's only a couple pages.

H.M.Jr: I'd like to see it.

Foley: We want to - you'll probably want to talk to him and ask him to insert it in the Record sometime during the afternoon before they vote.

H.M.Jr: I would show it to the Attorney General, because he's the fellow that would have to defend it. I'd show it to him.

White: One point. This should be covered in there; I'm merely raising it in case it isn't. I gather from that letter that no new obligations can be undertaken. Is there such a thing as new obligations undertaken as a consequence of the old obligations? For example, all the payroll that's on the stabilization fund - shouldn't it be renewed, you've got three or four days' or a week's obligations which might be required in order to liquidate the fund, and so on. Would that be ruled out by that letter?

Bell: I think so. That's not a letter, that's just a memorandum to the Secretary. It's internal. But....

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H.M.Jr: Just initialed.

Bell: But I don't think the Secretary has any authority to incur any obligations for salary after June 30; and when your Act is passed - I take it there will always be that hiatus, from a legal standpoint, though the question won't come up for years, because the Secretary has sole and exclusive jurisdiction over the fund, his decisions are final.

H.M.Jr: Wait a minute. If my impression is correct, the General Counsel doesn't agree with you at all; there is no hiatus.

Bell: I say I suppose there would be that question; I don't know.

H.M.Jr: Well, according to you (Foley), what you told me, there is no hiatus.

Foley: Well, you're (Bell) talking about expenditures for salaries made from the fund during the period when the Secretary wouldn't have the power to....

Bell: June 30th to July 5th. Let's assume the Act is passed tonight. In the interim between June 30th and July 5th there is a hiatus of authority.

Foley: I think Dan is right about that.

H.M.Jr: You do?

Foley: Yes.

White: How about the position that you have to carry on an organization in order to liquidate, that you can't stop, there are decisions to be made, there are questions to be considered, and the organization doesn't cease to exist upon the date of expiration of the authorization; new obligations might be construed as meaning something other than the continuation of an organization necessary to orderly liquidate the fund. I don't know, I'm just raising that point. It would save an awful lot of bookkeeping trouble if that were so.

Bell: I think that's a question they want to go into. If this - when this Act goes through, Mr. Secretary,

- 7 -

I think it might be the better part of wisdom if we ask the Appropriations Committee to put into the last deficiency bill an authority to pay these salaries.

Foley: Just for these few days. I think probably it would be wise to do that.

H.M.Jr: Well, what I want to do today is - I have nothing but this; I don't have to make any snap judgment decision; everything is to be done very carefully. Mr. Bell - he's had time - I put him on notice Saturday, so he's had from then until now. Now, here's this salary business. We'll put that into suspense until everybody's gone over it very, very carefully; and we don't have to make up our minds today. But I want everything - I don't want to make any move about saying, "Well, if the salaries - we recognize they are in suspense, then we recognize by so doing that the other thing was in suspense." See? Because you've told me that once this legislation passes, the thing goes back as of June 30.

Foley: Well....

H.M.Jr: I mean I'm not....

Foley: Yes. I didn't mean to convey that impression.

H.M.Jr: That it would carry on the status quo.

Foley: I don't think that's quite....

H.M.Jr: Well, all right.

Foley:quite so, Mr. Secretary.

H.M.Jr: All right. That's my impression. But if you do one thing, then you establish a precedent for another. Let's take plenty of time, be very calm, very judicial, and do everything very slow. And certainly anything we send up on the Hill - the Attorney General should have a look at it.

Foley: That's right.

H.M.Jr: Because he's the fellow that's got to defend it.

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- White: Does that mean you might want to reconsider the wording of that; or is that a formal memorandum that's going into the Record?
- H.M.Jr: I never do that. That's his advice. It's an inter-office memorandum. I've never done that in my life.
- White: I didn't know whether you were going to include that in the Congressional Record.
- H.M.Jr: No, this is for me. And I've never once, as far as I know - I've never had somebody take a memorandum back to change, have I?
- Bell: That's just an opinion from my office. If Ed is going to send up a memorandum, he ought to consider what part of that he wants to use.
- H.M.Jr: "I disagree with Mr. Bell." That's all right, that's something to be thrashed out in the office.
- Now, coming back, what are we going to do, first, with the \$350,000 which was transacted prior to July 1? That's the first thing. I take it the Fed is waiting. Now, what about that, Mr. Counsel? The three fifty before the first of July - the French.
- Lochhead: The only obligation that was incurred before the - it was a transaction that was initiated before the first of July, but it hasn't been consummated yet.
- H.M.Jr: Take your time. Take your time. If you want another person in here - is there somebody you (Bernstein) want?
- Bernstein: No.
- H.M.Jr: Do you have somebody who whispers to you?
- Klotz: He can't take it.
- Foley: (After silently conferring with Bernstein) I think, Mr. Secretary, it's a little dangerous to say that we obligated ourselves to sell this gold out of the stabilization fund prior to the time when the powers to use the stabilization fund expired.

- 9 -

We don't have to do that. We can use the Gold Reserve Act - the powers to sell gold in the Gold Reserve Act. And I think that we ought to use those powers during this interim period rather than try to work out any theory whereby the stabilization fund was encumbered and in liquidation of that fund we made the sale out of the fund.

H.M.Jr: Now, are you all in agreement on that? Take your time.

White: I think so, for this reason. This is an additional reason that I should subscribe. I should like to see use made of those Sections 8 and 9 to indicate that (a) they are in force and (b) there is no doubt in my mind that the stabilization fund will be re-created because of the terrific opposition there would be to have it cease from the very sources that want devaluation to cease. So you're not jeopardizing the existence of the stabilization fund, and I see no argument against it, providing there isn't a second alternative possible, which I think is possible; I don't see why the whole thing can't be let slide one day. That is....

H.M.Jr: I - you read my mind. Now, this is - this is public relations. We do this thing through the Fed and the word flashes back "They've consummated the deal, they don't need the stabilization fund - they've taken the - they've sold this gold today." And the word flashes back "They can operate; we always said they could."

Now, the other thing is, if we refuse to do anything today, the worst that these fellows can say and the Fed in New York can say is, "Well, they are forcing the issue." I mean "They're doing this thing in order to force the Congress." Well, and so what?

Now, think that over, supposing they do - supposing we just tie everything up in a bow knot until 5:00 o'clock. Now, we are not going to buy any silver today. We're not going to.... Don't forget at 12:00 o'clock to call Handy & Harman and tell them no price today.

White: Of course, no just charge can be made about that, Mr. Secretary, because you already have a final date; if you didn't have a final date, you might

- 10 -

be vulnerable to a certain amount of criticism for forcing the issue. But the final date is 5:00 o'clock; so the most you're doing is pursuing the policy of suspension until 5:00 o'clock, simply not operating.

Foley: Have we ever before failed to execute an order on the day that the order was given?

White: There has never been any occasion for it. I mean it's a question that could very easily be handled over the phone. If the Federal Reserve Bank was just as eager on the other side as they were on this side, you wouldn't even have heard of it; they would have telephoned them and said, "Listen, you fellows don't mind waiting until Thursday; we've got something on the fire, and we'll know how to handle it by then."

H.M.Jr: Look what they did on the Czech deposits. For three days the Fed asked every bank in New York not to make the payments on deposits - for three days.

White: Without any legal authority.

H.M.Jr: What?

White: Without any legal authority.

H.M.Jr: Yes, they did that.

White: That should go under the name of cooperation. If they really want to cooperate, they can prevent the problem from coming to us at all.

H.M.Jr: I can take care of that. I'm just thinking of the pipe lines to and back, and knowing - I always go on the assumption that if you can't keep a secret, then open it, and I go on the assumption I can't, and if this thing is consummated and if Vandenberg's - the president of the - that fellow in the Chemical....

Lochhead: Vice-president - Bauer.

H.M.Jr:who advises Vandenberg on what's going on in Wall Street - he'll know quick as that. Am I right? Nine out of ten.

- 11 -

Lochhead: Nine out of ten.

H.M.Jr: Nine out of ten that this fellow in the Chemical will know about it. You can't keep those things secret in the Street. He calls up Vandenberg and he says, "What are you worrying about? They sold a million three today through the Fed, under the Gold Reserve Act." Am I right?

Lochhead: Somebody will get it.

White: How often do we get these transactions?

Lochhead: They're coming through pretty nearly every day from France. I do feel, of course, that we should see that the Bank of France, or the French Treasury, is advised so that they don't - I mean so they know we're cooperating - not just get one side.

H.M.Jr: I'll have Merle Cochran call up direct to....

Lochhead: Cariguel.

H.M.Jr:Cariguel, and say, "Please keep your petticoat on for today."

Lochhead: I think if you did that I'd be perfectly satisfied. I wouldn't want to do it without some word to the Bank of France.

From all accounts, Cariguel doesn't wear petticoats, he's pretty much of a he-man.

H.M.Jr: I know.

Klotz: Did you ever see him?

Lochhead: No.

Klotz: I did. He wears a petticoat.

White: You ought to know.

Lochhead: Mrs. Klotz!

H.M.Jr: Well now, what do you think, boys? Now, mind you, the President said, "Keep everything in suspense."

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Foley: Yes.

H.M.Jr: I'll tell you the way to test this thing - is for me to call up George Harrison.

White: If he objects, it's good.

Lochhead: It's Sproul. I don't think George Harrison was around there Monday. It was Sproul making the kick.

Foley: Wednesday - he ought to be there Wednesday. It isn't Monday.

H.M.Jr: Are you fellows with me on that?

Bernstein: May I just raise one question. What did the Federal Reserve tell the French on Monday?

Lochhead: Said they expected to consummate the transaction.

Bernstein: Did they say anything about the mint being closed?

Lochhead: I think the idea was the mint being closed.

White: Let's consider who could object, aside from the Bank of New York.

Lochhead: The Bank of New York is only an agent.

White: Who else could object?

Lochhead: The Bank of France is the only one who could object.

White: They certainly wouldn't mind waiting for another day.

Lochhead: I mean legitimately object.

Foley: Treasury accommodation.

H.M.Jr: Treasury to Treasury. I'll do it through Bill Bullitt, call Bill.

Foley: I think that would be a better way to do it than the other.

H.M.Jr: This is what I'll tell Bill: "Now, Bill, this is the tactics for today. We should sell \$1,300,000 worth of gold. I want to keep everything in suspense."

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I wish you'd call up Paul Reynaud and tell him that we're holding everything until this afternoon. Now, this is no precedent, this has got nothing - if he feels he's got to have it, I'll let him have it; but if he didn't, we'd consider that he was cooperating with us."

Foley: "And, depending on the action taken by the Senate, we'll reconsider tomorrow."

H.M.Jr: Well, no, I'll tell him that he'll get it tomorrow, I'll guarantee to give it to him tomorrow.

Foley: Well, you might not want to go that far.

Bell: What will this vote be tonight?

Foley: We don't know what it will be. You might just want to reconsider it tomorrow and get in touch with him. I wouldn't cross any bridges.

H.M.Jr: Now, here's another good thing on this. Again, you don't know all the connections and everything else. And I don't know - Bonnet gets in touch with Lazard Freres in Paris - "They let the thing go" - and they get all kind of - a little bit upset and worried and they begin to phone, and Frank Altschul will call up the Chairman of the National Republican Party and say, "What's all this about? For God's sake, get busy and put this thing through," maybe. I think it's all right, the more I think about it. I'm doing a little fancy skating, but it's worth it. I think it's worth it. My policy is "Nothing ventured, nothing gained." Does it shock you (Bell), as a Civil Service employee? Seriously.

Klotz: Nothing shocks him.

Bell: No.

H.M.Jr: Does it shock you?

Bell: No, sir, not at all.

H.M.Jr: Are you bothered about it a little?

Bell: No, sir.

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H.M.Jr: About the ethics?

Bell: No, sir.

Lochhead: There is no question of loss to the Bank of France. They can buy their gold in London cheaper than they get it here, so it's not as if we put them to any money inconvenience.

H.M.Jr: We aren't ready?

Bernstein: I just want to mention these points before the Federal does to you. In October, 1936, they were given a letter signed by you and approved by the President which authorized them to buy gold from the Assay Office and to sell it in accordance with the Tripartite press statement, and they'll say, "Well, why can't we go through with the deal today? We've got the necessary authority." And I take it that's the point they raised either on Friday or on Monday.

Lochhead: Things have changed altogether since then.

White: I think the answer to that is, "We'd like to have you wait a day."

H.M.Jr: (On phone) George Harrison of New York. If he's not there, Allan Sproul.

Is there anything else besides the million three?

Lochhead: No. On Monday we had to take in some gold; Holland ordered the sale of about four million dollars worth of gold, and they had to make the payment the same day. Well, that's different, because that doesn't come in - we're taking gold in anyway. The Assay Office was open, taking in a shipment from one of the boats anyway. I mean I don't believe....

H.M.Jr: Now, under what Act did you do that?

Lochhead: That's just the regular, under the Gold Reserve Act.

H.M.Jr: Is it?

Lochhead: Yes. We buy gold all the time, you see. In fact, the Assay Office was taking in....

July 5, 1939
9:45 a.m.

HMJr: How are you?

Allan
Sproul: All right, how are you?

HMJr: How's Allan Sproul?

S: Fine, thanks.

HMJr: Now -- look, Allan, this is what I am calling you up
about.....

S: Yeah.

HMJr: On Monday the French wanted to buy a million, three
hundred thousand dollars' worth of gold.

S: Right.

HMJr: Do you know about it?

S: Yeah.

HMJr: Now, what we'd like to do, because there are a lot of --
lawyers are in my hair on this thing.....

S: (Chuckles)

HMJr:and you know how much hair I've got.

S: Yeah.

HMJr: And you know how many lawyers I've got.

S: (Laughs) It ought to be crowded in there.

HMJr: It is. And -- the lawyers are sitting here and are
laughing. And -- what I'd like to do in a very informal
way, with your cooperation, would be -- (talks aside)
would be to do nothing today. Hello?

S: Yeah.

HMJr: And I will communicate with the French Government through
our Ambassador and simply say that pending legislative
action at five o'clock, we're going to keep everything
in suspense because we frankly don't know where we're
at.

S: Yeah.

HMJr: Now, if the French Government isn't satisfied, then I'll give it to them, but if they're willing to wait twenty-four hours, I'm going to tell them that I'd appreciate it.

S: Yeah.

HMJr: Now this is confidential between Governor Harrison, and you and myself and nobody else.

S: O. K.

HMJr: Nobody else.

S: All right.

HMJr: Well, you can include Knoke in that, but nobody besides Harrison and yourself and Knoke.

S: Yeah.

HMJr: Now, do you want to answer me offhand on that?

S: Well, I don't know whether you know, Knoke is not here.

HMJr: Well, I didn't know. Well then -- then let's keep it between George Harrison and you and myself.

S: Well, I'd like to speak to Mr. Cameron, the manager of our foreign department.

HMJr: That's all right.

S: I'm sure we can depend on him.

HMJr: That's all right. Now.....

S: What's that?

HMJr:just -- that's all right. Now, just as soon as you call me back, then I'll call up Ambassador Bullitt, you see?

S: All right, I'll call you back in a few minutes.

HMJr: Will you do that?

S: Yeah.

HMJr: But I -- I would, as I say, on account of so many legal questions involved, I'd just like to hold this -- everything in abeyance for twenty -- until after the Senate meets to -- at five o'clock.

S: Yeah. All right, I'll call you back in a few minutes.

HMJr: Thank you.

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- H.M.Jr: How is this different?
- Lochhead: Sale of gold is always different from a purchase of gold. We take in gold automatically.
- H.M.Jr: This is a sale of gold against dollars.
- Lochhead: This is a sale of gold, this French one.
- White: Under what Act have you been selling gold, if it isn't....
- Lochhead: Been selling gold?
- White: What Act?
- Lochhead: Through the fund.
- White: You use the fund, but the same Act.
- Lochhead: It's the same Act.
- H.M.Jr: This was not through the fund. This goes through the general fund - this sale - this purchase?
- Lochhead: The purchase went through the general fund. We didn't touch the stabilization fund at all.
- H.M.Jr: I mean it goes through the general fund since we gave up the stabilization fund.
- Bell: That's right.
- (H.M.Jr. has conversation on telephone with Representative Doughton)
- (Conversation with Allan Sproul follows:)

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- H.M.Jr: Well, what else do we have to decide, pending - that's the only transaction?
- Lochhead: (Nods yes).
- H.M.Jr: Do you want to see if there is anything else that's come through in your office?
- Lochhead: I'll see.
- H.M.Jr: These ramifications in the foreign exchange market - got pipe lines all over the world and....
- White: It's their big point of interest - what's doing now.
- H.M.Jr: And if we just freeze the situation and it gets abroad and goes to Paris and London and back to the United States - that's how it'll come back to this thing here.
- White: Yes. They could make a good deal of the point - it may not be important, but they could say, "Aw, we took care of it while the fund wasn't operating. How often doesn't matter; the fact they did it once...."
- H.M.Jr: I'm only thinking about it today. I mean I'm thinking about these whispering galleries, you see - that they lead up to Vandenberg and the rest of them - "Oh, we don't need the fund."
- I mean you read today's New York Times editorial - these people have put a bandage around their eyes and stuffed cotton in their ears, and they don't want to know that the President has the power to devalue up or down a hundred percent. They don't want to know it. I mean he can change the price of gold to anything he wants. And they just don't want to know it. And I told Herbert Gaston to tell the Scripps-Howard that this thing that we're voting on is far more conservative than the President's....
- White: Than your power.
- H.M.Jr: Yes, I can; it rests with me.
- White: Yes, it's unlimited.

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- H.M.Jr: But the New York Times just doesn't want to know it. That rests solely with me, doesn't it?
- White: Yes, you're....
- H.M.Jr: Not the President.
- White: Well, that's the significant thing, because the devaluation is almost an automatic event which occurs sometime subsequently to whatever price you set, after it's all over.
- Bernstein: The devaluation is the stabilizing after you have increased or decreased the price of gold.
- H.M.Jr: Yes. Unofficially, I find from Dietrich speaking to Cameron, that they spoke to Cariguel on Monday about not putting through the three hundred fifty, and I understand Cariguel said, well, he wasn't worrying about that at all. That's unofficial; we're not even supposed to know about it.
- H.M.Jr: He'd rather have it with us and let it go through....
- Lochhead: Yes, I think so. But I just want you to know that Cariguel is not worrying, the Bank of France is not worrying at all.
- Bell: Are there any other obligations accruing against the fund except the salaries? Leased wires?
- Lochhead: We've got one thing. You've got that original Brazilian transaction, gold loan; that runs down to 1941. If the thing is out, we'll probably have to terminate that. And then the Chinese gold loan would have to be liquidated also. We haven't got actual word from them yet.
- H.M.Jr: Well, I don't think I'll have a 9:30 staff this morning. We'll just let you fellows go to work, and as the thing develops during the day we'll continue to study it. Right?
- White: I suppose somebody has got in touch - I imagine that was routine - with this fellow Clark and Downey, those two men who shifted their votes. I don't know

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whether they have any....

H.M.Jr:

Well, the President has at 9:15 Senator Barkley and Sam Rayburn. I carefully avoided asking if the Vice President would be there, but I suggested that he include Wagner, and he sent word to Barkley that if he wants Wagner to bring him along. I thought it was a nice gesture. Whether Wagner came, I don't know, but as soon as Barkley gets back to his office he's going to call me. And Barkley always tells me what happened with the President. You see, I'm on record with Barkley that I wouldn't do anything at noon today until I talked to him; I want to clear that.

(Second conversation with Allan Sproul follows:)

July 5, 1939
10:07 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Allan
Sproul: Hello, Mr. Secretary.

HMJr: Hello.

S: I talked with Cameron.

HMJr: Yes.

S: And we talked to Cariguel Monday. We told him we wanted to put that transfer over until Wednesday, it was a national holiday and -- it was a holiday in Washington.....

HMJr: Yes.

S:and put it on that basis so that -- there may be some question in their minds over there if we delay further. However, there's no difficulty if it's explained to them to their satisfaction why we want to wait, and no difficulty, as we see it, to postponing the action again.

HMJr: Fine! Well, I appreciate that.

S: If they don't want to do it and if you say you -- if they won't accept you would give it to them, well, still that would be under your other powers and through your license to us to sell gold.

HMJr: Well that's just what the lawyers are working on now, and what I'd like to do is to call up the American Ambassador, Bullitt.....

S: Yeah.

HMJr:and have him contact Paul Reynaud and ask him if he'd let this thing go over another day.

S: Yeah.

HMJr: If he's not entirely satisfied, then I will push my lawyers a little bit harder to make up their minds.

S: Yeah.

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HMJr: But we -- we would much rather hold everything in suspense pending the vote in the Senate.

S: Yeah.

HMJr: Is that all right?

S: Yeah. It seems to us, your lawyers working on it, it seems to us you could operate under the other powers you have, and under your license to us, and we'd be ready to operate under that if you want to give us the word.

HMJr: Well, the New York lawyers -- I mean, they're so much faster than our Washington lawyers.

S: (Laughs)

HMJr: I mean, our people down here -- you know, they're a lot of bureaucrats and they.....

S: Yeah, I know.

HMJr: O. K.?

S: They -- they -- this thing is raising quite a bit of question abroad -- we had a call from Bolton Monday and DeJong from the Netherlands called up this morning and wanted to know how it stood, so that the delay is raising quite a bit of question over there.....

HMJr: Well.....

S:and the sooner we can operate again, the better, of course, as you.....

HMJr: I appreciate.....

S:fully realize.

HMJr: I appreciate that. I appreciate that, but we'll just -- I'll -- I'll put in the call now for Ambassador Bullitt, and if you get any more questions, you can contact me, but unless somebody gets very impatient, we're going to ask them to wait until the Senate acts.

S: Yeah.

HMJr: O. K.

S: And you might put in a word for them to, as I'm sure they would, notify the Bank of France immediately so there would be no question on their part.

HMJr: I'll do that, but I -- I want to do it through the Minister of Finance, you see?

S: Yeah.

HMJr: See?

S: Right!

HMJr: O. K.?

S: All right.

HMJr: Thank you.

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- H.M.Jr: See? The Dutch call in, the English call in, then this thing all goes out, see? "Why, sure they can do it." And the public would have that this afternoon.
- White: In the meantime, you fellows get busy and see if you can't get an answer tomorrow.
- Bernstein: He agreed pretty fast with the Secretary when he said the fellows down here were slow.
- H.M.Jr: You don't mind being the goat.
- Foley: We're used to that.
- H.M.Jr: Of course, I have no precedent for that statement. Purely drawing on my imagination.
- All right. I'm available for this at any time today.

(At 10:30 a.m. the following was recorded:)

- H.M.Jr: Archie, I told Gene Duffield that we were going to telephone Handy & Harman at noon and ask them not to quote a price; but he's afraid that will bounce right back at us. So maybe it will be better to just do nothing and let nature take its course. If Handy & Harman calls you up, say that you have to confer, and then it will be time enough, see? But I wouldn't take the initiative the way I suggested - calling. In other words, I'm canceling that, to take the initiative.
- Lochhead: I think the chances are nine out of ten they would not make the price anyway.
- H.M.Jr: Let's take that 10 percent chance. Then we can say, "We don't know what Handy & Harman are doing. They are a private concern. How could we know what they are doing?"

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Lochhead: Oh, in any case we'd do it on a personal basis, call up Boynton or Spaulding up there. It would not be official.

Duffield: You see, it would get out in New York - Handy & Harman would say, "No Treasury price today." Where would we be?

H.M.Jr: Well, that's what they are going to do. Then we don't know anything about it. We don't know. That's their own action. I can't help it if they don't quote a price. I sincerely hope they won't quote a price - see? But the point - my reaction is a little different than yours (Duffield). I don't want them to say, "Well, the Treasury asked us not to." Then Key Pittman would have the first thing he'll have on me. He's got nothing on me now.

Hester
Room 290 1/2

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July 1, 1939

TO THE SECRETARY:

The Stabilization Fund, which by law was deposited with the Treasurer of the United States, is in about the same category as a no-year appropriation or funds deposited with the Treasurer of the United States by a corporation whose authority to do business has expired. The Stabilization Fund is, therefore, available after June 30, 1939, for the purpose of liquidating any obligations actually incurred prior to that date. It is not available for new obligations after June 30.

As there are no directions in the Gold Reserve Act as to the disposition of the fund after the authority of the act expires, the fund may be maintained in its present status as long as you deem advisable.

LWD:NLE

Digest and Interpretation of T.N.E.C.

Hearings on Life Insurance

Division of Monetary Research.

7/5/39

Digest and Interpretation of the T.N.E.C. Hearings on
Life Insurance

1. The Life Insurance Business: National Problems of Regulation, Investment and Social Security
 - (a) Summary of the facts
 - (b) Judgment on the life insurance business
 - (c) Recommendations for a national life insurance policy
2. The Life Insurance Business in the National Economy
 - (a) Statement by W. O. Douglas
 - (b) Magnitude of life insurance companies' income
 - (c) Accumulated assets of life insurance companies
 - (d) Nature and extent of life insurance investments
 - (e) Table on life insurance assets, 1906-1938
3. Control of the Metropolitan Life Insurance Company
4. Control of Several Other Large Mutual Companies
5. Control of the Northwestern Mutual Life
6. Interlocking Directorates and Nepotism
7. Price Fixing in the Insurance Business
 - (a) Group life insurance
 - (b) The non-participating companies
8. Price Fixing in the Insurance Business
 - (a) Settlement options
 - (b) Surrender values

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9. Price Fixing in the Insurance Business
 - (a) Replacements
 - (b) Reinsurance
10. Price Fixing in the Insurance Business
 - (a) Annuities
11. Terminations of Life Insurance
 - (a) Modes of termination
 - (b) Extent of frustrations and losses
 - (c) Lapses and insurance among the poor
 - (d) Table on modes of termination of Ordinary and Industrial life insurance
 - (e) Table comparing total life insurance in force with new business and terminations
12. Political Activities of Life Insurance Companies
13. Savings Bank Life Insurance
 - (a) Accomplishment of the Massachusetts Savings Banks
 - (b) Efforts of the great mutual companies to prevent the spread of the savings bank insurance principle

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 5, 1939

TO Mr. White

FROM Mr. Gass and Mr. Wheeler

Subject: The Life Insurance Business: National Problems of Regulation, Investment and Social Security

Facts:

1. The life insurance companies of the United States are our greatest institutional savers.

In 1937, the last year for which complete figures are available, the 308 legal reserve life insurance companies had a total income of \$5,257,000,000 — only about \$400,000,000 less than the total tax receipts of the Federal Government in the fiscal year just completed.

On December 31, 1937 the total assets of these 308 companies amounted to \$26,249,000,000 — equal approximately to 70 percent of the value represented by the total of all land and buildings on the farms of the United States. Their asset position was dominated by a few great financial giants: the Metropolitan Life Insurance Company held assets of \$4.7 billion, the Prudential \$3.5 billion, the New York Life \$2.5 billion, the Equitable \$2.1 billion and the Mutual of New York \$1.3 billion.

The life insurance companies estimate that policies are carried on 64 million separate lives in the United States. This estimate is a maximum, but it suggests the degree of public interest in the management of the life insurance business.

2. Since the life insurance companies, in the aggregate, have never drawn upon their reserves to make payments, and have added an average of over a billion dollars a year to their reserves during the last twenty years, they have gradually become the most important holders of many types of long term investments.

On December 31, 1938 about 11 percent of all direct and guaranteed debt of the United States Government was owned by the 49 largest life insurance companies. These companies held also about 10 percent of the total indebtedness of State and local government.

On the same date, these 49 largest life insurance companies held 23 percent of all outstanding railway bonds, 22 percent of the total indebtedness of public utilities, and approximately 15 percent of the total

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industrial debt. They held about 11 percent of all farm mortgages and about 14 percent of all urban mortgages.

In 1937 the ten largest life insurance companies purchased 62.1 percent of all corporate bonds and notes issued! In 1938 these ten companies bought 55 percent of all flotations in this category.

3. The effective control over the life insurance companies of the United States is in the hands of a self-perpetuating group of officials. These officials have not lowered the costs of administering life insurance, but they have provided themselves with generous salaries, enormous staffs, and positions from which they distribute financial favors.

Though the major companies are nominally organized on the mutual principle, the policyholders only very rarely have any control or influence over company affairs. For instance, in the Metropolitan Life Insurance Company, which has 30 million policyholders, the administration slate of officials is always elected by a unanimous few hundred thousand, largely forged, votes. The New York Life, which has 1,500,000 policyholders, designates its directors in elections where about 300 votes are cast, largely by home office employees of the company. The Mutual Life of New York, with 800,000 policyholders, has elections in which between 100 and 200 persons vote, and a majority of these are conceded to be company employees.

In the year 1937, some 27.9 percent of the total income of the legal reserve life insurance companies was spent on administration costs! A representative mutual company, the Metropolitan, sold straight life insurance at almost three times the net cost of the same insurance when bought from the state regulated Massachusetts Savings Banks.

The directors of insurance companies often make use of their official positions to divert the business of the insurance companies to other concerns in which the directors have interest.

4. Most of the life insurance companies of the United States do not compete seriously with one another on a price basis. In recent years especially the principal companies have come together frequently to establish uniform rates and terms for various types of insurance.

Insurance contracts are too complicated for the non-specialist to be able to compare on a price basis. It is easy to delude the common man about what he is getting when he buys an insurance policy. The great companies have consequently concentrated their "competition" on promotional activity rather than on price.

The rates on the Ordinary insurance of the principal non-participating companies are fixed by agreement among these companies.

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The great mutual companies do not compete on a price basis with the non-participating companies. On the contrary, on at least one occasion the great mutual companies raised their rates deliberately to avoid injuring the non-participating companies!

The rates on all group life insurance have been fixed by agreement among the principal companies ever since 1919.

As a result of intercompany meetings, substantial uniformity has been reached among the major companies on the terms of annuity contracts. (After these meetings, the chairman of the group regularly destroyed all papers and minutes relating to the proceedings.)

Other price-fixing agreements have been made on settlement options, surrender values, replacements, reinsurance and large risks.

5. By far the greater part of all American life insurance terminates in a way which frustrates the intention of the policyholder in taking out the insurance. This frustration of the intent of the policyholder is particularly striking in the case of the Industrial life insurance bought by poor people.

From the policyholder's point of view, termination of a life insurance policy by death, by disability and by maturity represent satisfactory completions of the insurance contract. However, less than a fifth of all life insurance contracts terminate in any of these satisfactory ways.

When the failure to maintain premium payments occurs before the policyholder is entitled, under the terms of his contract, to a refund of any portion of the reserve against his policy, the insurance is said to have terminated by lapse. This is the way in which the larger part of all life insurance terminates.

The terminations of all life insurance which represented frustrations of the intention of the policyholder accounted for at least \$82 out of every \$100 of terminations during the period 1918-1927 and at least \$83 out of every \$100 during the period 1928-1937. The percentage of terminations which represented frustrations was much greater than this in the Industrial insurance carried by poor people.

Something of the magnitude of the turnover of poor people's life insurance can be indicated by the fact that 193 million Industrial policies were written during the period 1928 to 1937. At the end of the period there was a net gain of about 6½ million policies! Less than 8 percent of the 193 million policies terminated by death.

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6. The insurance companies are deeply involved in state politics, and they regularly make use of financial favors, intimidation and deception in getting what they want from state legislatures.

The Association of Life Insurance Presidents spends about \$400,000 a year in combating unfriendly legislation. A good deal is spent also on the same work by the individual companies. Part of these expenditures they record in a separate schedule, as required by law, and part they do not.

Through their employment of large numbers of doctors, lawyers, etc., on a consultant basis, the companies are in a strong position to distribute favors to men who can be brought to see things their way.

The most common technique of misrepresentation employed by the life insurance companies in their legislative activities is to mobilize their hords of agents as supposedly bona fide representatives of scores of indignant policyholders, when the policyholders know nothing about the whole matter.

7. One form of life insurance, that issued by the Massachusetts Savings Banks, has a brilliant record which may be used as a standard with which to compare the achievement of the great mutual companies.

In Massachusetts the savings banks are permitted to issue life insurance policies of the same kind as the domestic legal reserve companies, but the policy forms, premium rates, terms of surrender and loan rates of savings bank insurance are determined by the State actuary.

The administrative expenses of savings bank insurance have run around one-fifth or one-sixth of those of the great mutual companies.

A representative net cost for \$1,000 of savings bank insurance is \$2.72 a year, while the same type of insurance costs \$5.20 when bought from the Northwestern Mutual, \$7.44 from the Metropolitan, and \$10.32 from the Connecticut General.

The lapse ratio of the savings banks is only about one percent. This is due to generous surrender and conversion privileges and to the absence of high pressure selling methods.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 21, 1939

TO Mr. White
FROM Mr. Gass

Subject: Testimony before the Temporary National Economic Committee on the life insurance business, February 6, 1939

The testimony was introduced by Mr. William O. Douglas, Chairman of the Securities and Exchange Commission. He referred to the investigation made in 1906 by the so-called Armstrong Committee of which Charles Evans Hughes, now Chief Justice of the United States, was counsel. That study was broad in scope, and Mr. Douglas indicated that the Securities and Exchange Commission in conducting the present inquiry tried to adhere to the standards established by the Armstrong Committee.

In 1906, there were 138 legal-reserve companies with aggregate assets of \$2,924 million. On December 31, 1937 there were 308 legal-reserve companies with aggregate assets of \$26,249 million, and by the end of 1938 the amount of those total assets had increased further by nearly \$1,500 million.

Three individual companies in 1906 each commanded approximately \$500 million in assets. Today each of these three companies commands well over \$1 billion in assets. The New York Life Insurance Company has grown from approximately \$774 million in assets to \$2,520 million. The Metropolitan Life Insurance Company has grown from \$176 million to almost \$5 billion.

Life insurance in the United States has grown far more rapidly than in any other country in the world. At the present time there is in force in the United States approximately \$110 billion of life insurance. This is over 60 percent of the total amount in force throughout the entire world.

Mr. Douglas expressed special interest in insurance company managements and how they are elected. The control of the mutual companies rests legally with the policy-holders, who have the right to vote for the Directors and, through the Directors, to appoint the management. The Armstrong Committee reported that the election machinery of the mutual companies prevented any independent expression of policy-holder viewpoints. Policy-holders had in fact no control over the management of their companies. The Armstrong report said that officials of life insurance companies held unassailable positions and were able to exercise despotic power over the companies. Mr. Douglas indicated an interest in finding out whether this condition remained today.

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The magnitude of life insurance transactions and savings:

At the end of 1937 there was a total amount of \$109 billion worth of life insurance held by the United States legal-reserve companies. \$76.1 billion of that amount was Ordinary insurance, and \$20.6 billion was Industrial insurance.

Ordinary insurance is almost always written for amounts larger than \$1 thousand and is sold to individuals who are in the higher income classes. Premiums on Ordinary insurance policies are payable annually, semi-annually, quarterly, or - very rarely - monthly. Industrial insurance may be defined as that life insurance which is sold, generally without medical examination, in small amounts, premiums to be collected at frequent intervals, and at costs that are high in comparison with those of Ordinary insurance. Premiums on Industrial insurance are generally collected weekly by the companies' agents who call for that purpose at the homes of the policy-holders.

At the end of 1937 there were 88 million Industrial insurance policies in force, out of a total of 124 million policies of all kinds.

The bulk of Industrial insurance is written by three companies - the Metropolitan Life Insurance Company, the Prudential Insurance Company and the John Hancock Insurance Company. Of the total amount of Industrial insurance in force as of December 31, 1937, these three large companies held 81-4/10 percent.

It has been estimated that insurance in the United States covers approximately 64 million separate lives. Dr. Davenport, special consultant on insurance for the Securities and Exchange Commission, expressed the opinion, however, that this estimate is rather too optimistic.

The total income of life insurance companies rose from \$25 million in 1865 to \$5,257 million in the year 1937. Premium income in 1865 was \$22 million. Premium income in 1937 was \$3,762 million.

The percentage ratio of life insurance income to total national income rose from 1/10 of 1 percent in 1880 to 2-5/10 percent in 1910, 6-7/10 percent in 1930, 9 percent in 1931, 11-6/10 percent in 1932 and 7-5/10 percent in 1937.

In 1937 the entire income of life insurance companies amounted only to slightly less than the tax receipts of the United States Government.

On only two occasions were the premium receipts of life insurance companies insufficient to meet their total expenditures for all purposes. The first occasion was in the year 1918. At that time of the influenza

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epidemic, when the total expenditures for all purposes amounted to \$999 million, the premium receipts amounted to \$994 million. In other words premium receipts that year failed by \$5 million to meet the total expenditures of the companies - including expenditures for death claims, annuity payments, wages, salaries, commissions, taxes, overhead, etc. The total income of life insurance companies from all sources, however, was \$1,325 million in 1918 and therefore the life insurance companies were left with an excess of \$326 million by which amount their assets increased even in that bad year.

The other period when premium receipts were insufficient to meet total expenditures was 1932-4. Even in these years, however, the total income of life insurance companies was greatly in excess of their total expenditures; they added to their total assets each year.

Taking the total for the last 20 years from 1918 to 1937 inclusive, the sum of the excesses of total income over total expenditure amounts to \$20,927 million, by which amount the total assets of American legal reserve life insurance companies have increased in these last 20 years. These reserves are never drawn on to make current payments. Additions to them are made every year.

Take, for instance, the year 1937. In that year the total income of life insurance companies was \$5,257 million. Their total expenditures for all purposes amounted to \$3,610 million. That year the premiums received from policy-holders amounted to \$3,751 million. Therefore, premium income was in excess of expenditures for all purposes. Income from the property assets of the life insurance companies was entirely added to reserve. ^{1/}

The administrative expenses of life insurance companies in that year amounted to 27-9/10 percent of all expenditures. 72-1/10 percent of all expenditures were payments to policy-holders or to beneficiaries of policy-holders.

One or two comparisons may be useful to indicate the orders of magnitude involved. For example, in 1935 the Metropolitan Life Insurance Company collected in premiums, solely from the residents of New York State, a total of \$147-8/10 million. In that year the sum total of all taxes collected by the State of New York amounted to \$315-6/10 million. The Metropolitan's premium income from New York State was therefore 47 percent as large as the State tax collections. The entire premium income of the Metropolitan Life Insurance Company in 1935 amounted to \$939 million. This amount was almost three times the entire tax collections of the State of New York, the State by which the Metropolitan Life Insurance Company is supposedly regulated.

^{1/} Dividends to stockholders amounted to only \$18 million; the stock insurance companies are relatively unimportant.

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Life insurance is a unique form of savings institutions. Life insurance savings are the last ones drawn upon during times of depression. The penalties involved in the lapse or surrender of life insurance constitute strong deterrents to giving up policies once they have been written.

Life insurance companies have accumulated so large a volume of savings that their total assets in 1937 were equal to 85 percent of the total assets of all National banks in the United States. The total assets of life insurance companies in 1935 were equal to 70 percent of the value represented by the total of all land and buildings in the farms in the United States. Their assets - \$26.2 billion - are equivalent to one and one-half times the total assessed value of all taxable real property in New York City.

The largest life insurance company in the world is the Metropolitan Life Insurance Company which had assets of \$4.7 billion in 1937. The next largest company is the Prudential with assets of \$3.5 billion. The third largest is the New York Life Insurance Company with assets of \$2.5 billion. The fourth is the Equitable with \$2.1 billion and the fifth the Mutual of New York with \$1.3 billion. These five largest companies are all mutual companies and they control together 54.4 percent of the total assets of all life insurance companies. The next eleven largest companies have aggregate assets of \$6.8 billion or 26.2 percent of the whole. These sixteen companies, therefore, account for 80.6 percent of all life insurance company assets. The home offices of these large companies tend to be centered in the New York and New England areas.

This evidence suggests that a very unusual degree of public interest attaches to the management of the life insurance companies. They are of enormous size, control billions of investment funds, and accumulate the savings of a large part of the population. Perhaps 50 percent of the adult population of the United States are participating in these mutual life insurance companies.

Nature of life insurance investments:

The total assets of legal-reserve life insurance companies aggregated \$26,249 million on December 31, 1937. Of these assets almost half, \$13,163 million, consisted of bonds. The next largest single category was mortgages on real estate, adding up to \$5,229 million. Policy loans and premium notes constituted \$3,399 million, and real estate owned by the life insurance companies totaled \$2,190 million. No other single group of assets constituted as much as a billion dollars.

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As of December 31, 1938 about 11 percent of all direct and guaranteed debt of the United States Government was owned by the forty-nine largest life insurance companies. These companies held also about 10 percent of the total indebtedness of State and local government. They held 23 percent of all outstanding railway bonds, 22 percent of the total indebtedness of public utilities and approximately 15 percent of the total industrial debt. They held about 11 percent of all outstanding farm mortgages and about 14 percent of all outstanding urban mortgages.

There has been a rapid growth recently in the ownership of national government bonds on the part of life insurance companies. In 1930 they owned only \$303 million government bonds, which constituted about 1-3/10 percent of their total assets. Since that time there has been a very rapid increase in their government holdings. At the end of 1938 they held Federal, direct and guaranteed obligations, to the extent of \$4,551 million. This constituted 17-9/10 percent of their total assets.

From 1906 to 1924 the life insurance companies greatly increased the amount of farm mortgages they held. These companies held \$1,814 million of farm mortgages in 1924, which at that time represented 18-7/10 percent of their total assets. In 1938 they held only \$800 million worth of farm mortgages which represented only 3-1/10 percent of their total assets.

The life insurance companies have also recently decreased their holdings of urban mortgages. In 1929 the companies held \$4,816 million of city mortgages, which represented 30 percent of their total assets. In 1938 their holdings had been reduced to \$4,142 million which constituted 16-3/10 percent of total assets.

It has become necessary for life insurance companies to purchase a larger amount of corporate bonds and notes than they did formerly. Taking only the ten largest companies, even in 1930 they purchased 10 percent of all corporate bonds and notes issued. In 1937, however, these same ten companies purchased 62-1/10 percent of all corporate bonds and notes issued! In 1938 this fell somewhat to 55 percent of all flotations.

Though the companies have been very much concerned about the decline in the rate of return on their investments, even today net earnings from investments are over 18 percent more than is required to maintain the actuarial rate of interest on reserves.

It is, of course, true that figures on the assets of life insurance companies include a large element of fiction. Since it is not necessary

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for life insurance companies to draw on their reserves to meet current payments, it is possible for them to go on year after year carrying investments on their books at fictitious values. This gives the company a false prestige and does not interfere with its ability to meet claims, since in any case premium income is in excess of all expenditures. With respect to the matter of valuation of life insurance companies' assets, Best's Life Insurance Reports, a standard manual of insurance companies, says in the 1938 volume, page 17: "It is unfortunately true that the statements of numerous companies, even those attested under oath by the officers, do not reflect the true condition of the companies because of very optimistic values placed upon their assets."

Life Insurance Assets, 1906 - 1938 ^{1/}

(In thousands of dollars)

| | 1906 | 1916 | 1926 | 1931 | 1937 | 1938* 12/31 |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Cash | 65,040 (2.3%) | 96,068 (1.8%) | 91,489 (.8%) | 149,316 (.8%) | 667,316 (2.8%) | 750,000 (3.0%) |
| U. S. Gov't. Bonds | 2,900 .1 | 1,533 .0 | 489,221 4.1 | 355,563 1.9 | 4,363,292 18.1 | 4,551,000 17.9 |
| Political Subdivisions | 103,789 3.6 | 241,696 4.5 | 343,984 2.9 | 695,387 3.8 | 1,403,176 5.8 | 1,475,000 5.8 |
| Foreign Gov't. Bonds | 87,211 3.1 | 208,664 3.9 | 295,130 2.5 | 472,793 2.6 | 489,929 2.0 | 514,000 2.0 |
| Railroad Bonds and Stocks | 1,001,728 34.8 | 1,670,486 31.3 | 2,401,141 20.2 | 2,996,675 16.2 | 3,030,369 12.6 | 3,082,000 12.1 |
| Public Utility Bonds & Stocks | 134,056 4.7 | 217,070 4.1 | 826,360 6.9 | 1,814,268 9.8 | 2,822,973 11.7 | 3,254,000 12.8 |
| Other Bonds & Stocks | 107,777 3.7 | 81,814 1.5 | 174,499 1.5 | 597,044 3.2 | 1,218,569 5.0 | 1,453,000 5.7 |
| Farm Mortgages | 268,658 9.3 | 795,545 14.9 | 1,957,223 16.5 | 1,835,525 9.9 | 813,801 3.4 | 800,000 3.1 |
| City Mortgages | 551,864 19.2 | 992,333 18.5 | 3,152,978 26.5 | 5,253,453 28.5 | 3,944,692 16.3 | 4,142,000 16.3 |
| Real Estate | 156,442 5.4 | 143,520 2.7 | 216,375 1.8 | 521,118 2.8 | 1,930,868 8.0 | 1,982,000 7.8 |
| Policy Loans & Premium Notes | 254,815 8.9 | 750,051 14.0 | 1,428,388 12.0 | 3,015,921 16.4 | 3,044,462 12.6 | 3,089,000 12.1 |
| Other Admitted Assets | 142,207 4.9 | 147,826 2.8 | 504,607 4.3 | 760,101 4.1 | 413,204 1.7 | 358,000 1.4 |
| Total Admitted Assets | 2,876,487 | 3,346,606 | 11,881,395 | 18,467,164 | 24,141,931 | 25,450,000 |

^{1/} Source: Association of Life Insurance Presidents.

* Estimated by the Association of Life Insurance Presidents.

() Ratio of investments in class to total investments.

Source: Temporary National Economic Committee hearings, Vol. 1 (1939), pages 37-36.

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TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE June 28, 1939

TO Mr. White
FROM Mr. Wheeler

Subject: How the Metropolitan Life Insurance Company is Run — Testimony Before the T.N.E.C., from February 7 through February 14, 1939.

This section of the investigation covered the organization, control, and general policies of the Metropolitan.

The advantages of mutuality were eloquently described by Ecker, Chairman of the Board of the Metropolitan.

1. The mutual principle gives the policyholders themselves ultimate control of their company;
2. It insures that all profits of operation will be returned to them.

Since the Metropolitan was mutualized in 1915, it has grown steadily and there has never been a hint of scandal against its record.

The rest of the testimony in this section reduced Ecker's claims to absurdity.

1. The policyholders do not have any control or influence whatever on the policies of the company.
2. The mutual principle has not resulted in cheaper insurance to policyholders in mutual companies.

Although there has been no public scandal since 1915, nevertheless scandalous conditions have persisted in the affairs of the Metropolitan.

Mr. Ecker testified that the Metropolitan had never given any consideration to the question of whether it ought to expand its operations. He admitted that the cost of acquiring new business was very heavy; but he denied that the officials of the company had any clear idea, or had made any specific attempt to calculate, whether or not new business was worth acquiring.

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Ecker was thus willing to swear that on one of the two or three fundamental questions of policy confronting the insurance companies, the officials of the Metropolitan did not know what they were doing at all. Evidently Ecker has accepted without question the idea that the Metropolitan ought to go on writing as much insurance as possible each year without regard to the very high lapse ratio resulting from high-pressure selling and without regard to the enormous costs of acquisition incurred under this system.

The testimony on the control of the Metropolitan was very long and detailed, but the essential facts can be clearly stated.

I. Although the Metropolitan is a mutual company, the policyholders do not have any control or influence on the affairs of the company.

The Metropolitan has nearly 30 million policyholders, scattered over the country. Evidently it would be a large undertaking at best to get any considerable part of them to participate in the control of the company. But the company does not make any effort at all to encourage participation. On the contrary, it discourages any policyholder who shows unusual interest in the affairs of the company. The laws of New York require a certain formal recognition of the rights of the policyholders to nominate and vote for directors. These laws are not very effective even in theory. In practice they are a joke. No slate of candidates has ever been nominated in opposition to the administration slate. Independent nominations would be difficult at best, and the company does not inform its clients of their rights in this respect; rather it misrepresents their rights. The company slate is always elected without opposition by the unanimous vote of a few hundred thousand policyholders. But even this is not all.

The votes cast are largely forged votes. The agents are handed out ballots for their customers to sign. The customers generally are apathetic or suspicious and refuse to sign. So the agents forge the signatures of the policyholders to the ballots. This is the general practice and is done quite openly. Gesell produced as witnesses agent after agent who described in detail how and why the agents were forced to do this. It was done in front of officials of the company and certainly with their knowledge.

In the face of an overwhelming mass of evidence in this sense, evidence which was first-hand, detailed, and highly consistent, John Lord O'Brian, Counsel for the Metropolitan, thought it proper to state for the record that the practice of forging votes was not widespread and had never been known to any official of the company. And on February 15, a delegation of agents from New York appeared, ready to swear that forging was very rare.

Mr. White - 3

II. Many of the directors of the Metropolitan are dummy directors... The evidence presented by Gesell showed that many of the directors took no part whatever in the affairs of the company. They were selected because of the prestige attached to their names. In at least one case, that of Taschereau, formerly Prime Minister of Quebec, the director had never attended a single board meeting. Taschereau in a letter stated that he had become a director at the request of the company on the specific assurance that he would never be expected to attend any meetings. Similarly, many American directors were wholly inactive and were kept on the board solely for the value of their names.

III. The administration of the Metropolitan Life Insurance Company is not subject to effective control either by the policyholders or the board of directors. Ecker suggested that this does not matter, as the affairs of the company have always been so brilliantly conducted that no breath of criticism has been heard.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUNE 29, 1939

TO Mr. White

FROM Mr. Wheeler

Subject: The control of mutual life insurance companies. Testimony before the T.N.E.C., February 14, 1939

The New York Life Insurance Company and practically all other mutual companies are controlled by methods substantially the same as those used by the officials of the Metropolitan, described in another memorandum. Minor variations occur, but the idea is the same - the control of the companies is in the hands of a self-perpetuating official group. The officials go through certain motions required by law as a gesture to policy-holder control, but in fact the policy-holders have no voice in or influence on the affairs of the company.

Mr. C. E. Judson, Assistant Secretary of the New York Life, testified that out of 1,500,000 policy-holders, about 300 usually vote in the elections for directors. Judson agreed that "some" of these 300 voters were company employees; it would not be rash to assume that most of them were.

Mr. H. S. Smith of the Mutual Life of New York was more frank in his testimony. Out of 800,000 policy-holders, between 100 and 200 vote usually, practically all of these in person. Smith said the majority of these voters were employees; there may have been some who were not connected with the company.

The Acacia Mutual of Washington, D. C. was the only company covered which offered any exception to this pattern. The Acacia gives clear notice of its elections and informs its policy-holders fully of their rights. A considerable number of them vote, often 25 percent of all policy-holders. The company does not try to push through an official slate; nominations by the members are easily made and commonly made. However, these nominations are effective only in case of replacement. No sitting director has ever been defeated by a new candidate. Mr. Mooers of the Acacia stated that most of the candidates were not serious contenders; men liked to be nominated for reasons of business prestige.

Dr. Donald Davenport presented a summary with statistical material of the situation in respect to control of the mutual insurance companies in general. From this evidence it is clear that the conditions described in the Metropolitan, the New York Life, and the Mutual Life of New York are quite general. In practically every case the stockholders have no effective voice in the affairs of the company; in practically every case the companies make only the legal minimum of effort to encourage participation, or they may actually evade the legal requirements in this respect. From the evidence, it is clear that even if the policy-holders were genuinely interested in participating, the difficulties in their way would be enormous.