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RB

GRAY

London

Dated November 23, 1937

Rec'd 3:30 p. m.

Secretary of State

Washington.

732, November 23, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

Yesterday's United Press report to the United States prophesying that the British authorities will resume token war debt payments has not evoked similar publicity here. As far as the British public is concerned war debts are as dead as reparations. That war debts are not dead to the city and to the British authorities has little to do with the Neutrality Act, which is generally considered favorable to the British Empire but rather to the fact that Englishmen visiting America and Americans coming here report that the American public has not forgotten the war debts and that their somnolent existence is an obstacle to the kind of collaboration which it is in England's interest to foster. However, in recent months the thought expressed by the New York correspondent of the MANCHESTER GUARDIAN has begun

RB -2- No.732, November 23, 6 p.m. from London

begun to spread: "at the same time it should be emphasized again that payment or nonpayment of war debts would make very little difference to Great Britain's popularity in this country. Other factors such as the feeling that the two great democracies must stand together against the threat of the totalitarian states are far more important."

On the other hand, it has in the past been said by those in a position to know that Chamberlain very much regretted his abandonment of token payments and that he personally was desirous of disposing of the debt at some favorable moment. There are, however, no outward indications that the stage of promising parliamentary statements is over.

Foreign exchange market was again steady and inactive. Following Wall Street's weak closing British security markets declined decidedly in the forenoon. There was a good deal of selling for cash in the forenoon which was augmented by rumors that the jobbers were heavily loaded. With the stronger opening of Wall Street markets improved and closed fairly strong. Today's movements are symptomatic of the state of mind.

JOHNSON

CSS

RB

GRAY

London

Dated November 23, 1937

Rec'd 3:39 p. m.

Secretary of State

Washington.

733, November 23, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

Referring to his recent conversation (my 672, October 27, 11 p. m.) Ashton-Gwatkin said that he had found Guarnieri a thoroughly reasonable person and that exchange control was much less firmly entrenched in Italy than it was in Germany. However, the Italians took the position that they could not afford to allow their gold reserves to be further depleted and that therefore they could not take any steps towards removing controls until after they had had an opportunity of improving their foreign exchange position.

Ashton-Gwatkin therefore felt that given the active hostility of Germany and the passive opposition of Italy it was difficult to see how efforts to remove exchange controls in the Danubian area could be successful; certainly in the case of Bulgaria, Rumania and Greece where German trade was so important it was hopeless;

RB -2- No. 733, November 23, 7 p.m. from London

hopeless; in the case of Yugoslavia and Hungary it seemed unlikely but well worth trying. In Czechoslovakia he had found a very helpful attitude and he felt they would be receptive to concrete suggestions. The situation would be discussed at the forthcoming meeting of the Economic Committee in Geneva which Leith-Ross would attend and he would arrive soon enough to talk with some of the representatives attending the meeting of the Finance Committee.

Ashton-Gwatkin referred to the Van Zeeland report about which he had no details but which he understood would deal mainly with exchange controls said that it was not now expected until the end of December. He added that the British Government had not pressed for it sooner, frankly for the reason that it did not want to assume further responsibility for it.

On being referred to the report in today's **DAILY TELEGRAPH** to the effect that Halifax had discussed economic appeasement in Berlin, Ashton-Gwatkin said that he did not believe that conversations of this nature had in fact taken place; that he had been told it would not be necessary to prepare a memorandum on these lines in anticipation of such discussions.

JOHNSON

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 23, 1937, 6 p.m.

NO.: 1853

FOR THE TREASURY.

An official of the Bank of France has just informed us confidentially that the first tranche of 80,000,000 guilders of the Amsterdam credit will be paid on November 29 to the French Treasury. Reference is made to telegram No. 1635 of November 20, in which it was stated that the maximum total of the credit is guilders 150,000,000.

The same official also told us that the credit's interest rate is 3 1/2 percent and that no gold has been earmarked as security; however, according to our informant, the Treasury had turned over "gold bonds" against the credit.

Another point brought out was that with regard to the exchange fund no substantial repatriation of capital had recently taken place, but sterling and dollars had been received/continuously in moderate amounts. Today, for instance, the fund had received about 300,000 pounds, and \$2,000,000.

With regard to British credit repayment, it appears that the Treasury has not yet decided whether it will call upon

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upon the exchange fund or upon the gold reserves of the Bank of France. This question, however, does not seem to present any special interest.

Transactions on the exchange market here today were again very light and the pound and the dollar moved within narrow limits. Sterling is quoted around 147.15 and the dollar at 29.41. Forward rates moved slightly against the francs.

The security market was inactive and rates are practically unchanged.

BULLITT.

EA:LWW

RECEIVED
FEB 25 1947
INTERNATIONAL BANKING CORPORATION
NEW YORK

November 23, 1937

I called Colonel McIntyre on Friday about seeing the President with Doughton, Vinson, Magill and myself. I spoke to Miss Batchelor yesterday morning at 9:30. I spoke to McIntyre a little after 11 o'clock and he said the President had us down tentatively but did not want to take up anything too serious, but if he were better he might see us. Then I spoke to McIntyre again at 5 o'clock; told him I did not know how I could keep the Committee in line and he promised me he would go over and see the President right away and tell me. He did not call back.

I called him at his home at 9 o'clock this morning but got word he was on his way to his office.

cOo-oOo

Talked to McIntyre at 9:13; told him that this morning was the last chance that the President would have to see Doughton, Vinson, Magill and myself to let it be known how he felt on the surplus tax; that if he did not see us, the Committee would go ahead on its own; that the Committee had been most considerate in postponing action yesterday, but that we could not hold them in line any longer.

McIntyre said, "Well, maybe the President does not want to see them because he does not want to meet the issue," and gave a kind of sickly laugh. I said, "Well, that's flashed through my mind."

McIntyre said that he would go to see the President in ten minutes and would let me know not later than 20 minutes of.

I again said, "You know, Mac, I am working only through you." He said, "I know you are." He said, "I will call you not later than 20 minutes of." He said, "The President has got to see you."

November 23, 1937

Mr. Magill and I saw the President this morning and Magill outlined to the President the following program:

1. To give corporations earning \$25,000 a year or less total exemption from the undistributed profits tax and to raise their normal tax to 12½ percent on the first \$5,000 and 14 percent on the next \$20,000.

2. To place a top rate of 20 percent on the incomes of corporations earning more than \$25,000, with a minimum of 16 percent, contingent upon earnings retained by the corporation.

The President said, This does not take care of the closely-held corporation which is controlled by one family, a small group, and Magill said no and he then outlined another plan which would take care of the closely-held corporation but which he had difficulty in perfecting. The plan which Magill had in mind was the following:

Subject corporations controlled by five stockholders or less to a special flat tax of 35%. In determining whether or not the corporation is controlled by five or less persons, persons belonging to the same family would be treated as one individual. The corporation would escape the flat tax by distributing 75% of its earnings and the tax would not be imposed if the stockholders took up the corporate income in their individual returns.

The President pointed out that this plan would not take care of large corporations whose stock was more widely distributed and Magill admitted that that was true.

The President then asked that further consideration be given to his plan whereby a company might hold back a portion of its earnings for reserves, to be used in times of depression, but the reserves should be earmarked so that if they were used for plant extension or for dividends, an additional tax would be imposed.

Magill reminded the President that he had suggested this plan previously and that the Treasury had

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been working on it. The principal difficulty was in keeping a constant check on all the corporations which might set up such reserves.

Magill then said to the President that the Committee was now discussing the 20% - 16% plan and that Mr. Vinson was particularly pleased with it. The President said that the 20% rate was too low and that the plan would not correct the abuses pointed out in 1936 and covered by the present undistributed profits tax. Magill said that Vinson felt that the number of cases in which there were abuses was greatly outweighed by the number of cases in which the present tax caused hardships. The President completely disagreed with this conclusion, stating that he wanted small corporations cared for and that they were the only ones which suffered real hardships. He said he did not know of any cases of corporations with over a million dollars income which had any difficulty in distributing dividends.

Magill said that he had heard of one: the case of the Studebaker Corporation which needed to retain its earnings to have an adequate supply of working capital to enable it to compete with its wealthy competitors.

The President concluded by saying that Magill should tell Vinson that the proposal would not correct the abuses which were aimed at in 1936 and that he thought the top rate was too low even if some special treatment for closely-held corporations was provided.

At the beginning of the conference Magill informed the President that there was a strong movement within the Special Committee to take immediate action on the tax. The Republicans were apparently committed to repeal and MacCormack of Massachusetts and Buck of California might join the Republicans on this point; further, Senator Harrison had asked Messrs. Doughton, Vinson and Cooper to talk over the subject with him late yesterday afternoon, apparently with a view of agreeing on such a proposal as was outlined and taking prompt action on it.

At the close of the conference, Magill said there was also a good deal of pressure to apply any plan retroactively to 1937, but that the Treasury had strongly opposed it. The President said that that should not be permitted since we were counting on the revenue from the

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present tax system and that in no event should any tax revision be permitted to reduce the revenues below the amount the present system might be expected to yield. Magill said that he was so informing the Committee about three times a day and that so far the Committee was in complete accord with this purpose.

Towards the end of the conversation I said to the President, "You realize, Mr. President, Magill has held the Committee in line up to now, but I am not at all sure that he can continue to hold them in line and that they won't go ahead with changes in the surplus tax." He said, "Well, if they do, make it perfectly plain to them that he, the President, has no objections to their giving relief to the smaller corporations, but that the principle involved, namely: to make it impossible for closely-held corporations to withhold their earnings from their stockholders, that that principle must continue in whatever tax bill is passed.

GROUP MEETING

November 23, 1937
9:30 a.m.

Present: Mr. Magill
Mr. Taylor
Mr. Gibbons
Mr. Gaston
Mr. Oliphant
Mr. Lochhead
Mr. Haas
Mr. McReynolds
Mr. Upham

H.M.Jr: Good morning.

Oliphant: Good morning.

H.M.Jr: Mac, have you got something - got that thing for Clarence Opper?

McR: No, Clarence came in and wanted a little change. But I had it all ready. He wanted a little change made five minutes ago.

H.M.Jr: Five minutes ago?

McR: Ten minutes ago.

H.M.Jr: He's had all yesterday and last night, and

McR: I had it ready.

H.M.Jr: It's silly, all this changing business. I don't know why they always do this. It's just missed. I mean they always do that thing. Always these last minute changes.

McR: Probably ready now.

H.M.Jr: Clarence may miss his chance. Sit down, Mac. He shouldn't change it. Perfectly ridiculous. Always this last minute shifting of papers. I mean I may get a call any minute, and then it's out, that's all. I'm not going to always be waiting for the other fellow.

McR: This is just the paper on changing the Social Security collections from quarterly to monthly, beginning the first of January.

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H.M.Jr: From when?

McR: Changing it from a monthly return to a quarterly return.

H.M.Jr: This is Harold Graves' work?

McR: Yes.

H.M.Jr: Well, this is very important.

McR: Yes, sir. Means saving four million dollars in administrative expenses.

Magill: The Board has agreed to that.

H.M.Jr: Well, there's a good story.

Gaston: Yes.

H.M.Jr: There's a very good story. How much you going to save?

McR: Difference of four million dollars a year in expense of operation. Saves four million dollars in collection expenses. And I'm checking, I'm telling Altmeyer - tried to get him last night and tried to get him this morning; haven't got him - but I just want him to know that we have actually done this before he sees it in the paper. He understands that we're going to do it and he is contented that it be done. But I just would rather let him know specifically that it has been done than to let him find out.

H.M.Jr: Well, I think I'd give it out tomorrow night for Thursday morning.

McR: Well, I'll hold this till I talk to Altmeyer. No question about whether it's going on.

H.M.Jr: Or would you make it a story for Monday morning? It's a good story.

Gaston: It's a good story. I don't know why we shouldn't give it out as soon as possible.

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H.M.Jr: I'd make it a Monday morning story.

Gaston: Would you?

H.M.Jr: Yes. It only goes into effect the first of January, doesn't it?

McR: That's right.

H.M.Jr: What?

McR: That's right.

Magill: Save us making out a lot of returns.

H.M.Jr: And you might, if you happen to think of it, sort of tie it into my speech. I mean we talked about simplification of taxpayers' returns. What?

Gaston: Yes. Yes, lightening the burden on the taxpayer.

H.M.Jr: I'd make it a Monday morning story.

McR: This combines the information and the tax return. Heretofore, they have had a quarterly information return and a monthly tax return. Now it combines the two, makes them on the same form.

Magill: Eliminates millions of returns.

H.M.Jr: I think I'd do a careful story; I'd do it in the form of a regular release.

Gaston: Oh yes, surely. Wants to be ...

H.M.Jr: For Monday morning.

Gaston: Yes.

H.M.Jr: Huh?

Gaston: Yes.

McR: Cuts it down

Oliphant: Sixteen papers to four.

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McR: Eight - sixteen million tax returns will be eliminated by this.

H.M.Jr: Well, I'd make - I'd make a good careful story, will you? And I would like to kind of - a little bit - as I said in my speech - just following that out, huh?

Gaston: Yes.

H.M.Jr: I did say that somewhere in my speech.

Taylor: November 10.

H.M.Jr: All right.

McR: In "one" of your speeches?

H.M.Jr: Yes.

Upham: I have nothing except that I've got a date to change.

H.M.Jr: Can't do it that week.

Upham: He says the week before or the week after.

H.M.Jr: Incidentally, in that conversation I had with you, the man's name in New York wasn't mentioned, was it?

Upham: That's right, it was not.

H.M.Jr: Did he tell you?

Upham: No.

H.M.Jr: Well, I've been kind of saving the week before. Eccles is going to be away that whole week?

Upham: Yes, he has to speak in Chicago and he expects to stay there a day or two, and he says he wanted to save that whole week just because he wasn't sure when it would be.

H.M.Jr: Well, the next week a lot of people may not be here on account of Christmas. Is he going to be away the full week?

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Upham: He's going to be away most of the week, and he'd prefer not to have the date that week at all. He wanted it the week ahead or the week after. I can talk to him again.

H.M.Jr: All right, we'll make it 10:30 on Monday, December 20th.

Upham: 10:30 on the 20th. That does come pretty close to Christmas.

H.M.Jr: What?

Upham: It does come pretty close to Christmas.

H.M.Jr: Lot of people I don't think will be here. Will you (Taylor) be here?

Taylor: (Nods yes)
material

Lochhead: No/change in the rates. They are holding about the same. Selling by foreigners yesterday.

H.M.Jr: All right.

Lochhead: The first shipment of Chinese silver arrived yesterday. One of the - the Wall Street Journal picked it up; that's the only paper that mentioned it.

H.M.Jr: Fine.

Gibbons: (Nods nothing)

Taylor: (Nods nothing)

Haas: Nothing.

H.M.Jr: Herbert?

Gaston: No, I haven't anything.

H.M.Jr: Did you do that little chore for me last night?

Gaston: Yes, I sent an item over to them. He requested that I write out something, which I did and sent over. I haven't been able to find anything yet. Maybe tomorrow.

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H.M.Jr: If you get a chance, might call up Mrs. Morgenthau, will you, and tell her? Or do you want to wait until it appears?

Gaston: Well, I thought I'd wait until it appeared.

H.M.Jr: Anything else?

Gaston: No, I don't have anything else.

H.M.Jr: The boys didn't go wild on the gold desterilization story, did they, yesterday?

Gaston: No. They made all kinds of threats.

H.M.Jr: I haven't had a chance to see the paper.

Gaston: I think maybe Sandy Klein, of the U. P., might have something on the day wire today.

H.M.Jr: Well, that's all right.

Gaston: He was fishing around for something about - oh, it might be expected that there would be a more inflationary policy pursued now in the present situation than a few months ago.

H.M.Jr: (Looking at clippings and cartoons) I don't know which way we do want prices to go, up or down.

Did anybody see Ding today?

Oliphant: Did you see him Sunday?

H.M.Jr: I think so. (Shows cartoon to Magill and Oliphant)

Herman, you got anything?

Oliphant: No.

H.M.Jr: Huh?

Oliphant: Did you know we've been working, Traynor and myself, for three years on a thing we called clerical administration of declaratory rulings, with the idea of being able to advise business men in advance on tax

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liability. That work has come to successful completion, with some assistance we have had from Yntema. I'd like to take that before some bar association to discuss it. Talked to Magill about it.

H.M.Jr: Want to make a talk on it?

Oliphant: Yes.

H.M.Jr: You?

Oliphant: Yes.

H.M.Jr: When does it go into effect?

Oliphant: Well, it will have to be ...

Magill: Be legislation.

H.M.Jr: Ros?

Magill: Herman is too modest to mention another achievement that he and Mr. Helvering have been working on for some time, to improve the refund procedure, which has been a source of considerable aggravation to business men. I understand they have just arrived at an agreement now which I think will pretty well eliminate the friction that has existed between the Unit and General Counsel's office.

H.M.Jr: When will that come out?

Magill: I don't know if it's a matter of coming out.

Oliphant: We'll have to clear it with the Joint Committee.

Magill: Question of internal procedure.

Oliphant: It ought to eliminate an enormous amount of delay.

H.M.Jr: Why wouldn't that be a good story for Oliphant, Herbert? Let Oliphant have the credit for that.

Oliphant: I'll discuss it with him.

Gaston: Be all right. I'll talk it over.

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H.M.Jr: What?

Gaston: Yes, if there is anything we can announce.

Oliphant: I'll talk it over.

H.M.Jr: Will you?

Magill?

Magill: You know the legislative situation.

H.M.Jr: What is it, again?

Magill: The Sub-committee is meeting at ten o'clock this morning and they tell me that they will either finish up with the undistributed profits tax or they wish to take up excise taxes.

H.M.Jr: Now, isn't that interesting!

(Laughter)

Magill: It struck me so.

H.M.Jr: And what are you doing about it?

Magill: I don't wish to be over-enthusiastic about these things; I'm trying to take it calmly; but the announcement did fill me with a good deal of interest, not to say enthusiasm.

H.M.Jr: And where do you spend your days?

Magill: Well, I've been largely in Room 278 signing compromises. But I get frequent reports from the Hill by my trusted runners, including Mr. Upham.

Oliphant: Nineteen dollar compromises.

H.M.Jr: Well, that's very interesting.

Magill: I get a great deal of difficulty. I have not yet been able to make up my mind regarding the two brothers, each of whom offered \$75. Both are in their seventies, and for that reason Wayne thinks

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we ought to not take their money.

Taylor: That's a very difficult one.

Magill: Wayne had a policy of compromises declining with age. If you're 50, you pay a hundred dollars; if you're 50 to 60, you pay ninety, and so on.

Taylor: Well, more or less in direct ratio to the time the Bureau had been working on it, too. Anything over ten years, why, you cut it down in two, you see.

Magill: The Bureau follows the other policy; they work it on a surtax rate - 75 years old, 75 dollar compromise.

McR: I didn't get it that way - that payment case of Wayne's; I got the suspicion that Wayne had had some old decrepit relatives of his borrowing money from him to pay their taxes.

Taylor: No, but maybe in the future.

Magill: I had that ugly suspicion, Mac, but I didn't want to bring it up.

Taylor: Haven't been right on that one yet.

H.M.Jr: Well, I'm glad to hear from you at - from time to time.

Magill: Well, I'm glad to have you know about - I perhaps have been a little remiss in not telling you about this legislative situation, but it is, as you know, comparatively unimportant, so I'm only bringing it up

H.M.Jr: Well, drop in and see me some time.

Magill: On my next trip.

H.M.Jr: I'd wait until about ten, Ros, see? If you don't hear by ten, why

Magill: Ring up the curtain?

H.M.Jr: Walk in here at ten o'clock with your hat on. I'd wait until ten o'clock. McIntyre said 20 minutes of ten. We'll give him 20 minutes leeway.

November 23, 1937.
12:05 p.m.

Operator: Go ahead.

Upham: Hello Ros

Magill: Hello Fred.

U; This is Upham

M: Oh.

U: Fred is finishing up with the newspaper men now; he'll be here in a minute

M: What's he telling them?

U: He's told them the whole God-damn thing.

M: Well that's a nice one, isn't it?

U: Ah - there - one of their first questions was - "Well this means the repeal of the - this is a repeal of the U.P. tax" and he said, "Well it's - ah - in place of it - it's in lieu of it". I tried to get him not to and I tried to get a message to you in the White House. Did you get it?

M: Nope.

U: I left it with the usher with specific instructions it be taken into you. I couldn't reach you because you were with the President. He tentatively agreed to your proposal on a strict.....

M: Well why did he call it my proposal, I didn't propose anything to him.

U: Well I mean the one you put up this morning.

M: Yes.

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U: On a strict party vote and they agreed to tell the press the whole thing. I told him that I didn't think you would like to have that done and.....

M: No - by no means.

U: Well it's all over now.

M: Ah - what's he - well now what did they do on the rates?

U: The 20 to 16 - he's given them the examples and the whole business. I told him that I.....

M: I can't understand why he did that Cy.....

U: I told him.....

M:because he knew perfectly well that we were going to the White House.....

U: Yes.

M:and he knew there was no green light on this proposition.

U: Yes, I said I was afraid the President would throw it down.

M: Well he - he did.

U: Well then that's too bad. The boys are coming now so I assume Vinson will be here in a minute.

M: Yes.

U: He - ah - said everyone seemed to be enthusiastic for it and - ah - he - ah.....

M: Well, of course, he just doesn't.

Vinson: Hello

M: Ah - hello - Fred?

V: Yes, Ros.

- M: We were just over there to the White House as you know and I put this thing up to the President for the first time and the President said, "Well the trouble with it is the rate is too low and that it does not - would not correct the abuses which we are aiming at in 1936".
- V: I see.
- M: And to tell you that he thought this 20% was too low.
- V: Yes.
- M: And we ought to get more. Now - ah - I don't know where we are. I understand from Upham that the Committee went ahead while - while I was away and agreed to it.
- V: Yes, the - ah - Bob - in fact we had a huddle - Bob and - ah - ah Jerry and John McCormack and Buck and myself - they were - I asked them for their advice in regard to the procedure and they agreed and - on the tentative agreement and also to give it out. I had some hesitancy in regard to giving it out.
- M: Well I'm - of course, I'm terribly sorry that you did because I thought since you knew I was going up to talk to the President the thing would still be up in the air and that we ought to hold the fort for a day or two.....
- V: Well here was the answer - here's the answer to that - in regard to giving it out - the question is whether or not the plan would be given out correctly or whether it would come out garbled.
- M: Yes.
- V: That was the - they were very positive in their position that it ought to be done. I - I can realize the situation - I realize the situation that exists now but what we'll just have to do is to do something else.

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- M: Of course, as you know I was - I didn't put any approval on the darn thing this morning. I - I.....
- V: No - no - no, no - you just simply presented the thing that we had been .
- M: Presented what - this business you and Parker, of course, had been discussing yesterday afternoon.
- V: That's right.
- M: And I, of course, had, as I told you, I didn't know whether the President was agreeable to it or not.
- V: No, I knew that and, of course, Upham was - expressed to me the idea that we'd just have to throw the whole Undistributed Profits proposition into a heap; that we'd want to take a licking on it.
- M: When - did he say that this morning?
- V: Yes.
- M: Well I don 't know what he'd had in his mind.
- V: Well there's just a question of his own personal opinion, I reckon, in regard to the situation that exists.
- M: Of course, that's not mine at all.
- V: Well I think that - I thought that you were of the opinion that we were in a right critical condition.
- M: Well I think we're in a critical condition all right, but I'd - of course, I didn't - what I wanted to do was to go on and work on this thing a day or two more until we got what the President's idea was before we did any shooting on it.
- V: Of course, here's one thing that may have developed after - no it didn't develop after you were here - we knew about it before - about the Republican caucus.
- M: Yes.

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- V: That may have been the thing that was in the back of all our minds in regard to that - ah - because of the caucus and came out for direct repeal then anything that would come up subsequent to that time would be - ah - could be well said with force by them.
- M: Yes.
- V: Ah - Bob and - Bob was particularly positive in his attitude in regard to what should be done.
- M: Yes and he thought you ought to go ahead with this to-day.
- V: Yes.
- M: I wish to goodness we could have held the line another day or two.
- V: Well - of course, here's the trouble about holding the line, if we hadn't taken it up this morning we'd have held the line but after we got into the thing it would certainly have come out, Ros.
- M: Yes.
- V: Now there wasn't any use in fooling ourselves. It was like I told Upham. I said, "Now - ah - I - since I've been on the Committee I've never divulged one single thing."
- M: No, I know you haven't.
- V: I mum up like an oyster and just don't - ah - and don't talk but just like the other day they got the whole damn thing - now they've got it - part of it was right and part of it was wrong.
- M: Yes, well - all right - I guess we - I - I don't know what we do next.
- V: Well we just have to - we'll just have to.....

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- M: We've still got - we can still do some figuring on the rates I suppose even where we are now.
- V: Yes I think that can be done - I think there's something to be said in regard to the higher rate, if you can get it. I see perfectly what that - what that means and go 25% but the trouble is whether you can go there or not - that's the practical situation.
- M: Yes.
- V: And I want to say to you that last night I had a communication from a party that is very close in - didn't mention it to you this morning because I never thought about it but just inquiring if there could be final action taken immediately. It came from a source close to - just about as close to the Chief as - as you could get it.
- M: Well now as far as this action this morning was concerned that was for the future and not for 1937, wasn't it?
- V: We didn't take any action on that.
- M: Yes. Of course, I would - I'd hate like the dickens to have anything apply to '37 of this sort because.....
- V: Well I think - I - I think that it wouldn't work because you've got your different policies already to.....
- M: That's already determined.
- V:and you've got your smaller corporations that are paying a larger normal rate and then if they'd declared out the dividends why they'd pay the larger rate too. I - I thought about that last night and again this morning in regard to the retroactivity.....
- M: Yes.
- V:and I - I come to the conclusion that it'll take us up into the middle of November.

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- M: Well it's too late now, I think, to do anything for '37. Ah - ah - would you mind - who was it that talked with you and should try it retroactively.
- V: No, no I wasn't told about retroactively coming out right now. Of course, they - they.....
- M: They're coming out right now with the plan.
- V: With the plan - I mean with the bill.
- M: Oh with a bill.
- V: A bill for undistributed profits and capital gains and losses.
- M: Who had it in mind, Fred? Could you tell me?
- V: Ah - Charley called me and said he was speaking for Jimmy.
- M: I see. Yes, well you've - this is - well if the papers have got it why they've got it I suppose.....
- V: Well the whole thing about it - the whole thing in the world in taking it up - the question of giving it to the press why they'd have gotten it anyhow; now how they'd have gotten it I don't know.....
- M: Yes.
- V:but you know how they got that other.
- M: Yes. Well I take it we've still got the matter of rates; we can fight along and see what we can do on the rates.
- V: Why yes and we'll just do whatever we can do.
- M: Yes.
- V: I don't see - as far as I'm concerned, ah - ah.....
- M: Well now what did they - did they - did they agree on rates too tentatively or did they agree on this plan or what.....

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V: Well they all agreed on this plan. I gave it to them just the way we agreed on it.

M: And - and not the rates, or did they.....

V: Well yes.

M:or were they thinking about a 20% top.

V: I gave them that.

M: I see. Well.....

V: In other words.....

M: Let me stew over it a little and where are you going to be this afternoon - in your office?

V: Yes. I'll - I'll tell you - anytime we take up anything, Ros,.....

M: Yes.

V:you might just as well give it to them.....

M: Yes.

V:and give it to them correctly.

M: Yes.

V: And the mere fact that you're - you say you're considering it - ah - that don't - they'll write that you agreed to it whether you've said you had or not.

M: Yes.

V: Now there was a - they didn't ask me this but the vote was a party vote. They never - they never inquired about that but - ah - the Republicans are going to have a caucus this afternoon - now I think there's a lot to be said in forestalling their - their caucus unless - unless they could get credit - unless they get credit for driving us to it.

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- M: I see - the thing that worries me, of course, the - the way the President was talking this morning he isn't going to like it at all. I mean he's going to - he's going to want a high rate.
- V: Well, as far as I am concerned, I don't mind going to a high rate, if we can maintain it.
- M: Yes.
- V: I just don't think we can maintain it.
- M: You don't think we can.
- V: No, I haven't changed my mind about that one bit.
- M: Yes.
- V: But with 25% and 1% off - why - will do the same job.....
- M: Yes.
- V:except - ah - ah the psychology of the 25% rate.....
- M: Yes.
- V:and - and the question of hardship cases.
- M: Yes.
- V: In other words, to get the - to get 5% more on the fellows that it doesn't make any difference whether you get it or don't get it.
- M: Yes, of course, I wrote.....
- V: I don't know whether or not that's worth getting 5% less on - on corporations that - that do if 5% makes a difference.
- M: The 20% isn't going to force out much in the way of dividends - ah - I don't believe.

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- V: Well I - I think - I don't know just how much forcing out it will do but I think that certainly a crowd that could - that could pay out dividends if I were managing a corporation, and didn't need the money, I would go clear down just as far as I could.....
- M: To get the lower rate.
- V: To get the lower rate.
- M: Well -
- V: That's just good business. Now then if you need ~~the money~~ why then, of course, they - they pay a more normal corporate tax.
- M: Well let 's.....
- V: Upham - Upham ah - Upham ah - was here and he's here now.....
- M: Yes.
- V:and he - he told me that you had gone in to see the President. Of course, I knew that you had gone down there.....
- M: Yes.
- V:I didn't know just what part of the conference - how far it had progressed and, of course, I told the boys that you had gone down there to - ah - to talk this over and they understood that.
- M: All right, well I'll - let's - ah.....
- V: I say - Upham said you didn't get his message.
- M: No, I didn't get any message.
- V: Well he sent a message in by somebody - by the usher there.....
- M: Yes.

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V:to - ah - to tell you that we were figuring on releasing it.

M: We didn't - ah - I called you up as soon as I got back - I didn't get any message,...

V: Well I say he told me that he did.

M: Well - ah - well we'll study - I'll do a little studying on this rate and see if.....

V: Well I really - I really feel this way - now I know the President's objective and I'm perfectly happy to go along with it because I never have failed to do it yet.

M: I know.

V: And I'm certainly not slowing up in my old days because I know - I know his objective and he's got the whole picture of the country before him but he may not know just how much sheep there is in regard to retaining it at all - that's the - that's.....

M: Yes.

V:the only difference in viewpoint that might be had.

M: Yes.

V: And I asked - I called them over and we had the huddle in regard to whether or not we would tentatively agree and then whether or not we would give it out. I - I realize thoroughly that you were down there and that you hadn't gotten the final green light.....

M: Yes.

V:but Bob and all of them - ah - and I'm not trying to shirk any responsibility.....

M: No.

V:because.....

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M: No I understand.

V:in that way but they were unanimous that - ah - the boys would get it anyhow and they ought to get it correctly and I tried to give it to them as - as clearly as I could.

M: Yes, well I'm - I'm sure they got it.

V: I - I tried to take care of the small corporations first - \$25,000. and under and pointed out what that.....

M: Yes we want to do something to take care of them.

V: Well, as I say, I pointed that out the first thing.

M: All right, well thanks very much, Fred, for giving me the dope on it. I'll probably give you a ring again this afternoon.

V: All right, I'll.....

M: Is Cy - is Upham right there?

V: Right here.

M: Would you ask him to come right down.

V: Yes.

M: Thanks very much.

V: All right.

M: Goodbye.

November 23, 1937

At 10:20, HM, Jr called Jimmie Roosevelt. He said to him, "You asked me to let you know when I was going to see your father on surplus tax and I am just keeping my faith with you." Jimmie Roosevelt said, "McIntyre told me that you were coming over at 11."

Jimmie Roosevelt then asked Mr. Morgenthau whether he knew anything about the housing message and thought it would be a good idea to add something on taxes. The Secretary replied that he would not add anything on taxes to the housing message, but that he would ask Taylor whether he knew anything about the housing message and if he did that he would suggest that he go right over to see Jimmie Roosevelt.

Jimmie Roosevelt asked the Secretary whether he felt as strongly on the surplus tax as he did before and HM, Jr said that he did not answer him because he did not know what he meant.

November 23, 1937

At five minutes of one, HM, Jr called Jimmie Roosevelt and said, "Something very serious has happened between the relationship of the White House, yourself and myself. I do not want to say anything over the telephone. Could you come over right after lunch to see me?" Jimmie Roosevelt suggested 2:15.

RE COTTON CONSUMPTION (SECRETARY NOT PRESENT) November 23, 1937
11:10 a.m.

Present: Mr. Taylor
Mr. Daggett
Dr. Feis
Mr. H. S. Patton (State)
Dr. Lawrence Myers
Dr. Lubin
Mr. Robert Stevens
Mr. Donald Comer

Taylor: The Secretary had to go to the White House, and so he asked me to carry on and he'll try to get in here at the end of it.

I think the best thing to do is to hear a progress report from Mr. Stevens, because apparently there have been quite a few developments that I think everybody here would be interested in, that have been taking place on the outside. Is that agreeable with you, Herbert?

Feis: Oh, quite.

Stevens: Well, Mr. Taylor, of course, this subject of jute is one - it is not a new subject; it is an old subject. It is one that the cotton industry have devoted a lot of time and attention to over a period of time. There has been legislation on this subject introduced from time to time; it hasn't passed. But we have kept working on this subject and we have committees in the industry who are charged with the responsibility of trying gradually to effect through educational and other processes some advance along the road of doing something about jute. In that connection, it just happened that last Thursday night there was a meeting of that committee here in Washington, which had been scheduled several weeks before, and I didn't know about it until I had been over here on Tuesday, and as soon as I found out about it, why, through Dr. Murchison we got word back here that this meeting was going to take place, and we were so afraid that there might be some embarrassment in connection with it that we would have called it off or done anything that seemed advisable, these meetings being of a confidential nature. But there didn't seem to be any reason why we shouldn't go on and have it. Of course there was no reference in any way,

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shape, or form, to this discussion.

That meeting did take place last Thursday night. Probably about fifteen manufacturers from various points in the industry gathered here in Washington for the purpose of discussing this thing in one of their periodic discussions of it. And Mr. Comer presided at that meeting. And there were four Senators and one Congressman there. And inasmuch as Mr. Comer did preside at that meeting and has followed up some angles since that time, I'd like, with your permission, to ask him to tell what happened at that time and since, just by way of bringing everybody up to date.

Taylor: All right, fine. You do that, Mr. Comer. I think we'd be interested in the personnel of the committee as well as the Senators and Congressmen who attended it, if that's all right to ask you to do that.

Comer: I'd have to make that list up for you, because I don't believe I could do it at this time. Except I'll say that Senator Smith, the Chairman of the Senate Agriculture Committee, was present; Senator Bankhead, Senator George of Georgia and Senator Russell of Georgia, and Mr.

Stevens: Cooley.

Comer: Coonley, of the - member of the Agriculture House

Stevens: Representative Cooley.

Comer: Cooley, of North Carolina, member of Agriculture Committee of House. And Dr. Myers was present and Mr. Pickard, of the Department of Commerce, was present. When the Senate Agriculture Committee were having their hearings this summer preparatory to new farm legislation, a meeting was held in Montgomery and I was asked to come before that group by the Commission of Agriculture of Alabama to ask them that in the new legislation some protection against the increasing imports of jute be included. And I did appear there, and afterwards in discussing the matter with Senator Bankhead his idea

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was that the best way to approach the question was by quota, and asked us to prepare some suggestions along that line for his attention.

The meeting in Washington last week was for the purpose of discussing that plan further and for working along with the members of the Senate, following the suggestions of the Senate Committee. Such an amendment was prepared and was given to Senator Bankhead. Whether or not it will become a part of the present farm program, I don't know.

- Taylor: Tentatively an amendment to the agricultural legislation itself.
- Comer: That's right. I have, for your information - I have just heard that the amendment was not included in the bill that is now being presented to the Senate from the Agriculture Committee.
- Stevens: Donald, would you tell them what the nature of that amendment is? Don't you think that that's appropriate?
- Comer: Yes. The amendment sought to control imports of jute both manufactured and not manufactured in this country by quota; the quota to be arrived at on a basis of 65 percent of such imports for the five years '31-'35 inclusive; 65 percent being arrived at because that was the way that the cotton farmers had their acreage reduced over their base acreage if they were to enjoy farm benefits.
- Stevens: I think that brings you, Mr. Taylor, completely up to date.
- Taylor: Was '31 to '35 before the uses of jute had increased materially, or is it materially as they are? How did that compare with, say, the '36-'37 figures?
- Comer: Well, we picked those five years because it represented two years and a half before AAA and two years and a half after AAA, and we thought that average would give a fair base.
- Taylor: How did that work out as compared to '36, for example?

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- Comer: Well, we - now, such figures as we could get indicate that during those five years the average imports of jute were about five hundred million pounds - little bit more or less. We find that for the nine months in '37 the imports of jute are practically equal to what the whole year of 1936 was - approaching a billion pounds, doubling practically what the base was that we're talking about.
- Stevens: So we have taken a period, Mr. Taylor, which is prior to the recent great increase in the inflow of jute. Although, if you go back to the period of the twenties, Donald, the figures ran back there, I believe, approaching the billion pound mark, didn't they, from year to year; but we came into the depression there and that went down.
- Taylor: Is there anything else that you think would be of interest that has developed since our last meeting?
- Stevens: No, those are the things that we had in mind and we wanted to bring you fully up to date just by way of information, as a preface to what would go on from here.
- Taylor: Anybody got any other questions about that?
- Comer: May I say some more?
- Taylor: Excuse me, I didn't mean to
- Comer: Well, I'd like to at the proper time further support this idea that we are suggesting with the figures, which I think will be interesting to those of us who are powerfully concerned about this effort of our government to protect farm income by helping American cotton, who see us losing our export market for cotton to foreign growers of cotton and losing our domestic market for cotton goods to increasing imports of jute.
- Taylor: Well, I think it would be very useful if you would prepare them in memorandum form, unless you have it that way already.

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- Comer: No, I just have it in my head. I can do whatever you suggest. I can
- Stevens: We'll prepare anything you want.
- Taylor: I think that's the best way of doing it. Be able to present the full picture.
- Comer: Well, may I say just this, then, that I will present figures to show that our American cotton crop was decreased under the farm program, that foreign cotton was increased, particularly India cotton, and that as we lost our foreign markets for our cotton, it was of course taken up promptly by these foreign cottons, and particularly India. I could cite Japan very dramatically - her decrease of American cotton and her increase of India cotton; and I could cite the fact that as we decreased our acreage in cotton, India increased her acreage in jute.
- Stevens: I think, Mr. Comer, while that ought to all be in, it is only fair to say that the Secretary at our last meeting did present a series of figures, country by country, which showed the decrease in the exports of American cotton to those individual countries, and went further and showed where that slack was being made up. So we've got those figures; I know that he has those figures available, and possibly we can supplement them in some way.
- Patton: Wouldn't that show, rather, the percentage of imports from the United States to foreign countries, rather than the decrease in the amount of exports?
- Stevens: That's correct.
- Patton: Japan has taken a larger amount, even though a smaller percentage.
- Stevens: Those percentages must have been taken from a quantity base.
- Patton: Yes, but Japan has been importing far more cotton than it did previously, taking a larger physical amount from the United States, although a smaller percentage.

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- Taylor: Well, I think that - I know that we'll be glad to have that in any form in which you care to present it, Mr. Comer. I think - as Mr. Stevens says, while we already have a lot of figures on it, you can always argue about figures; it's a great pastime. But it would be my suggestion that you present it in any form that you wish to.
- Comer: Well now, I understand the State Department is concerned about this matter because of its relation to trade treaties with Great Britain and that they are here to discuss it from that angle this morning.
- Taylor: That's correct. At the last meeting, wny, Dr. Feis said that he wished to take the whole question under advisement for the State Department and would be ready to report back at this meeting.
- Comer: Then we can listen to what he has to say and possibly comment some after.
- Taylor: You ready to do that?
- Feis: I didn't know that Fate would cast me, a spokesman for the interests of the cotton farmers, in this role; I am pleased to find that turn of Fate since my colleagues in the Department of Labor and the Department of Agriculture feel they have to be mute.
- Myers: If you are speaking for Agriculture, I want to say that we probably wouldn't be mute forevermore.
- Feis: I'd begin by a very leading statement - just throw it out as a result of experience -: that for a country that is the largest grower of cotton in the world, is customarily the largest exporter of cotton in the world, and is still the largest exporter of cotton in the world, to adopt within the field of the natural textile growths a policy of quota restriction would prove to be a regrettable error, because it completely handicaps itself in the attempt to keep open for itself against both competing textile growths, substitutes, ^{and} competing sources of cotton that is sold in foreign markets, foreign markets which can, at least to the present extent, which is some five and

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a half million bales, be kept open. Given a continuation of world activity, a continuation of a trade agreements program, we just have no hesitation in asserting that that much of a foreign market we can retain, unless of course we again get a domestic cotton program that makes the price of cotton that we offer to the world so much higher than competing growths that we deliberately throw away that market and go in for this tremendous readjustment in the South that would result, in which event the State Department summarily would turn over the situation to the Department of Agriculture and Department of Labor and the Treasury to solve and manage, and expect that when the cotton textile ~~industry~~ had to pay the necessarily increased taxes to support the people on relief, they would do it cheerfully. And that would be my leading observation.

In addition to that, I think probably the shortest way I can make a statement is by just reading the section called "Concluding Observations" of a memorandum of analysis. We want a chance to work it over before we turn it in. Its preparation was carried out as objectively as we could carry it out, on the supposition that the quota would apply to 50 percent of our imports. We had to take some supposition; that's the one we took.

"1. Analysis of jute uses and competitive substitutes in the United States indicates that the potential additional outlet for American cotton would be very much less than that suggested by figures of the quantity of jute consumed in various forms in this country. Unless total exclusion of jute imports were contemplated, probably not much more than a quarter of a million bales of cotton would be added to domestic consumption through imposition of import quotas.

"2. Since the predominant use of jute is as a container or wrapping material for American and insular agricultural products and for materials used by farmers, the compelled substitution of more expensive cotton materials would involve an added marketing or production cost, both for cotton growers themselves and for other farmers generally.

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"3. Possible benefits to the American cotton textile industry would be offset to a very considerable extent by injury to the domestic jute manufacturing industry.

"4. Owing to the many different forms in which jute and its manufactures enter this country and to the fact that such imports are subject to twenty different tariff classifications, the introduction and administration of an import quota system applied thereto would involve baffling and vexatious technical difficulties and economic complications.

"5. The proposed import restriction on jute is at variance with the Administration's policy of lowering world trade barriers through the process of mutual concession, and since the external effect would be concentrated on Great Britain and its interests in India, such a move would be in the nature of..." - this says "would be in the nature of a breach of good faith with the United Kingdom"; I would not say that myself, but that it would be a disturbance of our relations with the United Kingdom - "... with whom a preliminary announcement of intention to negotiate a trade agreement has just been made. There is reason to believe, moreover, that such an action might result in a greater loss to this country's export trade in raw cotton than the prospective expansion in domestic consumption of cotton.

"6. A potential additional domestic outlet for American cotton undoubtedly exists in its greater use as a bale covering for cotton. The present prices for lower grade cotton are themselves conducive to such substitution for jute bagging. As alternatives to the restriction of jute imports (to which objections have been noted) the larger use of cotton for this purpose might be stimulated by: (a) Requiring that cotton be sold on a net weight instead of gross weight basis; (b) Offering premiums (financed by AAA Section 32 funds) for cotton wrapped in cotton bagging under approved standards; (c) Voluntary agreement by cotton textile mills to use cotton wrapping materials for baled goods.

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"7. The most important outlet for this country's cotton surplus lies in the export field. Expansion of cotton production abroad since 1932 has been stimulated primarily by the relatively high price differential maintained for American cotton. Lowering of cotton loan values after 1934 has been reflected in larger volume of exports. Current prices of American cotton are proving conducive to increased exports and are likely to check foreign expansion of cotton growing. Although present prices are abnormally low for producers, they are offset in part by the record high acreage yields obtained in the last crop year, and are being supplemented by substantial benefit payments. The Administration's trade agreement program is serving to increase progressively the capacity of foreign countries to buy American cotton. A policy of keeping American cotton prices at a competitive level will be most conducive to making this potential foreign demand effective, and thus reduce the country's surplus stocks."

"That is in general. I might add a few particulars in regard to the trade agreement angle of the thing. Very plainly, if within 30 days after announcing intention to negotiate with Great Britain, one of the primary objects of which is to safeguard our present American foreign cotton market in Great Britain, even as against Indian cotton, we should take action that would disturb the jute producers of India, the jute factories of India, the jute factories in Great Britain, it would shake the British confidence in the possibility of making any kind of a deal very substantially. I should almost expect the result would be to immediately stimulate a movement between Great Britain and India to further increase the use of Indian cotton and decrease the use of American cotton in Great Britain.

Secondly, and just within this room, again as showing the interrelations of these things, we are bargaining for certain concessions. Among those concessions are some on which the Dominions would have to give up present preferences in part in the British market. Some of those interest India. For example, one is rice. This is strictly confidential. That is of interest to the Southern rice-growing states. We

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can expand the British market for rice. But if we hit India, of course, India will buck any concession on the part of Great Britain on rice. There are certain other commodities in the same situation.

Therefore, I summarize by repeating my leading statement: if a country with our degree of interest in export markets should take this step, it would be out of accord with our broadest interests, and its immediate - and its promised results for the cotton farmers, even in the way of expansion of our domestic markets, would be more than offset by the many indirect results that would occur of direct interest to the cotton farmer. And the difficulties and complications of administering the quota, which we have stated very modestly, would even disturb the textile industry; we'd have every branch of the textile industry sitting down on our doorstep all year round, trying to work out the intricacies of this quota administration scheme. And lastly, the indirect injury to the other branches of the American economy would be quite notable.

Those, as far as we can judge, would be the results of this quota action if it were really a far-reaching quota action. I'm sorry, Mr. Comer, once again to seem to be expressing the voice of denial. It is a privilege that the Government grants me when they give me my semi-monthly pay check.

- Taylor: What effect do you think the diversion program, as you mention there, would have?
- Feis: Harold, would you care to ... I suppose Mr. Myers could tell us most on that.
- Taylor: No, I mean in your final effect it would be more or less the same thing, wouldn't it?
- Feis: Well, I don't think it would be nearly as far-reaching and be harder to attack.
- Taylor: Well, I think obviously it would be harder to attack, but as far as, I'd say, cutting the ground from under the jute boys, why, if it were carried to its logical

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conclusion, why,

Feis: Yes.

Myers: It is positive rather than negative, however.

Taylor: Oh yes.

Myers: This other way - I couldn't help but think the other night over there - you recall the contradiction that was noted in our tariff rate of 7 cents a pound on yarn and one cent a pound on burlap. Well now, if you will go back - I've not done it since that meeting the other night, but if you will go back to history not so ancient, you'll all hear complaints about Post Office boys using jute twine. The point is that the Post Office boys are normal human beings and they have to have a twine that will hold the package but yet that they can break with their hands in their work. It is just physically impossible for a man to put up with a sharp-cutting twine. You can make a twine out of cotton that will do it, I suppose, but for some reason or other they haven't seen fit to.

So we get a 7 cents a pound duty on jute yarn and they still don't have the yarn business. And it isn't only the Post Office, but it's the rest of American industry. One of our most ticklish problems is a processing tax with compensatory taxes on twine. I think you were over there at the time; perhaps you (Taylor) got into a little bit of it.

Taylor: Well, I could see what it led to and as I recall it, I moved out.

Myers: That's the trouble with some of you fellows; you move out, but I have to stay there.

On this quota business I have to laugh. Sometimes American industry accuses us Washington folks of wanting to become bureaucrats; and, bless God, wouldn't I be a bureaucrat if I were to go in for these quotas. They are licenses to import.

Feis: And we know that - this is speaking from a point of view of American business in general - that if you really want to create a government that will dominate the business show, go in for the quota system and you

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will get it. The thing extends without anyone's will, but inevitably you will find the thing extending into other phases of business in order to make your quota system work - something else next, and something else next, and something else next.

Myers: Well, I wonder if these folks have thought through the quota. I've been trying to do a little bit of thinking on it; I don't know that it is very effective.

I see two big problems in addition to this one of administering licenses. One is that you would be buying jute and jute products in the world market which would be as low as it is at present, or perhaps lower, because this country uses, I believe, about 20 percent of the jute; then the fellows who we bureaucrats were kind enough to hand out a license to would bring that stuff in here and sell it. Now, there is only one way that cotton could be permitted to go into the jute field, and that is to have the jute brought up high enough so that the cotton could go in there, so that the effect of a quota - the effect of an effective quota would be identically the same as an effect of a very high tariff. That would mean that the folks coming in here would be able to sell that stuff at a profit of perhaps - well, 8 cents a pound at least.

Feis: Exactly.

Myers: Now, I wouldn't especially worry about the folks in the Government administering the thing as honestly as they could. It could be done, I think, without any crooked work. But the fellow who can make a snowing and get a license would have a gold mine.

Feis: I want you to go on, but I just want to use that to elaborate the point I was making. The next thing would be that he would have a gold mine. People would see that and Congress would see that within one year, so that when they came to renew the legislation you'd find tied up with that some new form of taxation on the people that got licenses, or some new form of arrangement for the distribution of the quota. The Government would be - you go into quota systems and you will have the Government all

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over your business within three or four years.

Myers:

Of course, when I said I think we could administer it honestly, I should have pointed out that you couldn't administer it without charges of dishonesty and favoritism; there would be those charges no matter what you did.

Now, another problem that bothers me quite a little bit - and I'm raising these things more to get you men's reactions on them, because I'm moderate, I want to help out constructively on this thing, not destructively, and these are problems that face me - how can you work out a system which will work? In case of cotton bagging, we know that that stuff is primarily made out of refuse jute, reclaimed jute, garnetted sugar bag cloth, and the like. Now, you make it profitable to the point of 200 percent or over on the jute products imported into this country as wrapping materials; how long would it be before we'd have an excessive use of wrapping materials coming in here on the textiles that we import, and everything else. I can conceive a development where we would bring in bags just once, never return them for a second use, sell them in the domestic market - sugar bags; bring in textiles wrapped excessively with jute either so loosely once you could garnet it right away and respin it or made into such form that you could sell it for specific use in this market, in the same way that some of your folks have made bags out of toweling so that the housewife can rip out the seams and have a towel. I just wonder how big those leaks would become. It seems to me they would become very pronounced.

I'd like to get your reaction on it, Mr. Comer. What do you think about it?

Comer:

Gentlemen, I've grown cotton all my life. My father was the largest cotton grower in Alabama. The cotton that grows from Virginia to Texas is the only major foreign product of this country not protected by tariff. Every other farm product has a tariff: wheat, 42 cents; corn, 25; oats, 15; cheese, 7 cents; butter, 14 cents - a tariff not only protecting the thing in kind but against substitutes. We have a tariff protecting soy bean oil and cottonseed oil against whale oil; we have a tariff against cashew nuts and brazil nuts to protect pecans and English walnuts.

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Some few years ago when we decided to raise cotton by irrigating the territory of New Mexico and California, they didn't hesitate to put a tariff of 7 cents on Egyptian cotton, which was part of the British Empire. And that tariff today stands. .

The Department of State - Mr. Edminster - is he still with your Department?

Feis: He is.

Comer: ... was in Birmingham not so long ago - last May - a year ago - and he said it was the policy in America to protect every major farm product and he knew of no purpose or intention to have it otherwise.

Senator Borah has said that the American farmer should be protected in his home market to the extent of an embargo - not a quota, but an embargo.

I'd like to tell just one little story, not to be funny. They say that when a man is supposed to be crazy, they carry him to the insane asylum and he is tested to see whether he's incurable or whether he has a chance; they put him into a room and turn on the spigot and give him a mop and bucket. If he begins to mop up before he turns off the spigot, his case is hopeless. Now, we're trying to mop up in this country here; we're trying to improve the income of cotton farmers; we're trying to improve his market, if possible. And what we're doing, obviously, is losing our export market; the figures are very conclusive evidence on that point. And the figures are very evident that we are losing our domestic market by the importation of jute.

And why - why is jute coming in here and taking the place of cotton? Well, there are some people who need jute and will buy it if it is higher than cotton. I think that is so, but that - but it comes in here and takes the place of cotton because it grows in India, and Senator Russell on the floor of the Senate last year said that people are paid eight, ten, twelve cents a day that make it.

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And not only are we bringing in this jute free of duty - raw jute free of duty, which allows these manufacturers to manufacture it here with a protection of seven cents against the manufacturers of cotton, but now they are manufacturing this raw jute in India into burlap and bringing the burlap in here, and bringing bags in here - the burlap bags, already fabricated. And yet we are talking about protecting the American market for the American cotton farmer.

Now, if that's not a sound program, then, why - what I'm talking about is all - it falls to the ground if what we're trying to do is to increase the price of cotton. That is what we are trying to do; we are trying to decrease the acreage planted in cotton, and we are doing it.

Taylor: Mr. Comer, these tariffs that you mention - were they imposed before or after those particular products had lost their world market?

Comer: I don't know. They have a world market now - in other words, butter and cheese ...

Taylor: Well, I mean before the American producer lost his world market.

Comer: I don't think the American producer in those commodities ever had the world market. Wheat goes up and down, but when wheat was short last year because of drought, the imports of wheat coming in here paid 42 cents a bushel tariff, and had that tariff not been here the American wheat farmer would have had a short wheat crop and a short price too.

Taylor: Well, it is a competitive position there.

Comer: Yes.

Taylor: Natural competitive position.

Comer: Now, as to leaks that Dr. Myers speaks about - of course, I recognize that whenever you begin to write a law you have to write another law, to write another law, to write another law. I know that we fixed a quota on sugar; I don't know how you carry that out.

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Senator Bankhead suggested, because certain Congressmen in the South who hate the tariffs had voted for quotas, that that might be the better way to approach the matter.

Now, I - the facts are so - it is so obvious to me that we've got a problem here; there ought to be a high tariff on jute, but obviously we can't get it, so we thought that if we, say, go back to a 1931-35 basis, make a percentage of that a quota, then let that quota come in - and I'd rather tax it and have a tariff on it myself, but I wasn't arguing that; I was just trying to stop this taking up the slack of a curtailed cotton market in this country caused by increasing cotton growths in the rest of the world and by the importing of an increased amount of jute in this country. And I think that's a sound position.

Now, England - I appreciate what the State Department says about that, about the difficulty of establishing a trade arrangement with England. But England didn't hesitate to put a terrific price on her rubber to make us pay it, and we had to pay it until somebody started to raise rubber. Isn't that right? And England is not using our cotton because she likes it; she is trying to grow cotton everywhere she can grow it. We didn't hesitate to put this 7 cent tariff on her Egyptian cotton. We want to help cotton, we don't want to hurt it. And I appreciate there are two sides to all these questions, and I favor the State Department's effort to negotiate these trade treaties; I think it's the right approach to this matter. But I don't believe in our being the only party that's afraid of the situation. We buy a lot of stuff from England too, besides the jute.

We went over to Japan on this same sort of a situation and we told Japan that by shipping into this country cotton goods, whether it was piece goods or cotton gloves or cotton hosiery or cotton face nets, they were defeating the AAA program and the NRA program; that we couldn't sit down over here and keep trying to have short hours and higher wages and let Japanese cotton goods come in here and defeat the program. And even the Japanese saw it and agreed to a quota.

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Now, at present the American mills are trying to process this American cotton crop, and we're - we're not running - I don't think we're running 50 percent today. I know I'm not. I'm not running 50 percent of my own mills.

I'd like to have a list of Dr. Feis's points that he made there, because I'd like to have really - to give them consideration, because I can't remember them.

Feis: This is just an informal memorandum.

Taylor: Well, I think Dr. Feis would be very glad to let you have it.

Feis: Sure.

I might add that I am sure Mr. Comer will be convinced, without my having to argue it, that Mr. Hull has the same deep interest in the welfare of the South that you (Comer) share, that he is thinking of the cotton and the tobacco and the rice and all the rest of it, and the one point of difference is a little difference of mood or attitude. I can understand that the present emergency facing the cotton industry is a very bitter and difficult one. Certainly we share the hopes that ways can be found for assisting the cotton industry through it.

But as far as we can survey the facts, what is taking place even through the imports of jute does not mean any permanent displacement of the American cotton industry. Unless my information is wrong, the domestic consumption of cotton last year had a record high.

Comer: It hasn't been consumed but it's in warehouses.

Stevens: Of course, Dr. - excuse me.

Feis: The situation we face is that of the South so largely devoted to the production of cotton, which compels the necessity of retaining the export markets that it has at the present time. And those markets we are convinced we can retain, other things being equal.

Comer: But at a price that is competitive.

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Fels: At a price that is competitive, is the only answer that can be given. And so our fear is to imperil too seriously the foreign markets for that cotton.

And incidentally, if we hurt the trade agreement program seriously, bring it to a sharp halt, you likewise imperil foreign markets for other southern products, such as tobacco and rice, and create then a very grave situation for the whole of the South, which I have no doubt we could take care of in years, but which would take an enormous amount of domestic readjustment.

In addition to that, we are impressed - it is ~~para-~~doxical, but we should be more impressed - with the real genuine difficulties of administering such a system as is proposed. I can speak from my limited experience in trying to administer one quota, the one that we ran for three months in the field of liquor, imported liquors. And I think if you were sitting in my office during those three months, you'd see that I'm not throwing it completely out of my imagination. And we were perfectly certain that we were handing down a series of arbitrary decisions affecting somewhere in the neighborhood of twelve hundred individual enterprises, often with inadequate knowledge, deciding that this man can get along, this man will make a fortune, this man must go out of business - the whole thing arbitrary, certain to lead to much more extensive government control in the effort to make it work fairly. And in my short review of the intricacies of this one, it convinces me that we have something even more difficult.

I think it might be helpful to all of us if Mr. Myers could explain why it's been possible for the sugar quotas to work with so relatively little difficulty.

Myers: Well, frankly, I have not worked myself on sugar. I've got to dig into that a bit, but have not so far. However, I can see without working with it that there is quite a difference. Where the sugar is brought into refineries here by a large established trade, and while you have a certain amount of established trade in jute, I am quite certain that it is nothing like so definite and uniform as you have in the case of your sugar. For example, a number of your

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comparatively small bagging firms import some of their own jute. That's about all that I can say on that.

I would like to comment a bit on this labor problem that has been touched several times. The textile industry we used to think of as a 400,000 person industry, and it's gone down to around 375,000 - I'm not sure

Comer: 450,000.

Myers: 450?

Comer: Oh yes, we had 450 last spring.

Stevens: At the peak.

Comer: At the peak last spring we had 450. In 1934 it went back down to about 380. But it went up to pretty close to 450, I think, again during this peak of the spring - I mean spring and fall - that Dr. Feis just mentioned of manufacturing goods to put into the warehouses. Back down just now.

Myers: I'm surprised that it went up. I did not look at those figures as to the number in the industry at the peak of your activity. But the trend, as you know, has been downward. I have been very much impressed by the increased output per man hour. Your increased output per man hour is now running between 35 and 40 percent - I think it was about 36 or 37 percent last month - above what it was in the '27 to '29 period. You have had a revolution in your manufacturing industry - the first one you have had for about 30 years, I believe - in really putting in new equipment, labor-saving devices, cutting down on the amount of labor you require for a given output.

I believe that that trend will continue. I see no reason to think that it won't. And I would say that, looking ahead a few years, your industry is more likely to be a 350,000 industry than a 400,000 one.

But irrespective of that, let us, say, take the

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400,000 figure. We have two million cotton farmers in this country. The number of people per farm family is close to five on the cotton farms, as compared, I believe, with about an average of three for your mills. We do not have figures I know of that are reliable as to the number of workers per farm family. As you know, in the Cotton Belt it is pretty large; it tends to be everybody that can toddle down a row and either drag a bag or have someone else drag it for them.

If we lose our cotton export business or any large share of it, those farm laborers are going to have to go somewhere. Now, that is the supply of labor that has built the southern textile industry, that drew the southern textile industry from New England down South - first drew it into North Carolina and is now drawing it into Georgia and Alabama. I think that that is a very wholesome shift from the standpoint of the South; they need more industries. But what would happen if you had to take care of even a small percentage of the cotton farm population? A million bales additional consumption is a nothingness compared with that problem.

Comer: May I interrupt just a minute?

Myers: Yes indeed.

Comer: If I said anything here that would indicate a belief on my part that what I am suggesting will hurt the cotton farmer, I'd like to just wipe that out right now. If what I'm talking about isn't going to help the cotton farmer, I wouldn't be here a minute.

Myers: I think we all recognize that.

The point I mean is that this matter that Dr. Feis brings up of maintaining our export trade is vital to the South in a way that I think we sometimes don't realize when we think of industries. The textile industry is a large industry, it is a large employer of labor; but as compared with our cotton farms, the cotton textile industry is a minor one. That is, you have 400,000 against at least perhaps four million - and perhaps five would be a better figure than four - workers on the cotton farms.

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Comer: Well now, may - of course, I think it's all coming home. David Lillienthal, of TVA, from Wisconsin, was in Alabama last year and made this statement: that the exporting of cotton which has been going for a hundred years from the South, which has brought to this country the trade balance - favorable trade balance of 35 billion dollars, had been the source of ruin both to our men and our land; but that the money that did come in to us, this 35 billion dollars for this cotton, and which we spent, was the basis of its tremendous development.

Now, I'm for exporting cotton if it can be exported at a price that will stop that drain of man and land in the South. But something has got to be done different from what we have been doing in that respect. Now, if we've got to meet the competitive world price we've got to pay the farmer something in addition in order that he may have the dollars to pay for things that we make in this country.

Myers: Well, I agree with the last statement that the cotton farmer will have to be helped, since our nationalistic set-up that we have had for many years here has obviously worked to his disadvantage.

I would like to make one observation now on that matter of so-called favorable trade balance. Maybe Dr. Feis will want to disagree with me - he is perfectly welcome to do so - but in looking at this cotton problem, certainly I don't give two hoots for a favorable trade balance. I would much rather have an unfavorable trade balance. Then we could get some purchasing power to sell some of your cotton possibly at respectable prices. And if I were an exporter of automobiles or of oils, mineral oils, I certainly would not be interested in expanding exports of cotton, because then I would be utilizing the foreign purchasing power for cotton when I'd want to have it for myself. The same thing comes up at times about corn and hogs - as though the corn and hog producer has an interest in keeping up cotton exports. He has an interest in that when cotton production is profitable, the cotton farmer buys a lot of those food products rather than raising them. But certainly as far as the export

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market is concerned, the hog producer would be a lot more likely to maintain his exports of lard if there is some left-over purchasing power.

I don't know why, but that whole argument seems to be offered in so many places. I find it - I mention it not only because you brought it up, but all over the South I've run into boys - "How can the nation ask us to keep up this favorable trade balance for their benefit?" So far as I'm concerned, I have no interest in a favorable trade balance. Maybe Dr. Feis does. If he does, he can go ahead.

Feis:

We certainly have no interest in a favorable trade balance for its own sake. The professors usually have - we often wonder why. We have done our best to try to interpret the meaning of trade balance. Our interest is merely based on the facts that we have found exist: the South organized as it is organized, the economic opportunities that are available to it. If it weren't for that, we probably wouldn't be engaged in any effort to try to keep external opportunities open for the South. But there is the South in its present state, facing its present conditions, which have been so well summarized. It is for that reason that we are interested in the export market, and not because we are trying to serve any general economic conception of favorable trade balance. To which I merely add, if I could: having said that, and also recognizing the extremely unsatisfactory return the South has at times received for its cotton, I also think that it is about time that men like Lillienthal stop coining superficial slogans about "exporting our men" and "exporting our soil." It's damn fool nonsense.

Myers:

If Mr. Lillienthal would only analyze cotton, he'd find cellulose.

We used to have an expression for butter in the North and it's a good one. You know - what was it, Hutchinson - dairyman of Wisconsin - Hutchinson isn't the name. In any event, a professor at Wisconsin said - developing dairying in Wisconsin, said, "Here we have a sandy soil; we've got to conserve our fertilizer." So this fellow said,

"Why not sell butter fat, which is wind, water and air for 40 cents a pound."

Stevens: I don't want Dr. Feis to misunderstand the point of view of the textile industry.

Feis: I'm sure

Stevens: I'm sure he doesn't.

Feis: Our basic interest is just the same.

Stevens: Because we are here at the request of the Treasury Department to try to suggest some method by which we can help, I would say, primarily the cotton - the raw cotton situation, and incidentally possibly textiles; if we can help cotton, we can probably help textiles. But we are not here really holding a brief on this jute thing; we are only here in the capacity of suggesting that in our judgment that is one way by which we can give an answer to the question which the Secretary faced us with just a week ago this morning.

Feis: And I for my part wouldn't presumably be doing my job if I didn't put straightforwardly as I can the considerations that occur to me.

Stevens: And I do disagree - it's an honest disagreement - with respect to the quantity of cotton that your memorandum visualizes might be used in replacement of jute. Now, you have mentioned a figure there

Feis: That's on the 50 percent quota supposition.

Stevens: You mentioned 250,000 bales and my own view on that subject would be that the quantity would be far larger.

Feis: Mr. Patton is the author of that estimate. Possibly you'd want to talk to him.

Taylor: Dr. Lubin, have you got any particular comments you'd like to make?

Lubin: Well, I was going to raise a question as to whether or not before passing on the quota system other

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possibilities mentioned here shouldn't be considered. Concretely, what effect would net weight trading have on the consumption of cotton?

Comer: Well, there's been an effort to have a net weight bill passed through every Congress for the last ten years. Got nowhere with it. It ought to give us - I can put it down in black and white. There's six yards of two pound jute bagging now used to bale a bale of cotton. That's twelve pounds of jute. We are today raising 18 million bales of cotton. That's around 216 million pounds. You would cover that cotton with the ~~same yardage~~ of cotton bagging for about half the weight. We say a little bit less than half. But say half. That would be a hundred million pounds, or 200,000 bales of cotton.

Of course, that cotton bagging would repeat. It won't wear out the first year, whereas the jute covering wears out the first year; although I think that cotton bagging covering would pass out of cotton covering class into something else probably the first year.

Lubin: Well now, I'm just asking questions for my own information; and if that's the case - I mean here's a potential market now for what?

Comer: Oh, 150,000 bales of cotton.

Lubin: 150,000 bales of cotton, which is a fairly large proportion of your estimated figure.

Patton: That is assuming that there was complete exclusion of the jute for bale covering purposes.

Lubin: Now, I should think if a drive were made, with Administration backing, for net weight trading, it would be just as easy to get that as it would be to get your jute embargo. You'd get 50 percent of your result automatically, and you avoid all the difficulties that Mr. Feis talks about. The fact that some Congressman has a net weight trading bill but refuses to amend it to meet somebody's desires and consequently doesn't permit the bill to go through, is no reason why we shouldn't have net weight trading,

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if the industry feels it is going to increase the consumption of cotton by 150,000 bales.

I don't like to go at this problem from the most difficult approach. I want to do the things that we can do and will bring us the results we want without bringing us the difficulties.

Comer: We were hoping to get that in addition to what we were talking about.

(Hearty laughter)

Fels: Oh shucks!

Comer: No, that's - I'd like to explain what net weight trading means. The cotton farmer thinks that he sells

Taylor: I think everybody understands that.

Stevens: We covered that point in the memorandum that was submitted to the Secretary.

Myers: I really think that there is only one thing which has held back net weight trading, and that is that the Fulmer bills in the past have had in them a maximum for tare on the bale covering, with the result that jute interests have opposed it on the ground that either they couldn't equal the low weight or they could equal it only at a very high cost. A pure net weight bill with nothing else in it, I should think, would go through, and I can't believe that it would be difficult to get enough steam behind it to put it through.

We are playing this year - I say playing because we have only 16,000 patterns out - with covering a part of this crop experimentally with cotton. A program to extend that, to offset the higher cost, original cost, for the cotton bale covering, until we see what market can be developed for the cotton bagging, would seem a direct approach to it. You see, that is positive, it isn't negative. The other way, you cut off somebody's nose and hope to God it's going to benefit your face. With a subsidy payment

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you get what you go after or else you don't make the payment, that's all.

Comer: I'd like to say this, that I think that in our handling of this matter in this country I don't see the fairness in protecting other farm commodities by tariff and leaving cotton out. Do you?

Myers: Well, I think the history of that is very simple. We have had a free trade South, and thank God they haven't swallowed a bunch of rotten fish in the past. You have had the industrial Northeast - going way back in the history of the Republican Party, they had a tariff for the Northeast and almost none for anybody else. And then the farm folks came in for their protection, and in the 1921 emergency tariff they enacted tariffs on farm products, and at a time when we were still on an export basis for the most part, and those tariffs were just as useless as anything could be.

The tariff, as I recall, on wheat at 40 cents a bushel was estimated at one time to possibly benefit the North Dakota wheat farmers to the extent of ten cents a bushel, because in that particular place you could bring the high protein Canadian wheat down or use the North Dakota and Montana wheat. There might have been some little premium that North Dakota and Montana got from the tariff.

But while we were on a large net export basis the tariffs did very little. For your short cotton, everything up to an inch and an eighth, the tariff would just be an insult to the intelligence of the cotton farmer. In the case of the Pima cotton which wanted the tariff, there undoubtedly was an increase in the price of Pima cotton because of the tariff. However, Pima cotton production amounted to, as I recall, 80 thousand bales in 1920. I may be mistaken, but I'm sure I'm not far wrong, in saying there is a difference of 8 or 12 thousand bales for this year's crop. I have looked at the figures, but I have forgotten; they are insignificant. There has of course been a shift in the automobile tire fabric making from the use of the very, very long staple cotton down to moderate staple lengths. For the

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rest of cotton, it would just be useless to have a tariff on it.

Comer: How about substitutes?

Stevens: How about substitutes?

Myers: Substitutes. Well, that's this jute argument again. I didn't see any point of going into that any more. However, assuming that we did have a tariff on jute, that it was as effective as you say, that it used a million bales of cotton, you would still be on an export basis for cotton. Our prices for cotton in the American market would still be made in the world market.

Comer: We have a farm program seeking to correct that by a direct payment to the farmers.

Myers: But the farm program can only adjust American production to world market requirements at the world market price. And that is assuming that the farm program is effective. Whether they can work out a farm program that will be effective and still within the Constitution, I do not know; nobody can tell that.

Comer: Well, were you in favor of a tax on coconut oil?

Myers: I had nothing to do with the tax on coconut oil. I have no basis for taking either credit or discredit for the tax on coconut oil. However, I think that the tax on coconut oil is probably increasing the demand for fats and oils in the domestic market.

However, I would like to point out in that connection that this year we have a large cotton crop, we have a very short production of lard. That lard production will not get up to big proportions again till next fall. Yet we had oil going down to five and three quarters cents with assurances that it would go on down to five cents, when they couldn't import the stuff much lower than seven and a half cents. And yet we were facing a period where, except for this current marketing season, we are going to have to go back in another twelve months at least to a import basis for fats and oils.

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- Comer: Are you in favor of a tariff on sugar?
- Patton: On an export basis.
- Myers: In both of those cases, your tariff is on a commodity which we are bringing in and not on one which we are sending out.
- Comer: I understand. But we are bringing in cane sugar and putting a tariff on beet sugar.
- Feis: Which has probably cost the American people about ten or twenty times any possible advantages that are derived from it, and
- Lubin: You could buy up the entire beet sugar industry with the additional cost to the American people resulting from the tariff, and keep these people, feed them without doing any work.
- Feis: And instead of citing as a precedent - I always avoid general tariff arguments; I've never seen anyone that convinced anybody of anything - but instead of citing it as impressive, if the cotton farmers of the South would demand that they be enabled to buy their sugar just as cheaply as they could buy it, the cotton farmers of the South would be well-served, and they'd get sugar for about a cent and a half a pound instead of five cents a pound.
- Comer: We can't get it, doctor; we might want it.
- Feis: Except that the whole direction of the present Administration program is gradually and sensibly to try to revise the excessive protection now being given to different branches of American production. I am sure that there are already a considerable number of commodities which are available to the cotton farmer somewhat more cheaply than they would have been able to buy them if it hadn't been for the trade agreements program. We must look at the further potential benefit of that type to be had for your southern farmer from that program, as well as the possibility of holding these markets, the alternative to which is the complete readjustment of the South. Those are the few rather simple, inescapable basic conditions which we are forced to face. And if action

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on our part frustrates the program, why, it won't be any comfort to us or to the southern farmer to be able to say, "We just did what different branches of another American industry did before us."

Of course, you can with justice cite the fact that southern interests have had to bear the brunt of a lopsided tariff policy. No one around here is able to dispute that. But this is in part an attempt to correct it.

Patton: The real question, it seems to me, comes down to whether this proposed restriction on jute will really help the cotton farmers. And the hope seems to lie in a possible increase in domestic consumption of cotton replacing jute.

But when you break down the uses to which jute is put in this country, you find that much more than half, a great bulk of it, is used for wrappers and containers for farm products -- more than half for bags and a very high percentage for cotton bagging. The net effect of this proposal would be to increase the cost of that material, which would add to marketing costs for farmers generally, including cotton growers.

The fact that has to be considered against that -- a possible slight increase in domestic consumption of cotton -- would be the possible greater loss on the exports of the raw cotton.

Stevens: But why do you say slight increase in the domestic consumption of cotton? That is where we very definitely disagree with you, because we think it's a tremendous thing.

Patton: That depends on the degrees of exclusion effected. The Department of Agriculture estimates, for example, that for cotton bale wrappings, if jute were entirely displaced, it might involve the consumption of 125,000 or 150,000 bales of cotton.

Stevens: That's right.

Patton: Well, the quota proposed is 65 percent. That would be a third, 50,000 -- a third of 150,000, or 50,000 bales only.

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Stevens: You mean the quota that Mr. Comer mentioned?

Patton: Yes.

Stevens: You see, by taking the period which he has taken, which is the period of '31 to '35, where the average imports were five hundred million pounds - if you take 65 percent of that as being the quota, you'd get around, say, 350 million pounds under the quota, as compared with a consumption at the present time of something over a billion pounds. Do you see?

Patton: Well, I was speaking of it in this particular use, ~~for covering~~. If you are reducing by a third the amount that has been imported for that purpose, then that would

Feis: You've (Patton) got the quota formula wrong.

Stevens: I think he has the quota formula wrong.

Feis: You didn't understand I don't think the quota formula.

Stevens: You see, in the period suggested, the 1931 to '35 period, average imports of jute in that period were roughly five hundred million pounds.

Patton: In what form?

Stevens: All forms. Now, one-third from that would be, say, roughly 350 million pounds. But that compares with imports of around a billion pounds at the present time, because of the fact that this rising tide of jute, as we call it, has been encroaching on the field that properly belongs to cotton, and it's been getting worse.

Lubin: But doesn't that assume that the consumption of jute for other purposes will be as great next year and the year after as it was in '37, which you can't assume in view of the present industrial situation. In other words, if American industry consumed as much jute next year as it did this year, the possibility is that the cotton industry would be just as active next year as this year.

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- Comer: No, this jute - half of it goes into bags, and as the gentleman here said, it is used for covering or sacking farm products, and there is no reason to believe that we won't have as much wheat and corn and potatoes next year as we did this year.
- Feis: What Mr. Lubin says mayn't be true for a year-by-year situation, but is very apt to be true for a five-year period. It may be that for a year you could get thriving and extensive farm activity that would still sustain your market for bagging of all kinds. But in a period of five years you couldn't absorb - you'd soon have an agricultural program that cut down the volume of your farm products and cut down the bagging, if your industrial situation lagged.
- Myers: What would happen is that a lot of your bagging simply wouldn't be used at high prices. Your Western grain grower, specifically the Coast grain grower, is still using bags, but if you raise the price of his bags a hundred percent I think he would just adopt very quickly the bulk handling method which is now being adopted gradually. We used to handle grain in bags, and other products, some of which gradually shifted over to the bulk handling method.
- And I want to point out that your figures on bags, I think, are too low - percentage of your jute. I have wrestled with it a little bit over the week-end, but couldn't make my figures agree. I have two sets of figures, and, to make any consistency out of them, our agricultural bags account for well over a hundred percent of all the burlap that is brought in. That is not impossible at all. There is some re-use of bags. Grain bags get over into the potato country. And then there probably are some bags imported - containers for merchandise - which get over into the agriculture field. But it looks a little bit cockeyed to say, however, that you use more than a hundred percent of your jute in the bag trade when we know that you use some burlap elsewhere. But my guess is that at least 75 percent of the burlap brought in is used for bagging agricultural products. So that of course the whole burden - most of the burden comes right back on agriculture again.

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- Comer: Doctor, don't you think that cheese and butter enjoy the benefit of tariff on
- Myers: They surely do. No doubt about it.
- Comer: All right. In Alabama this past year we imported five hundred thousand dollars worth of butter and seven hundred fifty thousand dollars worth of cheese. Now, we paid to the cheese and butter farmer of this country the benefit of that tariff. Now, why shouldn't they stack up their grain in cotton bags. What's wrong with that?
- Myers: The biggest error that I have observed in the philosophy is that the agricultural interests of other sections won't take it; they'll fight it.
- Feis: (Rising) Mr. Chairman, I'm sorry - Mr. Comer, I'm sorry to be so obstructive. That, you understand, is really - what I say - it is informal, subject to revision, even to conviction. And, just for your own use - and, Mr. Chairman, Mr. Patton here will be available at any time to work with any of you people on this or any of the other measures. Too, if anything positive can be found useful, certainly I'm sure Mr. Hull would be as glad as anyone else.
- Taylor: You're going to leave with us for the Secretary
- Feis: The full memorandum?
- Taylor: ... the full memorandum.
- Feis: If I'm not mistaken, Mr. Patton will decide that he's learnt something this morning and will want to do something in the way of
- Patton: I'm prepared to submit that as it stands.
- Feis: Are you?
- Myers: Good boy!

(Feis hands memorandum to Taylor; leaves)

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Taylor: Bob, you, in addition to various things which we have already covered - as far as the advertising possibilities, have you got something ready on that?

Stevens: Yes, I've got a vast amount of material here, Mr. Taylor. We were impressed with the fact that the Secretary seemed very much interested in the suggestion for some kind of an advertising campaign, and we have moved quickly on that because we believe it is our job when you or the Secretary want something to try to get it out just as quickly as possible.

And I have brought here this morning a draft of a proposed campaign for advertising cotton and cotton products that is, I think, a remarkable job for the four days in which we have had to do it. It represents the background of a vast amount of effort in the past four days. And I have all that material here, which we will be very glad to leave with you if you want us to do it that way. We can take it out now and go over it. Any suggestion that you have along those lines we'll follow.

But I do want you to know that it is something that interests us greatly, and I think it interests the Secretary, and we have made a sincere and vigorous effort in answer to his request to get something here at the earliest possible time that would show how our minds are working along the lines of an advertising campaign. That material is right here.

Taylor: I think the best thing to do on that would be to leave it, and that will give the Secretary an opportunity to go over it at his leisure.

Stevens: Now, I might say, Mr. Taylor, that - you will recall the Secretary asked the question - asked me the question as to whether or not the industry could go fifty-fifty on an advertising program, and I told him frankly that I didn't believe the industry could; that we were all familiar with what the condition of this industry is at the present time and it isn't in the cards for us to raise a tremendous amount of money. I have polled a few representative people, those that I have been able to get hold of in a short length of

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time since we were here last, and it is my conviction, which isn't entirely shared by some of my friends in the industry - but I believe nevertheless that we can raise - if this program could be adopted, that we could raise around two hundred thousand dollars toward that job. And if there is some way of financing the balance that is represented in this campaign, why, then I think we've got something here which not only would possibly start the wheels of this industry moving fairly promptly, but which would have long-range possibilities for increased consumption of cotton.

And I hope very much that you'll find in this effort that we have made here something which can be followed up. And I'd like very much to have the opportunity, if he sees anything in the program, of reviewing it with you or with him again at your convenience. And at that time I would like to have with me three or four men from the industry who have had some experience in advertising this industry, because I don't pose as an expert on advertising; I have simply tackled this job because the Secretary put it up to me and I have done the best I could with it in a short time.

Lubin: Mr. Stevens, may I ask a question - it's getting late and I take it we won't have time to look at it. What are you selling, cotton, or dress goods, or handkerchiefs? I mean what's the idea behind it? Could you give it to us in a word?

Stevens: Well, the idea is to sell more cotton goods.

Lubin: But can you sell more cotton goods without selling some specific cotton thing? I mean don't you have to sell sheets, or pillow cases,

Stevens: That's what we'll do. The campaign embraces household goods and wearing apparel, which represents about 60 percent of the domestic consumption of cotton. It does not embrace advertising industrial uses, because we believe that that will come about in the natural course of new use development and retention of markets we already have. That might be a phase of the program that could be developed later. But for the moment we have confined our efforts to household goods and

wearing apparel.

Lubin: So you're dealing with specific items.

Stevens: Oh yes. And let me say this too: this campaign is not based on any idea of some patriotic appeal to help use up the cotton. It is based - I don't know whether you will agree with this thought or not, but the campaign is pitched on the idea of this bumper crop; it's good news; it means that cotton, in many uses and many forms, at many popular prices, is now available to everybody. It takes the optimistic view of the situation and certainly not the pessimistic. I think that's the way to look at it. I think it's a most interesting and complete job for the time available. There will be lots of things in it that probably we'd all want to change, but it gives us a basis for further study anyway.

Daggett: The idea of a bumper crop at an unusually low price seems to me the best selling point you can possibly choose.

Stevens: There is one thing about it, Mr. Taylor; there is a time element in this thing. That's one reason I've pushed fast on it, because if a thing like this - if it is possible that a thing like this could be done, why, then it would have great advantages in being started promptly, for the reason that we are coming up now to January and January White Sales, which are a cotton goods proposition, and it's the main thing that the department stores promote, for instance, during the month of January, and we start right there building on white goods sales in January, and then they start building on colored goods sales in February, and they build this program right up to a spring peak demand for cotton goods, which is when the vast quantity of cotton goods is sold. As a matter of fact, this campaign is laid out for the first six months of 1936, and that was as far as we could go in the time available, and in the light of the experience we have had during that six months we would undoubtedly come to some conclusion as to how to handle the fall season, which is not so large a season for the consumption of cotton goods.

But there is a time element in it that is important, and if there is any possibility that anything could be done on such an advertising campaign, my own view is that the money involved would be far better spent if it could be started promptly with this January bang than if we deliberated over it too long and then perhaps started in on it at the time when we were past our spring demand. So I leave the thought of the time element with you.

Taylor: All right, fine. I think in the absence of any

Stevens: Let me just open this for a second, if I may.

(Stevens unwraps material)

By the way, there are two copies of the plan in words, for anybody that wants to read it. I might say it was started by a telegraphic inquiry to fifty of the largest department stores in the United States, inquiring with respect to their general view of their own cotton goods business and as to what their present inventory positions were, and whether they'd be interested in a campaign to increase the use of cotton goods. Of course, there's been no mention of anything other than an industry move on this thing.

And this book here gives you the copy of the telegram that was sent, and in four days, of fifty telegrams, we got answers to twenty-five. Considering that most of the time was over the week-end, it was a most remarkable response.

This other thing is the plan in words, exactly how we'd like to go about it with respect to newspaper, radio, and other types of advertising.

And coming down to - if you will take that written volume and follow it along, there is a picture here that - it is the picture that fits right in with what we have attempted to put on these charts here. Now, for instance, here's the beginning of it - "It's June in January" - that's the catch phrase that's been started to - in other words, to try to move the demand for summer merchandise - move it up. I think that's quite a catchy phrase, and it's - it goes into all of these things. And a suggested editorial comment is in the volume which you have there. That is all newspaper stuff.

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Here we come up to February, with the Cotton Color Carnival. We are switching now from the domestic goods more into wearing apparel.

Here's another suggestion of "June in January."

Patton: All worked up last week?

Stevens: In four days.

Here's the Cotton Color Carnival again. And here's an idea that we have; we don't know whether it possibly could be used - "Dance in a Cotton Gown at the President's Birthday Ball. Cotton Cotillion. January 30, 1938. Benefit of Warm Springs Foundation."

Now, I show you these things to show you that our minds have been working. We have tried to be active, tried to come here with something concrete, something that you can look at and see whether or not we're barking up the right tree or not. And I think we have done probably as good a job here in a few days as maybe we would have done tackling it in another way over a period of weeks.

Patton: That's a move that doesn't have any international complications.

Myers: I wanted to put in a word when we were talking along there that it maybe becomes a bit evident why we have been playing with beehives, as the Secretary says, at times instead of going out in a bigger way. You start out - funny thing on this matter of jute and export subsidies and all these things; about ten years ago I was very much in favor of them; I thought they were fine until I got to working with them.

Patton: There is one consideration that shouldn't be overlooked, and that is if we clamp this proposed import quota on jute, the effect would be very highly concentrated on India, because it has a monopoly on jute, and that constitutes about a quarter to 50 percent of all its exports, and Great Britain might find it necessary to afford some compensation to India by increasing her purchases of India raw cotton at the expense of America.

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- Comer: I think she's going to do that anyway.
- Patton: No preference now.
- Comer: That may be because of our high price of American cotton, but that's our policy to do that. Now, we're putting six million bales of cotton in our Government storehouse down in the South. What are we going to do with our cotton?
- Patton: Exports of cotton dropped to just about five million in '33, '34, '35; next year, at a lower price basis, they went up to six million two hundred thousand. They are higher so far this crop year than they were last year at a lower price. That's the thing that checks consumption abroad.
- Stevens: Here is the keynote. We feel that our country's bumper crop is of news value and can be made a subject of celebration. That's the approach; no distressed feeling in this at all.
- Taylor: I think the thing to do is to adjourn subject to call, depending on what the Secretary wants to do.

MEMORANDUM ON PROPOSALS TO INCREASE
DOMESTIC CONSUMPTION OF COTTON BY
RESTRICTING IMPORTS OF JUTE PRODUCTS

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MEMORANDUM ON PROPOSALS TO INCREASE
DOMESTIC CONSUMPTION OF COTTON BY
RESTRICTING IMPORTS OF JUTE PRODUCTS

Nature and Scope of Memorandum

In view of the huge current increase in supplies of United States cotton and of recent price declines, proposals have been revived for increasing domestic consumption of cotton by curtailing imports of jute and jute products by imposition either of excise taxes or of import quotas on the latter. Depending on the extent of exclusion effected, it is claimed that domestic consumption of cotton might be increased by from three quarters of a million to one and a half million bales, with corresponding increase of employment in the cotton textile industry.

In this memorandum an attempt is made to examine:

(a) The possibilities of domestic substitution of cotton for jute, and the extent to which domestic consumption of cotton might be increased thereby.

(b) The effects of such substitution upon the cotton industry and other groups in the United States.

(c) The bearing of such proposals upon United States foreign trade and its trade agreement program.

Imports and Uses of Jute

In Table I imports of jute and jute manufactures, according to customs classification with tariff rates applicable thereto, are shown by quantity and value for the years 1935, 1936, and the first nine months of 1937.

Table I.

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Table I - Imports of Jute and Jute Manufactures into the United States

Tariff class	Tariff duty	Imports						
		Unit	Quantity			Value (dollars)		
			1935	1936	Jan.-Sept. 1937	1935	1936	Jan.-Sept. 1937
Jute, unmanufactured.....	Free	tons	54,744	64,856	80,963	4,306,882	5,896,577	7,770,040
Jute butts.....	Free	tons	10,763	13,826	19,101	465,202	562,182	801,862
Jute, waste bagging and waste sugar sack cloth....	Free	1000 lbs.	31,619	42,538	45,094	484,017	928,654	1,211,978
Jute yarns, single.....	2 1/2¢ to 17¢ lb.	1000 lbs.	6	281	4,438	606	19,972	332,398
Jute cordage, twine and twist.....	3 1/2¢ to 11¢ lb.	1000 lbs.	131	140	102	12,512	13,926	10,010
Bagging for cotton.....	6/10¢ sq.yd. (15/32 oz.) 3/10¢ lb. (over 32 oz.)	1000 sq.yd.	8,836	—	—	(457,611	503,093	542,262
		1000 lb.	4,862					
Burlaps, not bleached etc.	1¢ lb.	1000 lbs.	(472,785	557,347	541,855	(33,029,170	35,411,741	33,624,212
Burlaps, bleached etc.....	1¢ lb. + 14%							
Jute bags or sacks.....	1¢ lb. + 10% or 15%	1000 lbs.	39,832	34,481	40,859	2,216,284	1,722,144	2,108,685
Woven fabrics, for pad- dings and interlinings, n.s.p.f.....	50% 30%	1000 lbs.	2,104	2,351	2,059	500,118	534,767	451,917
Carpets, webbing and other jute manufactures.....	35% 40%					1,269,806	743,109	678,840
Total.....						42,742,208	46,336,165	47,532,204

The principal uses into which jute enters may be grouped into the following five classes: (1) containers, (2) baling and wrapping, (3) floor coverings, (4) cordage, and (5) miscellaneous industrial. The domestic consumption of raw jute in these various uses is estimated as follows by the Cotton Textile Institute.

Table II - Uses of Jute in the United States

	<u>Million pounds</u>	
<u>Containers: sacks and bags</u>		490
<u>Baling and wrapping</u>		275
Bale covering for cotton.....	200	
Wrapping (textiles, mattresses, furniture, etc.).....	75	
<u>Floor coverings</u>		109
Carpets, rugs, mats, etc.....	80	
Baking for linoleum.....	29	
<u>Twine and cordage</u>		64
<u>Miscellaneous industrial</u>		25.4
Water pipe insulation.....	10	
Webbing (for belts, bands, etc.)..	7.5	
Electric cable filler.....	5.	
Paddings, interlinings, etc.....	2.9	
Total.....		963.4

Jute sacks and bags. More than half of all the jute (by weight) consumed in the United States is used in the form of sacks and bags. On account of their cheapness, sturdiness and freedom from discoloration, jute bags are the world's most satisfactory container for bulky commodities. In this country they are used chiefly in sack- ing such articles as mill feed, fertiliser, potatoes and other vegetables, wheat, flour, sugar, cement, etc. The domestic supply of jute bags comes from three sources— domestic manufacture, imports of new bags, and utilisation

of

of containers of imported products.

(1) The greater part of the supply of new bags is manufactured in this country from burlap (hessian cloth) imported almost entirely from British India. There is no domestic production of burlap and it is estimated that between 75 and 80 percent of burlap imports (which, as indicated in Table I, account for 75 percent of the value of all jute imports) are used in the manufacture of sacks and bags.

(2) Imports of new jute bags come almost entirely from India. These are chiefly in the form of sacking bags, which are stronger than hessian gunny bags and are made from twill-woven jute cloth. Total imports of jute sacks are small compared to imports of burlaps, and in recent years about 75 percent of the former have entered the customs districts of Puerto Rico and Hawaii, where they are used for sacking sugar and coffee. Most of the imports into continental United States enter through Pacific Coast ports, where they are used chiefly for sacking wheat. It is to be noted that domestic exports of jute bags--mainly to Cuba, Canada and Chile--have in some years been almost as large (1931) or even greater (1929) than imports, although in recent years they have amounted to about one third of imports by weight.

(3) The above two sources account for a smaller number of bags than those which enter the United States as containers of raw sugar, coffee, fertiliser, etc. When emptied the best of these are resold for sacking vegetables, cottonseed meal, etc. A considerable portion of the remainder are slit and used as bale coverings for cotton.

Jute

Jute bale covering for cotton. The second most important use of jute in the United States is as covering for cotton bales, about 12 pounds of such bagging being used on the average per standard bale. The Bureau of Agricultural Economics estimates that over 74 million square yards of bagging of all types were used in 1933-34 in covering 12,360,323 bales.^{1/} Of this, 61 percent consisted of new bagging and re woven bagging made of jute, 34 percent of sugar sack cloth and second-hand bagging (admitted duty free), and the remaining 5 percent of bagging woven from sisal, cotton, or mixtures of these fibers with jute. Thus practically the entire supply was of jute origin.

Most of the new bagging (nearly 90 percent in 1933) is woven in some ten American mills, principally in Georgia and the Carolinas, from coarse yarns spun in the same mills from imported jute butts (admitted duty free). Imports of bagging for cotton (averaging about 11 million yards annually for the years 1932-35) consist largely of shipments from subsidiary mills established in Bengal by two of the larger American jute manufacturing companies. Jute bagging for cotton was placed on the free list under the tariff of 1913, but since 1913 has been dutiable at 6/10 cent a yard (if weighing less than 32 ounces) and 3/10 cent a pound if over that weight per yard. The latter class consists chiefly of heavy patches or com-

press

^{1/} "Bagging Used for Covering American Cotton Bales", published in June 1935 by Division of Cotton Marketing, B. A. E.

press labels which are often added at the compresses to make up the purchaser's legal tare allowance (5 percent of gross weight for domestic transactions and 6 percent for export shipments). Rewoven jute bagging is made from yarns spun from jute butts, mixed in varying proportions with fiber recovered from old bagging, cordage, etc.

Jute wrapping. In addition to its preponderant use as a bale covering for the nation's cotton crop, jute competes with heavy paper as a wrapping material for bulky merchandise, especially textiles, mattresses, upholstery and furniture. Consumption in this use is estimated by the Cotton Textile Institute as equivalent to some 75 million pounds annually.

Household furnishings. An important use of jute yarns spun from imported long fiber (imports of jute yarn itself are ordinarily insignificant) is as a foundation for wool carpets and as a warp for coarser carpets and rugs. Colored woven jute fabrics are also cut up into cheap carpets and mats and into hangings for interior decoration. Burlaps are used extensively as backing for linoleums and oilcloth coverings; as well as for upholsterer's webbing. In all these uses its cheapness, combined with its hardness and weight have made it a preferred textile material.

Twine and cordage. According to the Cotton Textile Institute, about 64 million pounds of jute are used in this country in the form of twine and cordage. Most of this is manufactured in domestic mills from imported long jute fiber, imports of jute twine being insignificant

cant and exceeded by exports.^{1/} As a hard, heavy twine jute is used for tying up bulky materials such as fodder, paper, upholstery, box shooks, etc. It is also utilized by the Post Office Department. Jute cordage is used for halter ropes, plow lines, baling ropes and as a filler for electric cables.

Possibilities of Substitution of Cotton for Jute.

Although all classes of jute manufactures except waste bagging are subject to varying rates of duty, jute has established itself in the uses noted above on the basis of its cheapness in combination with its physical properties. In certain uses for which it is peculiarly adapted, such as carpet yarns, linoleum backing, webbing, wrapping, insulation, interlinings, etc., an increase of present duties or restriction by import quota would more likely induce the substitution of such fibers as hemp, sisal, and ramie, or of paper than of cotton. The most important uses of jute and those for which the substitution of cotton might conceivably be brought about are as containers, cotton bale coverings and twine.

Cotton versus jute bags. The Cotton Textile Institute's estimate of 490 million pounds of jute used annually in this country for containers would indicate that if cotton were entirely substituted for jute in this use on a pound for pound basis, over a million additional

^{1/} In 1933 domestic production of jute twine and cordage amounted to 46,929,000 pounds; imports (chiefly from the United Kingdom) to 121,000 pounds; and exports (mainly to Canada and Cuba) to 157,000 pounds.

additional bales of cotton might be consumed domestically. If by means of import quotas, imports of jute sacks and of burlap used in manufacture of containers were reduced by one half and replaced entirely by cotton bags, an additional consumption of about half a million bales of cotton might be claimed. Such a potential figure would be subject, however, to very extensive deductions on the basis of the following considerations.

(1) The weight of cotton bags is ordinarily about five sevenths of that of jute bags of the same size (7 ounce osnaburgs competing with 10 1/2 ounce burlaps). Hence for a given number of bags the weight of raw cotton used would be considerably less than that of the jute displaced.

(2) Although the importation of jute bags and burlaps might be drastically restricted, jute containers would still continue to enter the country in vast numbers in connection with imports of raw sugar, coffee, fertilisers, etc. The higher cost of bags resulting from the proposed restrictions would undoubtedly result in smaller returns of emptied containers to the countries from which their contents were exported to the United States, and in the much fuller utilisation of the retained second-hand bags for sacking bulky domestic products.

(3) The price of cotton osnaburg and narrow sheeting used for bag-making has ranged during the past five years from 2 cents to 4 cents a yard higher than that of burlap, or from one and a half to almost twice the price of the latter (figures of Cotton Textile Institute). The

Bureau

Bureau of Agricultural Economics estimates that to equalize the price of 8 ounce cotton osnaburg and 8 ounce burlap on the basis of prevailing costs of the type of cotton and burlap used and of current manufacturing and import margins, the tariff duty on burlaps would need to be raised from 1 cent to 6 cents a pound. The higher cost of fiber sacks resulting from restrictions on the import of burlap and jute bags would almost certainly contribute to much larger use of paper containers and to greater recourse to bulk handling, thereby limiting the use of cotton for such purpose.

(4) As previously noted, an appreciable amount of the burlap imported into the United States is re-exported in the form of jute bags, such exports averaging 25 million pounds annually during the years 1929-35. It could not be expected that these would be replaced by exports of cotton bags for the purposes served by the former.

On the basis of these considerations the extent to which domestic consumption of cotton might be effectively increased through the drastic restriction of imports of jute bags and burlaps would appear to be very much less than that suggested by the Institute's figures.

Cotton versus jute bale covering for cotton. The Cotton Textile Institute estimates that some 200 million pounds of jute are used annually in this country as bagging for cotton. On a pound for pound basis this would be equivalent to 418,000 bales of cotton (of 478 pounds). Since baling patterns made of cotton weigh only 4 1/2 pounds, while those of jute bagging weigh ordinarily 12 pounds

pounds, only three eighths of the weight of the jute used for this purpose would be required by the complete substitution of cotton, or 157,000 bales. The Bureau of Agricultural Economics estimates that cotton bale covering offers a potential outlet for from 125,000 to 150,000 bales yearly, depending on the size of the cotton crop. Such induced substitution of cotton for jute bagging would involve, however, certain complications, apart from the effect on foreign trade.

(1) Since cotton growers are paid for their cotton on a gross weight basis, with an allowance of 22 pounds for wrapping and ties per standard bale, and since cotton baling patterns ordinarily weigh $7 \frac{1}{2}$ pounds less than the jute covering, the farmer is penalised by the value of $7 \frac{1}{2}$ pounds of cotton lint when cotton covering is used. This difficulty might be overcome, however, by requiring that cotton be sold on a net weight basis, as recommended by the Department of Agriculture.

(2) To be effective in its purpose of compelling substitution of cotton for jute bagging, import quotas or adjusted tariff rates would have to be applied, not only to cotton bagging and jute butts, but also to waste bagging and waste sugar sack cloth (now admitted duty free), while a separate duty would need to be imposed on jute containers for imported products such as coffee, sugar, fertilisers, etc. The complications and disadvantages of such procedure are apparent.

(3) Cotton covering normally costs more per pattern than jute bagging. On small experimental lots recently purchased by the Bureau of Agricultural Economics the

cost

cost was 95 cents per cotton pattern compared with 72 cents for new jute and 60 cents for reworked jute bagging. Although the cost of the former might be reduced by using lower grade cotton fiber, there is no knowing to what price the price of jute bagging might fall under more severe competitive conditions. In any case, the cotton grower would be penalised by a higher relative cost for his bale covering as an offset to possible slight increase in domestic consumption of his raw cotton. Cotton bale covering possesses certain advantages over jute bagging in respect to appearance, savings in freight costs and in raw cotton losses in transit. Its greater consumption in this use might be promoted more directly, however, and with fewer complications by offering premiums to growers for cotton wrapped bales, paid from funds made available under Section 32 of the Agricultural Adjustment Act, rather than by placing restrictions on the importation of jute materials.

Cotton versus jute twine. Competition of jute with cotton for use as twine was recognized, when the processing tax of 42 cents a pound on raw cotton was in effect under the Agricultural Adjustment Act, in the imposition of a compensating tax of 2.9 cents per pound on jute yarn on its processing into twine. Since the compensating tax was designed to maintain the former competitive position, the rate established implies that jute twine is about 30 percent cheaper than equivalent weight cotton twine. Since jute twine, however, is used chiefly in heavy sizes for tying up bulky packages, it competes in such uses rather with

with sisal than with cotton. For smaller packages gummed paper now competes more with cotton twine than does jute twine. Restrictions, therefore, on the import of jute twine or of jute fiber for such manufacture would be unlikely to afford any appreciable increase in domestic consumption of cotton for such purpose.

From the above analysis of jute uses and their replaceability by cotton, it is clear that even drastic restrictions on importation of jute in its various forms could not be expected to result in increased domestic consumption of cotton to anything like the extent of the million bales claimed therefor. Probably 200,000 to 300,000 bales would be nearer the mark, unless jute were to be totally excluded.

Domestic Effects of Proposed Restrictions on Jute Imports

Since jute has attained its present position in the American market on the basis of price and competitive qualities, any compelled substitution of cotton must necessarily impose certain disadvantages on both those who have been accustomed to use jute and on those engaged in its manufacture in this country.

As indicated in the first section of this memorandum, the principal users of jute sacks and bagging material are agricultural producers. To seek a small and uncertain expansion in domestic utilisation of cotton by increasing the cost of containers to domestic producers of grains, sugar, potatoes and vegetables, and to farm consumers of mill feeds and fertiliser, would appear to be a distinctly questionable form of farm relief. Restrictions on imports

of

of jute bags would be felt chiefly by sugar and coffee producers in Hawaii and Puerto Rico. For cotton growers themselves the possible increase in domestic purchases of raw cotton would be offset by higher baling costs for all their cotton, as well as by a loss equivalent to the value of 7 1/2 pounds of cotton in their effective tare allowance per bale (unless cotton were to be sold on a net weight basis).

It is claimed that restriction of jute imports would afford greater activity and employment in the nation's cotton mills. While this is to be desired, it should not be overlooked that domestic consumption of cotton during the last crop year, amounting to nearly 8 million bales, was the largest in the country's history. Although part of the additional business that might be diverted to domestic cotton mills would be at the expense of jute mills in Bengal (since about three quarters of the total value of jute imports is in the form of burlaps), it would also be directly at the expense of the domestic jute manufacturing industry. The Census of Manufacturers for 1935 showed that there were 24 establishments, with over 5,000 employees, engaged in the manufacture of jute yarns, twines, cotton bagging and webbing, having a gross value of \$16.3 million. Establishments engaged in the manufacture of jute containers are included by the Census Bureau, without differentiation, under the classification "Bags, other than paper, not made in textile mills". In this category there were in 1933 some 169 establishments, with 11,750 employ-

ees, having a gross output of \$92,115,000. The Tariff Commission estimates that these establishments turn out about 50 percent more jute bags than cotton bags, but that the value of the output of the former is only about two thirds that of the latter. Hence the injury to this small but important branch of the nation's textile industry must be weighed against the prospective expansion in cotton mill activity arising from the drastic restriction of jute imports.

Administrative Difficulties in Applying Quota Restrictions to Jute Imports

It is proposed that since the flexible provisions of the Tariff Act do not permit the transfer of free items to the dutiable list, and since the maximum permitted increase of 50 percent on the dutiable items would be insufficient to overcome the competitive advantage enjoyed by jute, imports be restricted through the imposition of a system of import quotas. As applied to the jute schedule, this would involve serious difficulties and complications.

Since jute and its manufactures fall under some twenty different tariff classifications, it would be necessary to decide which of these should be subjected to quota restrictions and in what proportions. If applied to raw jute, it would restrict imports in the form where the greatest value is added domestically. If the aim were to restrict particularly the use of jute for cotton baling purposes, quotas would have to be applied not only to cotton bagging itself but also to

to jute butts and to entries of waste bagging and sugar sacking. If the use of jute for container purposes were to be cut down, quotas in determined proportions would have to be applied not only to jute bags but also to burlaps and yarns. In any case, placing import quotas on jute products could not interfere with the recovered use, for both container and bale covering purposes, of jute sacks entering the country as containers of imported sugar, coffee, nuts, nitrates, etc.

Further complications would arise in the determination of the base period or base consumption in terms of which the various quotas would be expressed; and in the adjustment of quotas among different jute products so as to minimize dislocations in the domestic jute manufacturing industry. Annual adjustments of quotas would also be called for in accordance with the varying size of the domestic cotton crop. If quotas were to be allotted on a country basis, the problem would be both more complicated and more vexing.

Bearing on American Foreign Trade and Commercial Policy

The proposed drastic restrictions on one of this country's principal import commodities would obviously not be in accordance with the Administration's policy of bringing about a lowering of world trade barriers through the process of mutual concession. It may be observed here that even in the general elevation of protective duties in the Tariff Act of 1930, the jute schedule was left substantially untouched except for certain classes of jute twine.

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The present proposal is advanced at a time when the United States, after extended exploratory conversations, has just announced that it contemplates negotiation of a trade agreement with the United Kingdom, our principal foreign customer, which in 1935 and 1936 purchased 18 1/2 percent of our total exports. Next to India, Great Britain has been the principal source of jute imports into this country. In 1935 and 1936 such imports from the United Kingdom amounted respectively to \$3,629,000 and \$4,400,000, being made up as follows:

	<u>1935</u>	<u>1936</u>
	(thousands of dollars)	
Burlaps and other jute fabrics.....	3,311.8	3,466.0
Bagging for cotton, new and waste.....	278.2	613.4
Unmanufactured jute.....	20.3	298.1
Jute twine and yarn.....	13.0	19.7
Jute sacks and bags.....	<u>5.8</u>	<u>2.8</u>
Total.....	3,628.9	4,400.0

Imports of burlap and jute fabrics from Great Britain consist chiefly of wide goods for linoleum backings, rugs and horse blankets, and medium widths for upholstery. It supplies most of our limited imports of jute twine. Imports of raw jute from the United Kingdom represent reexports from India, while imports of waste bagging represent return of cotton bale covers to this country. The effect on British interests of restricting importations of jute products would of course be felt not merely on direct exports from Great Britain, but also on British investments in the Indian jute industry.

Although

Although jute imports from the United Kingdom constitute only a small proportion of our total imports from that country (2 1/4 percent in 1935 and 1936) the unilateral imposition of the proposed import restriction on jute goods, following preliminary announcement of trade agreement negotiations with that country would clearly be inconsistent with the spirit and bona fides of negotiation. It would be especially so in view of the fact that the United States in dealing with other countries has consistently maintained that no new or additional import restrictions should be imposed while negotiations are under contemplation, that might be used as a basis for bargaining.

The country which would be most directly and seriously injured by the proposed restrictions on jute imports would of course be British India. Exports of raw jute, burlaps and jute bags ordinarily constitute between a fifth and a quarter of the total value of that country's exports and rank with cotton as the largest commodity group in its export trade. About the same proportion of her total exports of jute are shipped to this country. United States imports of jute products from India for selected years are shown in the following table.

Table III - United States Imports of Jute from India
(in thousands of dollars)

	<u>1929</u>	<u>1931</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>
Unmanufactured						
Jute.....	11,169	4,220	2,852	3,241	4,742	6,152
Burlaps.....	64,267	25,092	19,622	22,831	25,755	29,547
Jute bags and						
sacks.....	3,151	1,860	1,427	2,162	2,206	1,703
Cotton bagging	1,476	679	217	315	291	269
Total.....	80,063	31,751	24,118	28,549	32,994	37,671

India

India normally supplies by quantity practically all our imports of raw jute and jute bags, between 85 and 90 percent of imports of burlaps, and from 60 to 75 percent of imports of cotton bagging.

To suddenly close off the second most important market for its major export commodity would be a severe blow to Indian industry and trade which would not only impair its capacity to purchase American goods but also its imports of cotton piece goods from the United Kingdom and Japan, which are in turn manufactured mainly from American cotton. It is conceivable indeed that Great Britain, as a means of partially compensating India for loss of the American market for jute might find it necessary to increase its own purchases of Indian raw cotton to the detriment of its imports of American cotton. Thus, under the intricate interdependence of international trade, attempts to increase domestic consumption of cotton at the expense of jute imports might well prove to be more than offset by losses in American cotton exports.

Concluding Observations.

1. Analysis of jute uses and competitive substitutes in the United States indicates that the potential additional outlet for American cotton would be very much less than that suggested by figures of the quantity of jute consumed in various forms in this country. Unless total exclusion of jute imports were contemplated, probably not much more than a quarter of a million bales of cotton

would

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would be added to domestic consumption through imposition of import quotas.

2. Since the predominant use of jute is as a container or wrapping material for American and insular agricultural products and for materials used by farmers, the compelled substitution of more expensive cotton materials would involve an added marketing or production cost, both for cotton growers themselves and for other farmers generally.

3. Possible benefits to the American cotton textile industry would be offset to a very considerable extent by injury to the domestic jute manufacturing industry.

4. Owing to the many different forms in which jute and its manufactures enter this country and to the fact that such imports are subject to twenty different tariff classifications, the introduction and administration of an import quota system applied thereto would involve baffling and vexatious technical difficulties and economic complications.

5. The proposed import restriction on jute is at variance with the Administration's policy of lowering world trade barriers through the process of mutual concession, and since the external effect would be concentrated on Great Britain and its interests in India, such a move would be in the nature of a breach of good faith with the United Kingdom, with whom a preliminary announcement of intention to negotiate a trade agreement has just been made. There is reason to believe, moreover, that such an action might result in a greater loss to this

country's

Regraded Unclassified

country's export trade in raw cotton than the prospective expansion in domestic consumption of cotton.

6. A potential additional domestic outlet for American cotton undoubtedly exists in its greater use as a bale covering for cotton. The present prices for lower grade cotton are themselves conducive to such substitution for jute bagging. As alternatives to the restriction of jute imports (to which objections have been noted) the larger use of cotton for this purpose might be stimulated by: (a) Requiring that cotton be sold on a net weight ~~instead of gross weight~~ basis; (b) Offering premiums (financed by AAA Section 32 funds) for cotton wrapped in cotton bagging under approved standards; (c) Voluntary agreement by cotton textile mills to use cotton wrapping materials for baled goods.

7. The most important outlet for this country's cotton surplus lies in the export field. Expansion of cotton production abroad since 1932 has been stimulated primarily by the relatively high price differential maintained for American cotton. Lowering of cotton loan values after 1934 has been reflected in larger volume of exports. Current prices of American cotton are proving conducive to increased exports and are likely to check foreign expansion of cotton growing. Although present prices are abnormally low for producers, they are offset in part by the record high acreage yields obtained in the last crop year, and are being supplemented by substantial benefit payments. The Administration's trade agreement program is serving to increase progressively the capacity of foreign countries to buy

American

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American cotton. A policy of keeping American cotton prices at a competitive level will be most conducive to making this potential foreign demand effective, and thus reduce the country's surplus stocks.

EA: H.S. PATTON :EB

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MEMORANDUM RE JUTE VS COTTON

Where Can Cotton Be Substituted for Jute?

Jute is imported principally from British India. The use of jute in the United States amounts to about a billion pounds each year, principally for bags for agricultural products and wrapping for cotton bales. In the main, cotton is suitable for the same purposes as jute, but cotton is seriously handicapped on account of its higher price.

Jute uses are:

	Pounds
Bags	490,000,000
Cordage and twine	64,000,000
Wrapping material (textiles, mattresses, etc.)	75,000,000
Linoleum backing	29,000,000
Webbing (for belts, bands, etc.)	7,500,000
Carpets, rugs, mats, etc.	80,000,000
Electric cable filler	5,000,000
Water pipe packing	10,000,000
Padding, interlinings, etc.	2,900,000
Bagging for cotton	200,000,000
	<hr/> 963,400,000

After deducting a substantial poundage representing the use of jute for purposes where it is peculiarly adapted such as certain kinds of webbing, insulation, packing, carpet yarns, interlinings, etc., (these uses probably not aggregating more than 200,000,000 pounds), there remains about three quarters of a billion pounds of jute that could be displaced by cotton if the price disadvantage were removed.

A pound of cotton furnishes a larger coverage in yards than a pound of jute; consequently, if this market were open to cotton, it would afford an opportunity to dispose of about 500,000,000 pounds of cotton goods or a million bales of raw cotton.

What Is the Cost Differential?

Covering for Cotton Bales.

Jute covering for cotton bales at the present time costs about 72¢; a suitable covering of cotton fabric would cost about 95¢, a difference of about 23¢. This is on the low side in the record of differentials. During the 1935-36 season, the differential was placed at 38.7¢; in the 1934-35 season it was 36.7¢. During the period of low priced cotton in 1930-31, the difference was only 13.8¢.

Furthermore, in the sale of raw cotton no deduction is made for the fabric wrapping or metal ties. Mills pay the same price for jute wrapping and metal ties as for the cotton itself. This pleases the cotton farmer, as he feels that he makes an extra profit on jute when he places it around a bale of cotton and sells it at the price of cotton. A jute wrapping including metal ties for a bale of cotton weighs 22 pounds; a cotton wrapping plus metal ties weighs about 13½ pounds. At 8¢ a pound for cotton a grower receives \$1.76 for his jute wrapping and metal ties, while for his cotton wrapping and metal ties he would receive only \$1.08.

This weight differential against cotton added to the higher price for the cotton covering referred to above results in a total differential of 91¢.

Fabric for Bags.

The price advantage enjoyed by jute products is illustrated in the comparison below of average prices for burlap, the jute fabric for bags, and their cotton competitors, osnaburgs and narrow sheeting.

	1933	1934	1935	1936	1937 (9 mos.)
	(cents per yard)				
10½ oz. Burlap (jute)	5.5	6.2	6.0	5.4	5.5
Osnaburg 7 oz. 40in. (cotton)	8.3	10.5	10.7	9.7	10.1
Sheeting 2.85 40in. 48/48 (cotton)	7.4	9.9	9.4	8.5	9.9

What Can Be Done to Stimulate Displacement of Jute by Cotton?

Jute is raised under labor standards much lower than our own. It is unlikely that economic conditions will place the world price of cotton on a parity with the price of jute. The price disparity over many years gives no encouragement that cotton will make any substantial gains in the field now mainly occupied by jute. A natural corrective is the tariff. The present jute tariff deviates from basic principles in assessing duties because it makes yarns subject to higher rates than the cloth woven from

the same yarns. For example, in 1936, duties collected from yarn imports were from 39.77% ad valorem to 63.84% whereas plain jute burlaps paid only 15.74% ad valorem duty. The duty on woven cloth should at least be equal to the duty on basic yarns. Furthermore, raw jute is on the free list.

The limited power of the President to alter tariff will not help this case. If he were empowered to change an article from the free list to the dutiable list, something could be accomplished toward making raw jute prices more in line with cotton. However, the limitation imposed upon him of making no tariff increase in excess of 50% of existing tariff renders him helpless in the case of burlaps, cotton's principal competitor in the bag field. This rate is now only 1¢ per pound. An increase to 1½¢ per pound would not benefit cotton.

Net weight selling would be helpful. If this could be accomplished by legislation or subsidies, whereby the farmer would not believe a profit exists in using the jute covering, cotton would have a more even chance.

MEMORANDUM RE JUTE VS COTTON

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Washington, D. C.,
November 23, 1937.

Hon. Wayne G. Taylor,
Assistant Secretary of Treasury,
Treasury Department,
Washington, D. C.

Dear Wayne:

Since leaving your office this noon, Mr. Comer and I have been reviewing some of the points made by Dr. Feis in his memorandum opposing action on the jute matter. At my request Mr. Comer has just dictated a memorandum dealing with some of Dr. Feis' points, and I am taking the liberty of sending same to you herewith. I will very much appreciate your including Mr. Comer's memorandum in the records of our recent conferences and I sincerely hope that you and the Secretary will give earnest consideration to Mr. Comer's views in your appraisal of the situation.

The arguments presented this morning against our suggestion are not new to us. For the most part, these arguments are those of the powerful jute lobby to which we have been listening for years. It is easy for the Departments of State and Agriculture to follow the same old policy of laissez faire with respect to this matter. The harder way is to find some method which will help the situation, because we believe you will agree that a reduction in the amount of jute imports would help the domestic consumption of cotton. From the moment last Tuesday, in the Secretary's office, when I first brought up the subject of jute, I was certain that we would be opposed by the Departments of State and Agriculture. However, I was also certain that you and the Secretary would give this matter a completely open-minded hearing, and you have both done so. Surely the Secretary last Thursday displayed the utmost interest and was not at that time convinced of the correctness of the stand taken by the Department of State. I am sure both you and he will continue the same open-mindedness in your further studies of this matter and I am exceedingly hopeful that you will find entirely adequate grounds on which to support our position.

At this time please let me thank you and the Secretary for the opportunity you have accorded us to explore

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these matters with you. We are grateful for the courtesy and consideration with which you have received us. As you know, I have attempted, within my limited ability, to give you the best possible service on these matters and I am ready to assist further in any possible way. In fact, I am hoping that I may have the privilege of another meeting with you and the Secretary to conclude the jute matter and to review the possibility of the advertising campaign.

With very highest personal regards, I am

Yours most sincerely,

Bob

P.S. In addition to Mr. Comer's full statement, I am enclosing a memorandum answering Dr. Feis, point by point.

Answering Dr. Feis' observations on proposal to increase domestic consumption of cotton by restricting imports of jute products.

1. The present figures indicate one billion pounds of jute imports for this year. Our suggested quota would, we think, increase the use of American cotton in this country between a half and three-quarters of a million bales. Complete exclusion of jute products would certainly increase home consumption of cotton over a million bales.

2. We agree that such a program would increase the cost of ~~string~~ wrapping and containers where cotton substituted for jute, but we think that the tariff on sugar increases the cost of sugar. We think the tariff on butter and cheese increases the cost of butter and cheese. The protective tariff does increase the cost of the thing the cotton farmer buys. We are trying to give him his home market just as all the other farmers have protection for their home market.

3. We don't think our suggested program would interfere at all with the domestic jute manufacturing industry. The jute string manufacturer is already fully protected by a tariff and burlap is not manufactured in this country.

4. We agree that the administration of our proposal will be difficult, but we don't think this should be used for an argument in the continued injustice to the American cotton farmer. It would suit him better to have a prohibitive tariff and that would be simpler of administration.

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5. The Administration's policy of increasing the price of American cotton has resulted in British India capturing our export market for cotton and capturing our domestic market with her increasing importation of jute. While our exports of cotton have been declining, India's exports of cotton have been increasing. Egyptian cotton has a tariff of 7 $\frac{1}{2}$ a pound erected in order to protect our Pima cotton of the West, and Egypt is a part of the British Empire. The British Empire is constantly striving to get away from our cotton by spreading our cotton seed all over the world. If we tried as hard to get away from British rubber as they try to get away from our cotton, I think we might be more successful. We can retain some of our lost export cotton business if we will meet the world prices, and Great Britain will in the meantime continue to buy her cotton where she can get it the cheapest.

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6. We have been aiding the Department of Agriculture in their effort to substitute cotton bagging as a wrapping instead of jute for our cotton, and we agree that requirement that cotton be sold on a net weight basis would help bring this result about and might mean the use of 150,000 bales of cotton. Any plan that would help bring this about would have our full support.

7. We think that the first place to give cotton its full use is at home and after that just as much of export business as can be had at prices that are profitable and desirable to the cotton farmer. We believe that the world price of cotton is going to be fixed by the low standard wages of the cotton farmers in India, Africa, Russia, China and South America. We believe that whatever export business on cotton is to be maintained in the future will have to be under some program of government assistance. Dr. Feis in his final paragraph says:

"A policy of keeping American cotton prices at a competitive level will be most conducive to making this potential foreign demand effective, and thus reduce the country's surplus stocks."

The full weight of this Administration is behind a program to achieve parity income for cotton farmers and we think it is impossible under world competitive cotton prices. Farm legislation now pending is seeking protection for cotton prices and cotton farm income by restricted production.

REASONS FOR RESTRICTING THE INCREASING IMPORTS
OF JUTE, MANUFACTURED AND UNMANUFACTURED, INTO
THE UNITED STATES.

Submitted by Mr. Donald Comer, November 23, 1937
to
Mr. Wayne Taylor, Assistant Secretary of the Treasury

Every major farm product in America has tariff protection excepting the cotton that grows from Virginia to Texas. The Pima cotton grown in Arizona and on the irrigated farms of the West, has a tariff protection of 7¢ a pound against importation of Egyptian long staple cotton.

Mr. Lynn R. Edminister, Chief Economic Analyst with the Department of State, was in Birmingham last year and said:

"The unvarnished truth concerning this whole agricultural import matter is that the bulk of agricultural products which can be produced in this country at less than a prohibitive cost, have long since been barred out of our markets by high tariffs." And again, "No one, so far as I know, seriously proposes that it should be otherwise."

Senator Borah on August 29, 1936, is quoted as having said:

"The farmers' prosperity depends upon the maintenance of his exclusive right to the American market. Put the tariff up, even if it amounts to an embargo, in order to give the American farmer, up to the limit of his production, our home market; then the farmer will be prosperous and not until then."

Mr. Louis J. Taber, Master of the National Grange, was recently quoted as saying:

"On such matters as the tariff and kindred problems, the farmer has not received justice. Agriculture is entitled to the American market for all farm commodities that can be efficiently produced in this country. We have too large a free list. We must not only have additional tariff protection but we must prevent unfair treatment of the farmer in reciprocity treaties and international trade."

At the annual meeting of the American Farm Bureau Federation last December in Pasadena, California, the following resolution was passed:

"During such periods of time as curtailed market outlets force American farmers to restrict the production of farm products more than is necessary to be consistent with good farm practices, includ-

ing the maintenance of a high degree of soil fertility, we urge that Federal laws and regulations restrict the importation from foreign countries of farm products to such points as is necessary to maintain the widest possible market for domestic farm products at fair price levels."

Since 1933 our cotton crops have been curtailed and our Government has had continually to protect the price by loans and other methods and during this time Senator Russell of Georgia says that imports of jute increased from 517,000,000 pounds in 1933 to 716,000,000 pounds in 1935. He showed that as cotton goes up in this country, importation of this low wage product also increases. The New York Journal of Commerce on March 24, 1937, in speaking of the jute industry in India, quoted from their own statement:

"The position now is that all units of the industry will continue to expand and increase their output so as to take advantage of the demand which is still on the up-grade."

Since 1933 the American cotton crop has been curtailed under Government regulation for the purpose of improving the price of cotton to the end that the cotton farmer's income might nearer approach a parity in relation to those things that he has to buy. During the subsequent years the American cotton farm program has resulted in a continual curtailment. Whether because of this or not, the world crop outside of the United States has continued to increase, and as a result of this increase in the world growth of cotton our exports of cotton have continued to decline. It should be of interest that India, which grows both cotton and jute, has increased both her acreage and her crops of cotton and jute, and as a result India has taken away from American cotton some of our foreign customers; and by increasing her imports of jute into the United States she has taken away home customers in our own domestic market. I attach hereto figures showing these trends.

In addition to the jute and burlap as listed on the attached schedule, there are other jute products coming in under the head of waste bagging and waste, sugar sack cloth, jute yarns and cordage, bagging for cotton, bags and sacks, which all added together indicate total imports of jute products for this year of over a billion pounds. These figures seem thus to prove that every effort to date on the part of our Government to improve the cotton farm income has resulted in a loss of foreign customers to India cotton and a loss of home customers to India jute.

A.A.A., in establishing quotas for cotton farmers, required a reduction in acres for cotton of 35% and it therefore seemed reasonable to us to suggest that as America undertakes to limit acres of cotton and undertakes to protect in the American market the price of cotton, some method should be found for protecting our export markets to whatever is agreed on as reasonable and to at least limit the imports of such competing fibers as jute, so as to prevent foreign cotton and

foreign fibers from defeating the Administration's program. We have suggested that we take the average imports of jute from the years 1931-35 inclusive, reduce this quantity by 35%, and establish that as a fair importation of this competing fiber. We recognize that the purpose of this program is to substitute cotton wrapping, cotton string and cotton sacks for jute wrapping, strings and bags. We recognize that western and northern farmers are large users of burlap bags. They use them because they are cheaper. They are cheaper because it is a product grown and manufactured in India by people who work of 8¢, 10¢ and 12¢ a day. Our whole protective tariff system is to prevent that kind of unfair competition.

If our cotton farmer is to have the income of the western farmer, he must sell more of his cotton and for better prices. His first customer is the American customer. The cotton farmer pays a tariff on his sugar, on his tobacco, on his butter and cheese. Potatoes, wheat, corn, oats, fruits and nuts all have tariffs.

The South has been accustomed to grow cotton and likes to grow cotton. This year they have grown a very large crop. The Government will probably find in their loan pool before the end of the season over 6,000,000 bales of cotton. This situation is aggravated by the fact that India cotton has crowded out our exports to a certain extent and India jute has crowded out our home market to a certain extent. India no doubt would rather sell us cotton than jute, but of course this can not be, so she sells our cotton customers cotton and sends us her jute.

Alabama in 1936 imported from other states over \$500,000 worth of butter and \$750,000 of cheese. Is it unreasonable, if cotton farmers are to raise cotton and buy something of their food and feed, to ask that northern farmers sack their food and feed crops in cotton bags? We are all today hunting for new uses and increased uses of cotton. A law requiring that cotton be sold net weight has the support of the Department of Agriculture and probably would require the equivalent of 150,000 bales of our own cotton for cotton bale wrapping instead of the jute which is now used. We have suggested the quotas instead of a real protective tariff because we feel that that would be less disturbing to the jute interests of our neighboring country and would at the same time continue to provide at the same cheap prices an appreciable part of the jute needs to our own domestic jute users. We recognize the difficulty attending a quota arrangement, but the main purpose of the whole thing is to give cotton a fair chance in this country. We all of us would like to have this accomplished in the easiest way possible, but the main thing is to accomplish it.

We recognize that no country likes to have a barrier of any kind, quotas or tariffs, raised against their own product, but since we are raising them against every other product in protection of the American product, why should this injustice to cotton continue any longer?

Secretary Hull has stated in his trade treaties that trade between the two countries does not have to equalize and an A.P. dispatch of November 23rd, has said as follows:

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"'Triangular' trade is illustrated by the fact that the United States usually has a favorable balance in its trade with Europe, whereas it regularly records an unfavorable balance in its commerce with tropical countries. Under Hull's theory, one should equalize the other.

"It is not important, he contends, that a nation should strive for a favorable balance in its dealings with another individual country. What it may lose in one quarter it probably will gain in another."

In any trade treaty with England, of course, due recognition will be given to the tremendous amount of money we pay for ocean carrying and the tourist dollars that are spent in that country.

Senator Richard B. Russell, Jr., in a debate in the Senate June 5, 1936, stated that this is the only cotton producing country on earth that stands by and sees its cotton farmers penalized in its competition with jute. He mentioned Mexico, Brazil, Colombia, Peru and Russia, and states:

"Various parts of the British Empire producing cotton levy substantial duties on importation of jute and jute products from India, another part of the British Empire."

It is easily conceivable that under such a plan as we are suggesting, the use of our cotton in this country can easily be increased over half a million bales, and it certainly seems to me that with our Government continuing to carry tremendous quantities of our cotton in loan pools our primary concern should be to make available for our cotton a full free use in this country.

Senator Russell in introducing an amendment putting a fair tariff on jute last year, headed his speech "Jute, the Arch Competitor of Cotton."

Before closing I would like to state I am in entire sympathy with the Secretary of State in establishing trade treaties with the other nations of the world.

UNITED STATES COTTON

	<u>Total Exports (Bales)</u>	<u>To United Kingdom</u>	<u>To Japan</u>
1932-33	8,419,000	1,492,000	1,743,000
1936-37	5,440,000	1,444,000	1,550,000

BRITISH INDIA COTTON

	<u>Production (Bales)</u>	<u>To United Kingdom</u>	<u>To Japan</u>	<u>Total Exports</u>
1932	4,100,000	193,000	1,213,000	2,221,000
1936	5,661,000	473,000	2,067,000	3,697,000

IMPORTS OF JUTE AND BURLAP INTO U.S.

	<u>Jute (Tons)</u>	<u>Burlap (Pounds)</u>
1933	51,287	402,972,000
1936	78,682	557,347,000
1937 (9 months)	100,064	541,854,610

November 23, 1937.
2:30 p.m.

H.M.Jr: Hello.

Operator: Chairman Eccles has not returned from lunch.
Expect him any minute.

H.M.Jr: Well, leave word I'd like to talk to him.

O: All right.

H.M.Jr: Marshall Diggs.

O: Yes.

H.M.Jr: Of the Comptroller's office.

O: All right.

H.M.Jr: Hello.

O: Marshall Diggs.

H.M.Jr: Thank you.

O: Go ahead.

Marshall Diggs: Hello.

H.M.Jr: Marshall Diggs?

D: Yes, sir.

H.M.Jr: Morgenthau.

D: I'm having another breakfast out at my house,
on Sunday morning, December the 12th, that I'd
like very much for you to attend, sir.

H.M.Jr: Well.

D: If you can.

H.M.Jr: I don't know yet. December 12th sounds like
another lifetime.

D: (laughs) Well, I have to ask you important people
so early.

H.M.Jr: If you'd send me a little note, I'll certainly keep
it in mind.

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D: All right.

H.M.Jr: Very kind of you to think of me.

D: Jim is coming, and Sam Rayburn, and Barkley, and some people like that. Bob Jackson and others that I know you know.

H.M.Jr: That's awfully nice.

D: And, we'd very much like to have you, if you can.

H.M.Jr: Well, if I live that long I'll take it under very serious consideration.

D: Very good, Mr. Secretary.

H.M.Jr: All right. Goodbye.

November 23, 1937.
2:53 p.m.

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H.M.Jr: Hello.

Operator: Dr. Burgess. Go ahead.
Dr.
Burgess: Hello there.

H.M.Jr: Well, what did you fellows decide about buying more securities?

B: We decided to buy a little.

H.M.Jr: Uh-huh.

B: We bought nine million, Henry. Nine million, three.

H.M.Jr: Uh-huh.

B: Which would be a reduction from last week. The market - the way the market looked, I was a little bit afraid of not showing any buying, after having bought two weeks running.

H.M.Jr: Yes.

B: The stock market has been lousy.

H.M.Jr: Yes.

B: And the Government market has dropped off. Now, last week, when we talked about this thing, the Government market was running right on up.

H.M.Jr: Yes.

B: And now we're just a little bit afraid of the effect of just stopping buying.

H.M.Jr: Uh-huh.

B: So far ahead of the tax period. Above your financing.

H.M.Jr: Well, when does your announcement come out, Wednesdays or Fridays?

B: That'll come out, well it'll be Friday this week.

H.M.Jr: That's what - that's what the Times said, Eccles said it would be out Wednesday.

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B: No, this Wednesday's night figure.

H.M.Jr: Yes.

B: As of Friday.

H.M.Jr: Well, I was surprised.

B: Well, I - it represents a change from last week, my views, I know.

H.M.Jr: Yes.

B: But the situation has changed.

H.M.Jr: Yes.

B: The stock market has hit a new low.

H.M.Jr: But Friday is no nearer to Monday than it was last week.

B: No, that's - that's perfectly correct.

H.M.Jr: Uh-huh.

B: Perfectly correct, but I think the feel of the market's a little different.

H.M.Jr: Yes.

B: And the picture has changed in the meantime.

H.M.Jr: Well, of course what it does is this, when your statement comes out next Thursday and you haven't done anything then we've got to take the shock then instead of taking it now.

B: Well, I think - I think it's much easier to explain then, and I think it'll be less of a shock.

H.M.Jr: Yes. Well, I think you fellows are wrong, but it's too late now.

B: Well, -

H.M.Jr: I think you're absolutely wrong.

B: Yes. Well we may be, I don't know. One of those minor -

H.M.Jr: I went along with you last week, and it's too close up, that's all.

B: Yes. Well I think we probably never should have started it.

H.M.Jr: Well that's a different story. It's like all this stuff, you begin to take dope, it's damned hard to stop it.

B: Yes, yes. That's right.

H.M.Jr: Yes.

B: That's right.

H.M.Jr: Well, I'm sorry, but -

B: Well, Henry, I -

H.M.Jr: As I told -

B: You may be quite right about it, I - I have no very solid conviction on this.

H.M.Jr: I told Eccles whatever you fellows did, I wasn't going to bleed about it.

B: Yes, yes.

H.M.Jr: But I still say that Friday is no closer to Monday this week than it was last.

B: You're quite right.

H.M.Jr: Yes.

B: Well, I -

H.M.Jr: Well, it's over the dam. I think it's - well, no use going over it again, but I'm sorry.

B: Well, it - you may be quite right, it just feels to us here as though this would be the better way to do it. Now, we may be wrong. The proof of the pudding may be the eating.

H.M.Jr: Well, I've always wanted two weeks of the market to settle down before I'd finance.

B: Yes, yes. Well, I think -

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H.M.Jr: This only gives me about eight days.

B: Well I think it's settling down now Henry.

H.M.Jr: Well, yes but this thing comes out again, that's another shot in the arm.

B: Well no, I don't - I think they're expecting this. I think they're expecting more.

H.M.Jr: Uh-huh.

B: So I think that a reduction this time to this small amount will be a settling down.

H.M.Jr: Yes. O. K.

B: So I think it'll work out all right.

H.M.Jr: Let's hope so.

B: So do I.

H.M.Jr: All right.

B: Good.

H.M.Jr: Goodbye.

B: Goodbye.

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November 23, 1937.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello.

Marriner
Eccles: Hello.

H.M.Jr: Well I understand Marriner you've decided to go ahead and buy some more notes.

E: That's right.

H.M.Jr: Uh-huh.

E: Not more than twelve and not less than eight.

H.M.Jr: I see.

E: We've discussed it here with two other members and with George over the - three or four of us on the phone together here, after we talked to you, and I reported to them that you said that after all it was our responsibility and that whatever was done, why he wouldn't - we wouldn't hear anything from you, but, that - said that you hadn't changed your opinion over a week ago. You were just the same.

H.M.Jr: That's right.

E: And there was the general feeling that we didn't want to cause comment.

H.M.Jr: Yes.

E: At this time. With reference to that statement, it - today is the last day you can buy and get it in the statement. The statement is - the statement at the close of business tomorrow night.

H.M.Jr: Yes. Comes out Friday.

E: And that statement comes out Thursday afternoon and - you see we issue it Thursday - the day - Thursday afternoon.

H.M.Jr: Yes.

E: And it comes out in the morning paper on Friday morning.

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H.M.Jr: That's right.

E: But now that will be - that'll be nearly two weeks before your offering.

H.M.Jr: No, no -

E: No, about ten days.

H.M.Jr: Yes, it just gives us - it gives us about a week to have a shake down.

E: Yes, gives you about ten days too. Well, Harrison said that the general feeling in New York, the general comment was that they expected that the - we would be continuing this week our operation, and he said if we discontinued it, he was - he felt quite sure that there would be some comment about it and some questioning and that the issue would be raised.

H.M.Jr: Yes.

E: He thought that next - he was perfectly sure of course, that next week, with the Open Market Committee here, and meeting with the Treasury that the question wouldn't be raised. It would be assumed of course, that there wouldn't be any.

H.M.Jr: Yes.

E: And he - well that's - that's the story and -

H.M.Jr: All right. Well, I - it's done, I'm sorry, but it's done.

E: I don't think that - I don't think you'll hear anything about it. I mean - just be no comment one way or the other.

H.M.Jr: Oh, - I think you're going to be surprised, but it won't -

E: Yes.

H.M.Jr: You'll be surprised but it won't come from the Treasury. There'll be nobody here will open their mouth.

E: Well, I - I don't know, of course George - the - the

H.M.Jr: Well.

E: They didn't - they thought there - that there'd be more comment, that it was expected - that it was generally expected there would be some operation.

H.M.Jr: Well, - Friday is just as close to Monday this week as it was last week. But it's done and we'll ride along and hope for the best.

E: Yes. Well, all right, then. Well I just reported my conversation verbatim with you, and that was their final decision, so I -

H.M.Jr: All right, Marriner. Thank you very much.

E: All right.

November 24, 1937.¹²⁰
10:18 a.m.

H.M.Jr: Hello.

Operator: Senator Ellender

H.M.Jr: Thank you. Hello.

Sen.
Ellender: Hello.

H.M.Jr: Morgenthau talking.

E: Yes, Mr. Secretary. How are you sir?

H.M.Jr: I'm fine.

E: All right.

H.M.Jr: I hear you've got something you want to talk to me about.

E: Yes, Mr. Secretary, I have several little things I'd like to talk to you about, and I told Mr. Upham yesterday that I would be a little bit busy - I thought I could get off today but this agricultural bill is coming up, and as I went over the - with the committee I thought I should remain here.

H.M.Jr: Yes.

E: And if it's convenient to you Mr. Secretary, I'd certainly appreciate some of your time, say next week could you afford me some time then.

H.M.Jr: Oh, sure.

E: That'll be fine.

H.M.Jr: You don't want to tell me so I can be prepared.

E: What's that?

H.M.Jr: You don't want to tell me what it's about so I can be looking it up.

E: Well, among the things that I'd like to talk to you about, Mr. Secretary is - with reference to the appointment written about the

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H.M.Jr: On who?

E: Mr. your friend collector.

H.M.Jr: Oh, you - you mean about him?

E: I say we had agreed - practically agreed on submitting his name to you.

H.M.Jr: Well - you - that would be - that's encouraging.

E: Well, we - we're trying to work, all we can together on this Mr. Morgenthau and those are some of the things that I'd like to talk to you. Have a little heart to heart talk with you.

H.M.Jr: Well -

E: I have also reference to a few of these pending tax - accounts of some of our friends out there, and all I want is simply an opportunity of discussing one - one in particular with you, just to lay before you the facts as I know them, and the one I have particular reference to is that of Maester in New Orleans, and I know that if you know the facts on that man and the facts as I think I'm able to produce them to you, that you may be inclined to see this thing in a true light.

H.M.Jr: Well, I don't happen to be familiar with that case at all.

E: Well, of course, that - I personally have been working with Mr. Helvering and Mr. Russell, and it's my understanding that some offer had been made some time ago, and that is the offer I'd like to discuss with you.

H.M.Jr: Right.

E: And show you why. I think it ought to be accepted and I'm sure that after you hear my side of it that you may probably be inclined to agree with the conclusion that I - that I think you ought to reach.

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H.M.Jr: Well -

E: That's all I desire. Just a little time with you, so as to go into details of that. It won't take very long.

H.M.Jr: Well -

E: And in the meantime you might get it from Mr. - Russell or Mr. - I mean -

H.M.Jr: Would you like Mr. Helvering here at the same time?

E: That would be fine. Either Mr. Helvering or Mr. Russell. Russell, I believe, is the man whom I've dealt with more so than Mr. Helvering.

H.M.Jr: Well, supposing I -

E: Mr. Helvering was out of the office quite a bit.

H.M.Jr: Supposing I have both of them here.

E: Say, that would be fine, Mr. Morgenthau.

H.M.Jr: How about ten o'clock Tuesday?

E: Tuesday?

H.M.Jr: Yes.

E: That'll be fine, Mr. Morgenthau.

H.M.Jr: Is that the day you want?

E: Yes, sir, that's fine. That'll suit me fine.

H.M.Jr: I'll have both Helvering and Russell here.

E: Yes, sir.

H.M.Jr: At ten o'clock Tuesday.

E: Thank you very much. That's very kind of you.

H.M.Jr: Thank you.

E: All right.

November 24, 1937.
10:30 a.m.

H.M.Jr: Hello.

Operator: Mr. Helvering. Go ahead.

H.M.Jr: Hello.

G.
Helvering: Hello.

H.M.Jr: Guy?

H: Yes.

H.M.Jr: Good morning.

H: How are you?

H.M.Jr: I'm fine. Senator Ellender just called up, said he'd like to see me some time next week, so I asked him what about and he said, "About, first about the collector".

H: Yes.

H.M.Jr: Acting collector down there. Evidently now come around, they're going to recommend the acting collector.

H: Well, that'll be a good thing if they do that.

H.M.Jr: That's what I thought.

H: He's a good man.

H.M.Jr: And I thought that you might kinda be - well I didn't know whether he had stayed good during the last year.

H: Yes. Well, he's a very excellent man, Mr. Secretary, we think.

H.M.Jr: Well, that's number one.

H: Yes.

H.M.Jr: And then number two, he wants to talk to me about the man Maistry.

- 2 -

H: Who?

H.M.Jr: Maistry or Maester

H: Oh, the man - his tax case I suppose.

H.M.Jr: Yes.

H: Yes.

H.M.Jr: So I thought if you and Russell would be here at ten o'clock Tuesday. I accepted, I'd like - I'd have you here.

H: Yes.

H.M.Jr: And he wants to plead for a settlement.

H: Yes.

H.M.Jr: And I'm going to have Magill here too.

H: I see. Yes. At ten o'clock on Tuesday.

H.M.Jr: Yes, will you tell Russell?

H: Yes, I'll tell Russell. All right.

H.M.Jr: I'm not at all familiar with the case, so I'll have to depend upon you.

H: Yes. I've gone into that case pretty thoroughly, and I think both Mr. Oliphant and Mr. Magill went into it pretty thoroughly.

H.M.Jr: Yes. Well, I don't know anything about it, so I don't know whether it should or shouldn't be settled or anything else.

H: Yes. Well I think the policy on that, that Magill thought was that there's been so much rumpus about these cases, better let them go and be settled in the orders of the courts.

H.M.Jr: I see.

H: But I haven't talked to them lately about it. We - we made the assessment for the amount on the agent's return, ninety day limit, I mean, and the assessment won't be made till the end of the ninety days.

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H.M.Jr: Uh-huh. When is that up?

H: Well, they have till about the first of January, something like that, through the ninety days.

H.M.Jr: Well, all, - as I say, I don't - that's what he wants to talk about. He said he had seen Russell about it.

H: Yes.

H.M.Jr: Did you know that?

H: Well, I know - he came here, and I referred him up there some time ago, at least he was arranging then for a conference with Maester's attorney.

H.M.Jr: I see.

H: I don't know whether he ever talked about the case, the Maester case, with Mr. Russell or not, I don't think he did.

H.M.Jr: Well, anyway, we'll listen to him. He's entitled to a hearing.

H: Yes. Well, we'll be there.

H.M.Jr: All right.

November 24, 1937
11:30 a.m.

Operator: Go ahead.

H.M.Jr: Hello

Key

Pittman: Good morning, Mr. Secretary.

H.M.Jr: How are you?

P: Oh I'm bully, how are you?

H.M.Jr: Oh, I'm fair.

P: I was down to see Taylor several times, about this silver matter, and I made a speech, -

H.M.Jr: Yes.

P: On Monday, I wonder if you saw it? I told him to look ^{at it} / because I didn't want it to get me out on a limb.

H.M.Jr: Well, I kind of read it, but I kinda gathered from that you would favor keeping the domestic price where it is.

P: No, no. No, not exactly, no. No, I favored - I favored - what I was trying to argue - to argue was that under the law they certainly wouldn't reduce it. That they would be compelled to go forward until it got to one twenty nine an ounce.

H.M.Jr: On the domestic price?

P: That is - yes. That is, - or until we got one-fourth of our stocks. Monetary stocks in silver.

H.M.Jr: Yes.

P: That was -

H.M.Jr: Well, I couldn't tell - frankly, from your speech, I couldn't tell, just - I gathered that you wanted us to keep the price where it is now for domestic silver.

P: Well, my thesis was that the - that on the 31st of December, that though - though the proclamation might expire, the obligation still existed upon the part of the Government to go forward and purchase silver.

- H.M.Jr: Oh, there's no argument about that.
- P: Yes. Until it got to one twenty nine an ounce, or until we got the one billion and some odd hundred million.
- H.M.Jr: Set it right there.
- P: Yes. Well, that was my thesis.
- H.M.Jr: Oh, yes.
- P: And, of course, I expected that you'd continue, and if I were Secretary I would continue this seventy seven for a little while and diminish the amount of ~~foreign~~ silver purchase so that there wouldn't be unfavorable reactions, and then a little later, continue on to carry out the terms of the act.
- H.M.Jr: Well, supposing the world - supposing we stop buying world silver when it's offered to us and it drops to thirty five cents.
- P: Well, I think that you'd have to buy - keep on buying a little. That would be my judgment.
- H.M.Jr: Well, it's not quite as easy as that, Senator.
- P: I know it isn't. But the point I'm trying to get at is, you - so long as that Statute is un-
is unrepealed you have to -
- H.M.Jr: No argument about that.
- P: You have to proceed upon the theory that you've got to get one billion - some -
- H.M.Jr: That's right.
- P: Ounces more, unless it gets to one twenty nine in the meantime.
- H.M.Jr: Or unless we sell some gold.
- P: Oh, yes.
- H.M.Jr: Yes.
- P: Yes. Yes, that's right.

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H.M.Jr: Yes.

P: Well, that was my theory and I didn't - there was considerable apprehension in I didn't want them to get the idea that we're going to - just because of the termination of that proclamation quit buying.

H.M.Jr: Of course, I got the impression from you, when you were down here before, that you sort of like to see it drop the domestic price.

P: Oh, no, no. I didn't mean that. No, no.

H.M.Jr: That's what - that's the impression I got.

P: No, I didn't get that - well then, I was - I didn't state myself - state it correctly.

H.M.Jr: I see.

P: What I'd - the point I had tried to make was that I didn't want to get too much foreign silver because that might - there might be reactions here which would demand we reduce the domestic price.

H.M.Jr: Uh-huh.

P: That's what I meant.

H.M.Jr: Well, of course, the more the price of foreign silver drops off.

P: Yes.

H.M.Jr: The more the domestic price stands out, by contrast.

P: Exactly. That's the reason why I felt that we ought to keep on buying a little from the - from the world so as to keep the price - to have that increase a little.

H.M.Jr: Well, a little may not do it. We've keep the price of forty-five cents now, for about a year.

P: Yes.

- H.M.Jr: And that hasn't been easy. I mean - in other words you've got to buy - I buy the silver that's offered to us.
- P: Yes.
- H.M.Jr: And that way we keep the world price steady.
- P: Yes. Well, that -
- H.M.Jr: But if we should stop buying the world price, I don't know, it might go back to twenty-four cents.
- P: Well, I don't think that ought to be done. I think it - because that would interfere with the spirit and letter of the act to bring it up to one twenty nine until we get - unless in the meantime we get one-fourth.
- H.M.Jr: Yes.
- P: So you've got to keep buying the world price. The world
- H.M.Jr: Well, I haven't yet discussed it with the President, and I don't know when he will discuss it with me, but -
- P: I think you - you'll pardon me for so saying, I don't want to be at all impertinent -
- H.M.Jr: No.
- P: It seems to me in the light of the uncertainty.
- H.M.Jr: Uh-huh.
- P: In mining circles and particularly with this little slump now, that the sooner that some statement could be made it would relieve the tension, - the better it would be.
- H.M.Jr: All right. I - I'm always glad to hear from you.
- P: All right, the point I'm getting at is - some of these mines here are now - getting frightened, and by the way I want to compliment you on that great speech you made. That's - that's the only sunlight I've seen for some time.

H.M.Jr: Well.

P: And -

H.M.Jr: You - you must be in a storm cellar.

P: Well - I sometimes have. There is a good deal of apprehension you know and some of the miners - some of the mines have closed down and thrown people out of employment, and - there's a good deal of fear you know, as to what will be the result. They've misconceived the effect of the termination of that proclamation.

H.M.Jr: That's right.

P: And I've told them that - that didn't affect at all the silver act, we'd go ahead and purchase under the terms of that act.

H.M.Jr: That's right.

P: All right, my dear friend.

H.M.Jr: Thank you.

P: Thanks very much.

H.M.Jr: Goodbye.

Ribbons copies of this memo were
sent to following by the Secretary on
November 30, 1937:

President Roosevelt
Secretary of State Hull
Secretary of War Woodring

(Attention: Col. Strong)
mas - 12/1/37

Letters of transmittal were dated
12/30/37 and were signed by the Secretary.)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 24, 1937

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Current United States trade with Japan and China
(Preliminary data)United States trade with Japan during the first three weeks of November 1937.

(1) United States exports to Japan during the first three weeks of November were lower than during the first three weeks of October of this year.

United States exports to Japan

	<u>First three weeks of November 1937</u>	<u>October 1937</u>	<u>Month of November 1936</u>
1st week	\$1,180,000	\$1,727,000	<u>For whole month</u>
2nd week	4,813,000	5,746,000	
3rd week	4,745,000	4,492,000	
Total 3 weeks	\$10,738,000	\$11,965,000	\$24,100,000

(2) United States imports from Japan during the first three weeks of November were higher than the imports during the first three weeks of October.

United States imports from Japan

	<u>First three weeks of November 1937</u>	<u>October 1937</u>	<u>Month of November 1936</u>
1st week	\$3,245,000	\$3,328,000	<u>For whole month</u>
2nd week	3,654,000	3,984,000	
3rd week	4,356,000	3,419,000	
Total 3 weeks	\$11,255,000	\$10,731,000	\$15,340,000

(3) United States export of cotton to Japan remains negligible.

November 1937:	1st week	\$ 97,000
	2nd week	149,000
	3rd week	266,000
	Total	\$ 512,000
November 1936:	Whole month	\$14,701,000

Secretary Morgenthau - 2

(4) There apparently has been a shift in the composition of our exports to Japan during the first three weeks of November, compared with the first three weeks of October.

(a) The following items show large increases in our exports to Japan, comparing the first three weeks of November with the first three weeks of the preceding month:

	<u>First three weeks of November 1937</u>	<u>October 1937</u>
Petroleum products	\$3,262,000	\$2,651,000
Copper	1,091,000	833,000
Paper base stock	841,000	623,000
Industrial machinery	745,000	565,000
Vehicles, parts and accessories	739,000	207,000
Brass	440,000	29,000
Ferro-alloys	342,000	224,000
Industrial chemicals	207,000	87,000

(b) The following items show sharp decreases in our exports to Japan during the first three weeks of November, compared with the exports during the first three weeks of October:

	<u>First three weeks of November 1937</u>	<u>October 1937</u>
Iron and steel semi-manufactures	\$733,000	\$3,084,000
Scrap iron & steel	488,000	889,000
Hides and skins	345,000	545,000
Pig iron	56,000	567,000
Lead	41,000	167,000
Photographic and projection goods	13,000	105,000

(5) The composition of our imports from Japan remains without significant change. Raw silk imports were \$6,169,000 during the first three weeks of November, compared with \$6,223,000 during the first three weeks of

Secretary Morgenthau - 3

October, which is similar to the \$2,000,000 average per week importation during the whole of 1936. The items which account for the increase in total importations during November compared with the corresponding period in the previous month are: Pyrethrum flowers, fish, cotton manufactures, and silk manufactures.

(6) Of the total of \$10,738,000 of exports to Japan during the first three weeks of November 1937, the following items account for almost all:

Petroleum products	\$3,262,000
Copper	1,091,000
Paper base stock	841,000
Industrial machinery	745,000
Vehicles, parts and accessories	739,000
Iron and steel semi-manufactures	733,000
Cotton	512,000
Scrap iron and steel	488,000
Brass	440,000
Hides and skins	345,000
Ferro-alloys	342,000
Industrial chemicals	207,000
Fertilizer	178,000
Coal-tar products	139,000
All other	<u>676,000</u>
Total	\$10,738,000

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(7) Of the total of \$11,255,000 of our imports from Japan during the first three weeks of November, the following items account for the bulk:

Raw silk	\$6,169,000
Cotton manufactures	748,000
Silk manufactures	352,000
Fish	347,000
Tea	332,000
Pyrethrum flowers	300,000
Perilla oil	248,000
Chinaware and porcelain	220,000
Earthenware	176,000
Paper and manufactures	173,000
Rayon manufactures	169,000
Glass manufactures	129,000
Flax, hemp and ramie manufactures	127,000
Food products - vegetable	126,000
Wool manufactures	122,000
Metals and manufactures	101,000
Other	1,416,000
Total	<u>\$11,255,000</u>

United States trade with China during the first three weeks of November.

(1) United States exports to China and Manchuria increased sharply during the third week of November, probably offsetting the small quantity of exports during the first two weeks of November. The value of our exports to China during the first three weeks of November 1937 is already higher than our exports during the whole of November 1936.

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United States exports to

	<u>North China and Manchuria</u>	<u>Shanghai, South China and Hong Kong</u>	<u>Total</u>
1st 2 weeks of Nov. 1937	\$ 854,000	\$ 770,000	\$1,624,000
3rd week of Nov. 1937	<u>1,229,000</u>	<u>1,616,000</u>	<u>2,845,000</u>
Total 1st 3 weeks of November	\$2,083,000	\$2,386,000	\$4,469,000
<u>For whole of China, Manchuria and Hong Kong</u>			
Whole month of November 1936			\$3,769,000

(2) The value of United States imports from China and Manchuria during the first three weeks of November seems to be about the same or slightly higher than during the same month of last year.

United States imports from

	<u>North China and Manchuria</u>	<u>Shanghai, South China and Hong Kong</u>	<u>Total</u>
1st 2 weeks of Nov. 1937	\$ 797,000	\$1,498,000	\$2,295,000
3rd week of Nov. 1937	<u>396,000</u>	<u>1,121,000</u>	<u>1,517,000</u>
Total 1st 3 weeks of November	\$1,193,000	\$2,619,000	\$3,812,000
<u>For whole of China, Manchuria and Hong Kong</u>			
Whole month of November 1936			\$4,659,000

Secretary Morgenthau - 6

(3) Leading export items to China

(a) North China and Manchuria, 1st three weeks of November:

Iron and steel semi-manufactures	\$1,126,000
Vehicles, parts and accessories	276,000
Petroleum products	263,000
Tobacco	166,000
Cotton, unmanufactured	93,000
Wood, unmanufactured	61,000
Other	<u>100,000</u>
Total	\$2,083,000

(b) Shanghai, South China ports and Hong Kong,

Petroleum products	\$ 750,000
Iron and steel semi-manufactures	504,000
Vehicles, parts and accessories	189,000
Tobacco	131,000
Industrial machinery	129,000
Printed matter	107,000
Edible vegetable products	106,000
Other	<u>470,000</u>
Total	\$2,386,000

(4) Leading imports from China during the first three weeks of November 1937

(a) From North China and Manchuria

Wool and manufactures	\$ 417,000
Bristles	391,000
Leather	92,000
Perilla oil	63,000
Other	<u>231,000</u>
Total	\$1,194,000

Secretary Morgenthau - 7

(b) From Shanghai, South China ports and
Hong Kong:

Tin	\$ 482,000
Silk, raw	335,000
Wood oil	305,000
Flax, hemp and ramie manufactures	305,000
Inedible vegetable products (other than wood oil)	231,000
Bristles	113,000
Food products	104,000
Wool and manufactures	90,000
Tea	67,000
Cotton manufactures	67,000
Chemicals	60,000
Other	<u>460,000</u>
Total	\$2,619,000

Att



DEPARTMENT OF STATE
WASHINGTON

STRICTLY CONFIDENTIAL

November 24, 1937

My dear Mr. Secretary:

Ambassador Daniels has asked me to transmit to you the enclosed letter and enclosures. I do so without comment. I shall be glad to cable to him your response.

I likewise enclose for your information a copy of another letter recently received from the Ambassador regarding certain loan discussions in which the Mexican Government is apparently engaged.

Sincerely yours,

Enclosures:

Cordell Hull

From Ambassador Daniels for Secretary Morgenthau.

From Ambassador Daniels to Secretary Hull.

The Honorable .

Henry Morgenthau, Jr.,

Secretary of the Treasury.

(See letter to Amb Daniels dated Dec. 7, 1937)

See also diary entry of Dec. 1, 1937)

COPY

Mexico, November 17, 1937.

My dear Mr. Secretary:

As you doubtlessly know the Mexican Government has been endeavoring to obtain participation of the National City Bank in the extension of a loan to be guaranteed by the recent cotton crop in the Laguna area. The total loan requested is for five million dollars with the anticipation that National City Bank would loan at least two million dollars of this. The cotton which has been baled in the Laguna would be sold off and the buyers would pay the bank directly as they acquired the cotton. The object of the loan of course, is to obtain ready money now without having to sell the crop at a forced price.

The National City Bank has also been asked by the National Petroleum Administration to make them a loan of two hundred thousand dollars to be guaranteed by one hundred thousand barrels of oil at Tampico and one hundred thousand barrels at the Isthmus of Tehuantepec. Both of these loans are now before the National City Bank. The local manager here has been playing for time as he anticipates that if he urges decision, he is apt to get turned down on one, or both of these.

The Government Banking Commission has had inspectors at the local branch for some time, and the manager of Nat. City Bank is fearful here if these loans are turned down, that

The Honorable
Cordell Hull,
Secretary of State.

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the Commission may require him to call various loans to American enterprises in Mexico in a spirit of retaliation. One of the enterprises which has loans is the Richmond Petroleum Company which is having difficulties with the Government over a contract covering a very large tract of oil land.

The local manager has the impression that Mr. Lancaster, when he talked with you recently about conditions in Mexico, got the idea that the Department was unsympathetic towards their advancing money at this time to the Mexican Government, and that this may cause his principals to refuse these loans thereby precipitating difficulties between the local branch and the Government.

If it was not your intention to convey such an idea, it occurs to me that you might wish to take an early opportunity of talking further with some representative of the bank in order to dispel any misunderstanding. As the situation now stands, it looks as though should the local branch get into difficulties on account of their refusal of loans, these might be ascribed by the bank to an effort on their part to cooperate with the Department in its policy towards Mexico.

All of this of course has some bearing on the situation brought about by the recent arrangement for a five million

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million dollar loan from British oil interests (see my despatch No. 5669 of November 13.)

I would suggest that if anything further is said by you to Mr. Lancaster, that there be no indication that it comes as the result of any information from here, as otherwise it might cause some misunderstanding between the local manager and Mr. Lancaster. The local manager is merely trying to keep matters in adjustment with regard to the position of the branch here.

With sentiments of esteem and high regard, I am

Sincerely yours,

JOSEPHUS DANIELS.

November 24, 1937.
2:04 p.m.

H.M.Jr: Hello

Roswell
Magill: Hello Henry.

H.M.Jr: I was leaving in a few minutes. I did want to talk to you.

M: Yes. Well, I just was calling you at the same time you were trying to get me, apparently.

H.M.Jr: Oh!

M: I told Miss Humphries to tell you the - I made the committee exactly the speech which you had in mind.

H.M.Jr: Yes.

M: And it got over perfectly well. They agreed that we ought to do something to take care of the large closely held companies which will not distribute under this plan.

H.M.Jr: Yes.

M: And they further agreed we ought to make a careful study to see if we were going to lose revenue this way, and how we were going to make it up. After we got done - this is sort of significant in connection with it - Vinson got me in front of some of the members of the committee and he said, "You know, I used to play football," and he said, "When you get a signal and you're told to go around the end, and you start to go that way, and find you're blocked, why then you do the best you can, and maybe what you do is to throw a lateral, or maybe you go through tackle or something." Well, of course, it was obvious what he was referring to.

H.M.Jr: What does - what did he mean?

M: What - what he meant was that - I take it he was trying to tell me that - well I was trying to carry out the President's ideas as best I could, but when I found that I didn't think we could get away with it, why then this is the next best.

H.M.Jr: I see.

M: Well, then, we went on to excise taxes and everything was very peaceful - they - we agreed that we'd eliminate about twenty five million dollars. I held

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them down to that rather than fifty because I know that they'll add some more before they get done.

H.M.Jr: Yes.

M: And those are the ones which yield very little revenue and are more or less of a nuisance to collect, like your fur tax.

H.M.Jr: Thank you.

M: Now, I went over then, at Senator Harrison's request, and talked to him.

H.M.Jr: Did you see him before or after he had seen Kennedy?

M: You've got your spies too, huh?

H.M.Jr: Oh, no, it's on the ticker.

M: Oh it's on the ticker. Well I saw him after.

H.M.Jr: Yes.

M: And, I saw him about half past twelve or one.

H.M.Jr: Well, it came out on the ticker at twelve thirty-one.

M: And, well he spoke about having seen Kennedy.

H.M.Jr: Yes.

M: He said what Kennedy had told him was that surplus tax was forcing corporations into the hands of the banks. That companies were distributing more than they should and borrowing bank money and that put the banks in control of the corporations. Well, he was very insistent on some immediate action.

H.M.Jr: Kennedy?

M: No, Harrison.

H.M.Jr: Oh!

M: He said, "You just can't do it," he said, -

H.M.Jr: Wait a minute. Who was insistent on immediate action?

M: Harrison.

H.M.Jr: Yes.

M: He said, - he was, I think, clearly reporting what he had - clearly influenced by what he had got from Kennedy.

H.M.Jr: Yes.

M: But at the same time, it was given as his.

H.M.Jr: Uh-huh.

M: And he says there's an insistent demand in the Senate that they take up this - they've got this little bill for repealing the publicity with respect to corporate officers' salary.

H.M.Jr: Yes.

M: And taking that, and tacking on a repeal of undistributed profits and capital gains on it.

H.M.Jr: Yes.

M: And he said he's also getting a demand from members of his committee, that the committee meet immediately and start in considering the thing.

H.M.Jr: Yes.

M: He said he'd opposed that on the ground that Parker and myself were tied up over here and couldn't attend, and they'd have to have us. Well then he went on, he said, "Can't we get - can't this bill be put through right away, like - just as the sub-committee had agreed." He asked us to explain it to him, and I said, "Well I don't see how you can, and you certainly can't apply it to '37." Well, we argued with him on that a while and then he apparently dropped the 1937 part.

H.M.Jr: Who was with you?

M: Parker.

H.M.Jr: Oh, good.

- M: And then Parker suggested, I wish he hadn't, but he did, - Parker suggested well the sub-committee might make a report on these two subjects, capital gains and undistributed profits, and ways and means full committee might act on those and send those over to the Senate.
- H.M.Jr: Yes.
- M: Well, I said, "I don't like that because this - these proposals are probably going to cost us revenue, and it ought to be part of one big bill, we ought not to hurry it through."
- H.M.Jr: Yes.
- M: And we're not ready for it.
- H.M.Jr: Yes.
- M: Well, Harrison said, "There's a very insistent demand here, and so forth, and we ought to act as rapidly as we can." Well, then I, I said, "Well now, of course, you know how the President feels on this," and he said, - without saying what the President did feel -
- H.M.Jr: Yes.
- M: And Harrison said, "Yes, I know, I saw him Sunday night," and I said, "Well what did he say to you," and Harrison said, well he said, "He wanted to keep the principal of the tax, but he said he was perfectly willing to put in a cushion for debt retirement, for improvements and so forth." Well, I said, "That's going to take up a good part of the yield of the tax," and I said, "Of course the trouble with this present proposal is, it doesn't hit the companies that have large incomes and rich stockholders." "Well," Harrison said, "I'm about through worrying about those," he said, "What we did - what we've done here is to - in order to get one or two cases, wealthy companies like Gulf Oil," he said, "We'll get thousands of companies that aren't that way," and he said, "I'm in favor of legislating for the thousands of companies and not worrying quite so much about these one or two whether
- H.M.Jr: Yes.

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- M: I gave him, not purporting to quote the President, I gave him precisely what the President had said to us.
- H.M.Jr: Uh-huh.
- M: And as I've said he was not at all sympathetic with it.
- H.M.Jr: Uh-huh.
- M: So that's the situation. I spoke to Vinson. I said, "Now you can't make this thing retroactive to January 1, 1937, that's one thing you can't do," and he said, "Well, I - I know, there's a lot of demand on that," he said, and he said, "I'm going to hold the line on that, we won't make it apply before January 1, '38." So that's about where we are.
- H.M.Jr: Let me ask you a question.
- M: Yes, sir.
- H.M.Jr: Did you get anything more of what Kennedy was supposed to have said to Harrison?
- M: He was only quoted to the extent that I've indicated - roughly. But I would say from the way Harrison spoke that it's clear that what Kennedy told him was the undistributed profits tax must be repealed immediately and the capital gains tax ought to be greatly modified.
- H.M.Jr: Uh-huh.
- M: Harrison's idea on the capital gains was that capital gains ought to be taxed and a separate schedule at a low rate.
- H.M.Jr: Uh-huh. Well -
- M: But Harrison, when we explained to him what the House had done, which he didn't understand, was inclined to favor what they'd done and thought probably that was all right.
- H.M.Jr: Uh-huh.

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M: I notice there's an editorial in the Daily News, this noon, quite approving of what they did.

H.M.Jr: I see. Well, the interesting thing on this came over the ticker, the part was this, - Harrison made no statement after he saw Kennedy.

M: Yes.

H.M.Jr: Kennedy said, "All I can say is to discuss the tax situation."

M: Yes.

H.M.Jr: Then comes the paragraph, this is the part I want to get to you, - "Administrative officials, however, expressed the opinion that an announcement to all Washington officials supporting the liberalizing tax program adopted by the Ways and Means Committee would have a good psychological effect on business."

M: Yes.

H.M.Jr: Our administrative officials, I suppose that means Harrison, does it?

M: Yes. I should think so.

H.M.Jr: Well, I thought it over very carefully what I should do. I've decided I'd just sit here. The only thing I can do is give them a little more room.

M: Well Harrison said today that he had talked to Doughton and Cooper and Vinson, as I knew he had.

H.M.Jr: Yes.

M: And he had strongly urged on them immediate action.

H.M.Jr: Uh-huh.

M: So, the picture that you get from Harrison is that you've got the great majority of the Senate, at least, and as he thinks, a majority of Congress, demanding much more drastic action than what this committee took.

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H.M.Jr: Yes. Let me ask you this. Did - in the discussion with Harrison, did - did my name come up at all?

M: No.

H.M.Jr: Did not.

M: No.

H.M.Jr: How about with Vinson?

M: No.

I.M.Jr: I mean my own conversation?

M: Oh! Well, I spoke to Vinson about that, and said that I understood he had had a satisfactory conversation with you.

H.M.Jr: Yes.

M: And he said, "Yes." He said, "The Secretary - the Secretary seemed to think that there was some danger of - that my action had gotten him into trouble and might of got you into trouble."

H.M.Jr: Yes.

M: He said, "Of course there wasn't anything of that at all."

H.M.Jr: Yes.

M: He said, "I - I did have this talk with Charlie, but," and he said, "But, - and we acted promptly on that account."

H.M.Jr: Well -

M: In other words, as I get it, the reason they acted promptly was a combination of that talk plus his talk with Harrison.

H.M.Jr: Yes.

M: And his feeling that if they didn't do this, they'd have to do something a good deal worse.

H.M.Jr: Yes. But I didn't know that Harrison had seen the President Sunday night.

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M: I didn't either.

H.M.Jr: The President didn't tell us that.

M: No, I didn't either. That's what he said.

H.M.Jr: Well, I'm going to leave in a couple of minutes, and you know where I'm at - the farm.

M: Yes. Well, now they're not - they're going to meet again this afternoon but that's still excise taxes, and I don't think anything will happen.

H.M.Jr: You and I are certainly doing a tightrope walk act.

M: Well, that's the way it impresses me and, of course the way it also impresses me, Henry, ~~is~~ that - that you and I are about the only ones that are holding the line on this thing.

H.M.Jr: Uh-huh.

M: It looked yesterday - what flabbergasted me is as if we were going to be put in a wholly false position.

H.M.Jr: Yes.

M: But, as - as I size it up now, from this talk with Harrison, and so forth, and what you tell me off the ticker, it looks like everybody else in the Administration, except you and I, have let loose.

H.M.Jr: Yes. Well, of course Turner Catledge story today, says - I don't know whether you saw it.

M: No.

H.M.Jr: Says here, 'While the initiative was taken within Congress, the Executive Department, through Treasury officials, were understood to be giving its approval. Moreover the lead in this particular was taken by friends of the Administration on Capitol Hill.'

M: Well, that he - he - how close is he to Harrison?

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

M: He might have got it that way, you see.

H.M.Jr: Yes. But, certainly as far as this is concerned it doesn't leave us out in the cold yet.

M: Oh, Lord, no.

H.M.Jr:

M: But the only impression I would - I think ought to be gotten across is, that, as I said to you yesterday, we've been fighting a rear guard action on this thing all the time.

H.M.Jr: Yes.

M: And so far as this particular proposal is concerned, I - I think too - I think it'll be well received. Probably too generous, as far as that's concerned.

H.M.Jr: Yes.

M: But we might have gotten something a whole lot worse.

H.M.Jr: True. The only -

M: And what -

H.M.Jr: You and I may find ourselves like those Chinese - we're the only two left.

M: Well, that's the way it commences to look to me. We're in that building, and by golly they're starting a fire at each of the corners.

H.M.Jr: Yes. And we can't make up our minds which are our enemies and which are our friends.

M: (Laughs)

H.M.Jr: Well, as far as I'm concerned -

M: You'll know whether you got shot in the back or shot in front. At the present I'm commencing to feel tickles up and down my backbone.

H.M.Jr: Yes. Well, the only thing we can do is to keep on just as we are.

M: I think -

H.M.Jr: There's nothing else for us to do.

M: I think that we're in good shape, so far.

H.M.Jr: We can't do anything else.

M: No, I don't see how we can.

H.M.Jr: No, I don't. I mean we can't be representing the President unless we really represent him as he tells us.

M: Yes.

H.M.Jr: If something goes wrong he's got to protect us.

M: The - of course the feeling up here is that - that there must be some affirmative action taken.

H.M.Jr: But who do they think is holding it up?

M: I - as far as Harrison is concerned, there's no question who he thinks it is.

H.M.Jr: Who does he think it is?

M: He thinks it's the President.

H.M.Jr: He doesn't think it's me, does he?

M: No.

H.M.Jr: What?

M: I don't think so. No. I don't get that at all.

H.M.Jr: What?

M: I didn't get that at all. No.

H.M.Jr: All right. Well we can - if we can't do anything else, Ros, we'll just go down the line.

M: That's right. That's right. I'm perfectly cheerful about it.

H.M.Jr: We may get shot in the back, but -

M: Yes, we may.

H.M.Jr: We'll have -

- 11 -

M: But I - I'd rather be shot from the other side,
I may say.

H.M.Jr: Well, I'd rather not be shot at all.

M: But - but I'd like to keep my escutcheon clean and
flying, if possible.

H.M.Jr: All right.

M: If you got a spare escutcheon send it up, I may need
it, in a couple of days.

H.M.Jr: Well - I'll write Sears and Roebuck for one.

M: All right. Get - get a dollar ninety-four one.

H.M.Jr: All right.

M: Well have a good time, Henry.

H.M.Jr: I'm going to.

M: Goodbye.

H.M.Jr: Goodbye.

November 24, 1937

Miss Lehand called me at 10 o'clock this morning and said that she was just curious to know when I talked to Fred M. Vinson whether he retracted what he had said about Jimmy Roosevelt and Charley West. I said, "No, how could he? After all, Upham, of my office, was sitting next to Vinson when he talked to me. He just could not retract." She said, "I was just curious to know what happened" and I replied, "Well when the President is well I want to see him about this" and she said, "All right". She was very cheerful and said, "Goodbye".

* * * * *

Mr. Burroughs (Vice-President of the Associated Gas and Electric Company) called yesterday and wanted to see me. I told Kieley to tell him to write me what he wanted. This is the man that Jimmy Roosevelt said would get in touch with me when Jimmy called me Monday night. Mr. Kieley called Mr. Burroughs on the telephone and advised him that I was leaving town for the week-end; that it would be difficult to make an appointment on account of the work in the Department and matters before Congress and suggested that he put in writing the matter he wished to discuss.

Mr. Burroughs said the matter was too voluminous to put in writing but that he could put in a letter the substance of what he wanted to discuss. He said he believes the suggestion he wishes to make would be of interest to the Secretary and to the Administration - entirely a business matter, nothing legal or technical and that it would take only a few minutes to tell whether or not I was interested. He said he is quite sure the matter he wishes to talk about is of interest to the Administration and thinks I know in a general way what he wants to take up. Mr. Burroughs said he would write.

TREASURY DEPARTMENT
Accounts and Deposits

155

To

Mrs. Klotz



MR. BARTELT

November 24, 1937

Professor David Himmelblau,
Northwestern University,
Lake Shore Drive and Chicago Avenue,
Chicago, Illinois.

Dear Professor Himmelblau:

The Secretary has handed to me a copy of your report of November 16, 1937.

In your "Comments on Treasury Balance Sheet", at the bottom of page 7, and the top of page 8, there appears the following statement with reference to losses on recoverable assets:

"Such losses are recognized in the budget of the year in which an appropriation bill is passed to reimburse an organization for losses admitted by it. (per Mr. Bartelt). If this is not done promptly the budget deficits are understated."

I am wondering whether I said something which might have given you the impression that it is the present practice of the Federal Government to reflect losses on recoverable assets in the annual budgets. I am sorry if I gave you such an impression because such is not the present practice. The thought which I intended to convey was that if a change should be made in existing policy, whereby all receipts and expenditures on account of recoverable assets are not included in the budget during the year in which such receipts and expenditures occur, provision would have to be made for an annual appraisal of the assets in order that any losses or impairment might be properly reflected in the budget.

It may be that I have misinterpreted the statement quoted above and, therefore, I would appreciate hearing from you on this point.

Very truly yours,

(Sgd) W. F. Egan

Commissioner of Accounts
and Deposits

WFB/gwn

November 24, 1937

To: The Secretary

From: Mr. Magill

Conference with Senator Harrison at noon today attended
by Mr. L. H. Parker

Senator Harrison asked Mr. Parker and myself to come over and see him at the Capitol immediately after the conclusion of the session of the House subcommittee this morning.

The Senator said that he had just talked with Mr. Joseph F. Kennedy regarding the tax situation. Mr. Kennedy had urged upon him immediate action in the direction of repeal or drastic modification of the undistributed profits tax. Mr. Kennedy had told him that the tax had had no effect upon the large industrial corporations but had compelled smaller companies to borrow money from the banks with resulting banking control of these corporations. This, Kennedy felt, was very bad for the country since the bankers were compelling the companies to pursue an ultra conservative financial policy.

Senator Harrison said that there was extremely strong sentiment in the Senate for immediate action on the tax on capital gains and on undistributed corporate profits. He said he did not know anyone in the Senate except possibly Senators La Follette and Norris, who opposed repeal or drastic modification of the undistributed profits tax. He said he was having the greatest difficulty in preventing the Senate from taking up a revenue bill now on the calendar and amending it to repeal or modify the tax on capital gains and undistributed profits. He had succeeded in keeping the Finance Committee from meeting to discuss these subjects only on the argument that Mr. Parker and myself are engaged before the Ways and Means subcommittee and could not be in two places at once.

Senator Harrison said he saw the President Sunday night. The President said that the principle of the undistributed profits tax should be kept but that he did not oppose modifications in the form of credits for income used for debt retirement or for plant extensions and improvements.

The Senator asked what action the subcommittee had taken so far. I described the general outlines of the modifications of the tax on capital gains and of the undistributed profits tax which the committee had adopted. I pointed out that both changes went about as far as could reasonably be expected. The 20 percent top rate on corporate income is so low that the abuses pointed out by the President in 1936 would not be corrected since large corporations would frequently save

money for their stockholders by retaining their entire incomes. I said we ought to supplement the House proposal with some provision for taxing the unreasonable accumulation of corporate earnings. Senator Harrison said that he was not much concerned with these abuses. He was convinced that a great many legitimate corporations had been penalized in order to get at one corporation accumulating an unreasonable surplus. He was in favor of removing the hardships to the legitimate corporations even though some of the abuses were not checked.

He asked whether the new provisions could not be rushed through the committee and made effective for 1937. I said that this would cause great confusion since most corporations had settled upon their dividend policies and the proposed change would increase the taxes on some companies. The Senator then asked whether a bill could not be put through at once and acted on in the special session, the effective date to be January 1, 1938. I said it was practically impossible to get a bill drawn up before the middle of December since a great deal remained to be done on the drafting of the changes in the capital gains and undistributed profits tax. I thought it would be better to do a thorough job of revision even though it took a little longer. Senator Harrison said that he wanted to talk to Mr. Doughton to see whether or not at least a report on the two subjects could not be agreed to by the Ways and Means Committee before January 1st.

I informed Mr. Vinson later that I had seen Senator Harrison at his request. Mr. Vinson said there was a great deal of pressure on him to hurry the work of the subcommittee but that he did not want to do so. He agreed that in any event changes should not be retroactive to January 1, 1937. He said, however, that Mr. Doughton was anxious for action to be taken on the capital gains and the undistributed profits tax as soon as possible.

Rm

November 24, 1937. ¹⁵⁹
2:04 p.m.

H.M.Jr: Hello

R.
Magill: Hello Henry.

H.M.Jr: I was leaving in a few minutes. I did want to talk to you.

M: Yes. Well, I just was calling you at the same time you were trying to get me, apparently.

H.M.Jr: Oh!

M: I told Miss Humphries to tell you the - I made the committee exactly the speech which you had in mind.

H.M.Jr: Yes.

M: And it got over perfectly well. They agreed that we ought to do something to take care of the large closely held companies which will not distribute under this plan.

H.M.Jr: Yes.

M: And they further agreed we ought to make a careful study to see if we were going to lose revenue this way, and how we were going to make it up. After we got done - this is sort of significant in connection with it - Vinson got me in front of some of the members of the committee and he said, "You know, I used to play football, " and he said, "When you get a signal and you're told to go around the end, and you start to go that way, and find you're blocked, why then you do the best you can, and maybe what you do is to throw a lateral, or maybe you go through tackle or something." Well, of course, it was obvious what he was referring to.

H.M.Jr: What does - what did he mean?

M: What - what he meant was that - I take it he was trying to tell me that - well I was trying to carry out the President's ideas as best I could, but when I found that I didn't think we could get away with it, why then this is the next best.

H.M.Jr: I see.

M: Well, then, we went on to excise taxes and everything was very peaceful - they - we agreed that we'd eliminate about twenty five million dollars. I held

them down to that rather than fifty because I know that they'll add some more before they get done.

H.M.Jr: Yes.

M: And those are the ones which yield very little revenue and are more or less of a nuisance to collect, like your fur tax.

H.M.Jr: Thank you.

M: Now, I went over then, at Senator Harrison's request, and talked to him.

H.M.Jr: Did you see him before or after he had seen Kennedy?

M: You've got your spies too, huh?

H.M.Jr: Oh, no, it's on the ticker.

M: Oh it's on the ticker. Well I saw him after.

H.M.Jr: Yes.

M: And, I saw him about half past twelve or one.

H.M.Jr: Well, it came out on the ticker at twelve thirty one.

M: And, well he spoke about having seen Kennedy.

H.M.Jr: Yes.

M: He said what Kennedy had told him was that surplus tax was forcing corporations into the hands of the banks. That companies were distributing more than they should and borrowing bank money and that put the banks in control of the corporations. Well, he was very insistent on some immediate action.

H.M.Jr: Kennedy?

M: No, Harrison.

H.M.Jr: Oh!

M: He said, "You just can't do it," he said, -

H.M.Jr: Wait a minute. Who was insistent on immediate action?

- 3 -

M: Harrison.

H.M.Jr: Yes.

M: He said, - he was, I think, clearly reporting what he had - clearly influenced by what he had got from Kennedy.

H.M.Jr: Yes.

M: But at the same time, it was given as his.

H.M.Jr: Uh-huh.

M: And he says there's an insistent demand in the Senate that they take up this - they've got this little bill for repealing the publicity with respect to corporate officers' salary.

H.M.Jr: Yes.

M: And taking that, and tacking on a repeal of undistributed profits and capital gains on it.

H.M.Jr: Yes.

M: And he said he's also getting a demand from members of his committee, that the committee meet immediately and start in considering the thing.

H.M.Jr: Yes.

M: He said he'd opposed that on the ground that Parker and myself were tied up over here and couldn't attend, and they'd have to have us. Well then he went on, he said, "Can't we get - can't this bill be put through right away, like - just as the sub-committee had agreed." He asked us to explain it to him, and I said, "Well I don't see how you can, and you certainly can't apply it to '37." Well, we argued with him on that a while and then he apparently dropped the 1937 part.

H.M.Jr: Who was with you?

M: Parker.

H.M.Jr: Oh, good.

- 4 -

- M: And then Parker suggested, I wish he hadn't, but he did, - Parker suggested well the sub-committee might make a report on these two subjects, capital gains and undistributed profits, and ways and means full committee might act on those and send those over to the Senate.
- H.M.Jr: Yes.
- M: Well, I said, "I don't like that because this - these proposals are probably going to cost us revenue, and it ought to be part of one big bill, we ought not to hurry it through."
- H.M.Jr: Yes.
- M: ~~And we're not ready for it.~~
- H.M.Jr: Yes.
- M: Well, Harrison said, "There's a very insistent demand here, and so forth, and we ought to act as rapidly as we can." Well, then I, I said, "Well now, of course, you know how the President feels on this," and he said, - without saying what the President did feel -
- H.M.Jr: Yes.
- M: And Harrison said, "Yes, I know, I saw him Sunday night," and I said, "Well what did he say to you," and Harrison said, well he said, "He wanted to keep the principal of the tax, but he said he was perfectly willing to put in a cushion for debt retirement, for improvements and so forth." Well, I said, "That's going to take up a good part of the yield of the tax," and I said, "Of course the trouble with this present proposal is, it doesn't hit the companies that have large incomes and rich stockholders." "Well," Harrison said, "I'm about through worrying about those," he said, "What we did - what we've done here is to - in order to get one or two cases, wealthy companies like Gulf Oil," he said, "We'll get thousands of companies that aren't that way," and he said, "I'm in favor of legislating for the thousands of companies and not worrying quite so much about these one or two whether
- H.M.Jr: Yes.

M: I gave him, not purporting to quote the President, I gave him precisely what the President had said to us.

H.M.Jr: Uh-huh.

M: And as I've said he was not at all sympathetic with it.

H.M.Jr: Uh-huh.

M: So that's the situation. I spoke to Vinson. I said, "Now you can't make this thing retroactive to January 1, 1937, that's one thing you can't do," and he said, "Well, I - I know, there's a lot of demand on that," he said, and he said, "I'm going to hold the line on that, we won't make it apply before January 1, '38." So that's about where we are.

H.M.Jr: Let me ask you a question.

M: Yes, sir.

H.M.Jr: Did you get anything more of what Kennedy was supposed to have said to Harrison?

M: He was only quoted to the extent that I've indicated - roughly. But I would say from the way Harrison spoke that it's clear that what Kennedy told him was the undistributed profits tax must be repealed immediately and the capital gains tax ought to be greatly modified.

H.M.Jr: Uh-huh.

M: Harrison's idea on the capital gains was that capital gains ought to be taxed and a separate schedule at a low rate.

H.M.Jr: Uh-huh. Well -

M: But Harrison, when we explained to him what the House had done, which he didn't understand, was inclined to favor what they'd done and thought probably that was all right.

H.M.Jr: Uh-huh.

- 6 -

- M: I notice there's an editorial in the Daily News, this noon, quite approving of what they did.
- H.M.Jr: I see. Well, the interesting thing on this came over the ticker, the part was this, - Harrison made no statement after he saw Kennedy.
- M: Yes.
- H.M.Jr: Kennedy said, "All I can say is to discuss the tax situation."
- M: Yes.
- H.M.Jr: Then comes the paragraph, this is the part I want to get to you, - "Administrative officials, however, expressed the opinion that an announcement to all Washington officials supporting the liberalizing tax program adopted by the Ways and Means Committee would have a good psychological effect on business."
- M: Yes.
- H.M.Jr: Our administrative officials, I suppose that means Harrison, does it?
- M: Yes. I should think so.
- H.M.Jr: Well, I thought it over very carefully what I should do. I've decided I'd just sit here. The only thing I can do is give them a little more room.
- M: Well Harrison said today that he had talked to Doughton and Cooper and Vinson, as I knew he had.
- H.M.Jr: Yes.
- M: And he had strongly urged on them immediate action.
- H.M.Jr: Uh-huh.
- M: So, the picture that you get from Harrison is that you've got the great majority of the Senate, at least, and as he thinks, a majority of Congress, demanding much more drastic action than what this committee took.

H.M.Jr: Yes. Let me ask you this. Did - in the discussion with Harrison, did - did my name come up at all?

M: No.

H.M.Jr: Did not.

M: No.

H.M.Jr: How about with Vinson?

M: No.

H.M.Jr: I mean my own conversation?

M: Oh! Well, I spoke to Vinson about that, and said that I understood he had had a satisfactory conversation with you.

H.M.Jr: Yes.

M: And he said, "Yes." He said, "The Secretary - the Secretary seemed to think that there was some danger of - that my action had gotten him into trouble and might of got you into trouble."

H.M.Jr: Yes.

M: He said, "Of course there wasn't anything of that at all."

H.M.Jr: Yes.

M: He said, "I - I did have this talk with Charlie, but," and he said, "But, - and we acted promptly on that account."

H.M.Jr: Well-

M: In other words, as I get it, the reason they acted promptly was a combination of that talk plus his talk with Harrison.

H.M.Jr: Yes.

M: And his feeling that if they didn't do this, they'd have to do something a good deal worse.

H.M.Jr: Yes. But I didn't know that Harrison had seen the President Sunday night.

M: I didn't either.

H.M.Jr: The President didn't tell us that.

M: No, I didn't either. That's what he said.

H.M.Jr: Well, I'm going to leave in a couple of minutes, and you know where I'm at - the farm.

M: Yes. Well, now they're not - they're going to meet again this afternoon but that's still excise taxes, and I don't think anything will happen.

H.M.Jr: You and I are certainly doing a tightrope walk act.

M: Well, that's the way it impresses me and, of course the way it also impresses me, Henry, is that - that you and I are about the only ones that are holding the line on this thing.

H.M.Jr: Uh-huh.

M: It looked yesterday - what flabbergasted me is as if we were going to be ^{put} in a wholly false position.

H.M.Jr: Yes.

M: But, as - as I size it up now, from this talk with Harrison, and so forth, and what you tell me off the ticker, it looks like everybody else in the Administration, except you and I, have let loose.

H.M.Jr: Yes. Well, of course Turner Catledge story today, says - I don't know whether you saw it.

M: No.

H.M.Jr: Says here, 'While the initiative was taken within Congress, the Executive Department, through Treasury officials, were understood to be giving its approval. Moreover the lead in this particular was taken by friends of the Administration on Capitol Hill.'

M: Well, that he - he - how close is he to Harrison?

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

M: He might have got it that way, you see.

- 9 -

H.M.Jr: Yes. But, certainly as far as this is concerned it doesn't leave us out in the cold yet.

M: Oh, Lord, no.

H.M.Jr:

M: But the only impression I would - I think ought to be gotten across is, that, as I said to you yesterday, we've been fighting a rear guard action on this thing all the time.

H.M.Jr: Yes.

M: And so far as this particular proposal is concerned, I - I think too - I think it'll be well received. Probably too generous, as far as that's concerned.

H.M.Jr: Yes.

M: But we might have gotten something a whole lot worse.

H.M.Jr: True. The only -

M: And what -

H.M.Jr: You and I may find ourselves like those Chinese - we're the only two left.

M: Well, that's the way it commences to look to me. We're in that building, and by golly they're starting a fire at each of the corners.

H.M.Jr: Yes. And we can't make up our minds which are our enemies and which are our friends.

M: (laughs)

H.M.Jr: Well, as far as I'm concerned -

M: You'll know whether you got shot in the back or shot in front. At the present I'm commencing to feel tickles up and down my backbone.

H.M.Jr: Yes. Well, the only thing we can do is to keep on just as we are.

M: I think -

- 10 -

H.M.Jr: There's nothing else for us to do.

M: I think that we're in good shape, so far.

H.M.Jr: We can't do anything else.

M: No, I don't see how we can.

H.M.Jr: No, I don't. I mean we can't be representing the President unless we really represent him as he tells us.

M: Yes.

~~H.M.Jr:~~ If something goes wrong he's got to protect us.

M: The - of course the feeling up here is that - that there must be some affirmative action taken.

H.M.Jr: But who do they think is holding it up?

M: I - as far as Harrison is concerned, there's no question who he thinks it is.

H.M.Jr: Who does he think it is?

M: He thinks it's the President.

H.M.Jr: He doesn't think it's me, does he?

M: No.

H.M.Jr: What?

M: I don't think so. No. I don't get that at all.

H.M.Jr: What?

M: I didn't get that at all. No.

H.M.Jr: All right Well we can - if we can't do anything else, Ros, we'll just go down the line.

M: That's right. That's right. I'm perfectly cheerful about it.

H.M.Jr: We may get shot in the back, but -

M: Yes, we may.

H.M.Jr: We'll have -

- 11 -

M: But I - I'd rather be shot from the other side,
I may say.

H.M.Jr: Well, I'd rather not be shot at all.

M: But - but I'd like to keep my escutcheon clean and
flying, if possible.

H.M.Jr: All right.

M: If you got a spare escutcheon send it up, I may
need it, in a couple of days.

H.M.Jr: Well - I'll write Sears and Roebuck for one.

M: All right. Get - get a dollar ninety four one.

H.M.Jr: All right.

M: Well have a good time, Henry.

H.M.Jr: I'm going to.

M: Goodbye.

H.M.Jr: Goodbye.

JR

GRAY

Paris

Dated November 24, 1937

Rec'd 3:13 p.m.

Secretary of State,
Washington.

1657, November 24, 5 p.m.

FOR THE TREASURY.

The trend on the exchange market today was again favorable to the franc and it seems that the fund was able to buy a fairly substantial amount of sterling and dollars at around 147.14 and 29.41. We are told by our market contact that the Guaranty Trust alone purchased \$3,000,000 for the fund. The recent strength in guilders is attributed in part to some French buying of guilder bills arising from the granting of the Amsterdam credit. The financial press indicates that such bills, dated November 29, are being offered in London at a discount of three and three-sixteenths per cent.

The discount on forward francs contracted still further.

The security market was inactive with few price changes, except for internationals which showed a certain weakness.

A certain amount of the confidence and optimism

SEEMS

-2- #1657, November 24, 5 p.m., from Paris.

seems to have been inspired here by the continued improvement in the franc. In the view of the financial press the fact that the exchange fund has been able to add further to its stock of foreign currency has served to strengthen the tripartite monetary arrangement and has enabled France to resume a more honorable place in the agreement.

Some surprise is noted regarding the firmness of the French currency in view of the recent disclosures regarding hidden arms and the possibility of difficulties for the Government resulting from the difference which exists between the Government and the extreme left members of its majority regarding proposals for increases in salaries and allowances of civil servants to meet the higher cost of living. It is recognized, however, that the comparative strength of the franc results in a large measure from the weakness of the London and New York stock markets and especially to the weakness of the latter.

As concerns withdrawals of French capital from London the FINANCIAL TIMES understands that while small capitalists have withdrawn and still are withdrawing funds, the big people are not yet repatriating capital.

BULLITT

KLP:CSB

EG

GRAY

Paris

Dated November 26, 1937

Rec'd 8:55 a. m.

Secretary of State,
Washington.

1663, November 26, noon.

FOR TREASURY

Misgivings regarding the outcome of the vote in the Chamber in connection with the debate on salaries of civil servants were responsible for the pressure on the franc in unofficial dealings yesterday morning and the official market labored under the same impression until it became apparent that the discussion would not endanger the government. At the end of the day the rates for sterling and for the dollar had practically returned to the level of the previous day's closing.

The Chamber early this morning voted the Government's bill relating to the civil servants by 518 votes to 6. This morning the franc improved further in relation to sterling and we are told that the fund has already been able to purchase a moderate amount at 147.10. On the other hand, the dollar is firm at 29.47, slightly higher than last night's closing.

The

-2- No. 1663, November 26, noon, from Paris

The Bank of France statement dated November 18 published yesterday afternoon revealed no changes on the gold reserves, or in advances to the state. The note circulation decreased by about 1,000,000,000 francs, and as a result the ratio of gold cover increased from 52.81 to 53.26.

BULLITT

HTM:CSB

031130.18

NOV 26 1953

RECEIVED

NOV 26 1953

NOV 26 1953

MM

GRAY

London

Dated November 26, 1937

Rec'd. 2:38pm.

Secretary of State

Washington, D.C.

739, November 26, 7pm.

- FOR TREASURY FROM BUTTERWORTH.

In the course of a luncheon conversation Bewley said that recent events had definitely necessitated a more optimistic estimate of the French situation. Not only had they gained substantial sums of gold which had improved their credit but the Government's position had continued to strengthen as indicated by this morning's important note. He said Hawtrey was convinced that French revenue returns would show sizeable increases and he also believed that the franc was now neither under nor over valued. (For Clay's opinion on this point see paragraph two No. 691, November 3, 8pm).

Bewley denied that Waley's visit to Turkey was in any way connected with this week's meeting at Ankara of the representatives of the central banks of the Balkan Entente.

Bewley also said that the Chancellor of the Exchequer was being asked in the House of Commons "whether he is satisfied that the Government of the United States still

adheres

mm 739, November 26, 7pm. from London. -2-

adheres to the monetary technique embodied in the agreement of September 1936", to which he proposes to reply "yes, sir".

As regards the current "recession" or "slump" controversy Bewley took the recession view and expressed opinions similar to the previously reported opinions of Phillips and Waley.

The flow of funds to France continues unabated with the Bank of France purchasing both pounds and dollars today. The hoarding movement seems to be petering out, the demand for both sovereigns and bar gold lessening.

JOHNSON

KLP

RECEIVED
NOV 27 1936
U.S. DEPARTMENT OF COMMERCE
BUREAU OF ECONOMIC RESEARCH

LMS

GRAY

Paris

Dated November 26, 1937

Rec'd 4:19 p. m.

Secretary of State,
Washington.

1667, November 26, 5 p. m.

FOR TREASURY.

There was comparatively little business done on the exchange market this afternoon. The sterling and dollar rates remain around the same levels as indicated in our telegram 1663 of this morning. We are told by our market contact that the fund was able to recuperate substantial amounts of sterling and dollars this morning but that it did little on the official market this afternoon.

The security market was inactive with few changes one way or the other.

The AGENCE ECONOMIC of today explains as follows the indication which appeared in LE TEMPS of November 25 that the Bethlehem Steel Company of New York had been declared in bankruptcy.

The bankruptcy decision was rendered in default by the Commercial Court of the Seine on November 22. This action followed the failure of the American Company

to

LMS 2-No. 1667, November 26, 5 p. m., from Paris.

to comply with a judgment of the Civil Tribunal of the Seine dated March 27, 1935 rendered at the request of the Societe Financiere Commerciale et Industrielle, ordering the Bethlehem Steel Company and the Bethlehem Steel Corporation, in (*), to respect the gold clause in their "five percent gold loan of 1912" in connection with the service of this loan at Amsterdam.

This financial sheet remarks that the judgment can apparently have little effect for the reason that the Bethlehem Steel Company possesses no assets nor branch office in France, and it concludes "as the purpose of the 1935 judgment and the demand for a declaration of bankruptcy is really to bring the gold clause into play for the payment of the said bonds and as the gold clause has been formally abrogated in the United States, the two judgments have merely a purely platonic significance, and have no chance whatever of execution in the United States".

BULLITT

NPL

(*) Apparent omission.

Mrs Klatz
EJG

November 26, 1937.

Professor David Himmelblau,
 Northwestern University,
 Lake Shore Drive and Chicago Avenue,
 Chicago, Illinois.

Dear Professor Himmelblau:

Reference is made to the "Comment on General Budget Summary (Table I)", appearing on page 7 of your report of November 18, 1937, to the Secretary of the Treasury.

In accounting for the 698 million dollar deficit for 1938, you state:

"If the 'trust fund' approach above referred to is adopted item (a) would be increased from 594 million to 678 million; item (b) would be changed from 29 million excess expenditure to 33 million excess receipts under Social Security Act and 20 million excess receipts under the Railroad Retirement Act."

Inasmuch as Table II, showing excess of expenditures of 594 millions for 1938 does not include receipts and expenditures under the Social Security Act (other than the 20 millions for administrative expenses), I do not understand how the trust fund approach would affect the excess of expenditures in Table II, unless, of course, you have in mind that all receipts and expenditures under the Social Security Act, other than those which relate to the old-age reserve and the unemployment trust fund, should be exhibited in Table II. If this is what you have in mind, the above quoted statement is correct, except that the 20 million excess receipts under the Railroad Retirement Act should be 16 million, there having been a 4 million expenditure on this account during 1937, which apparently you did not include in your figures.

In connection with your statement to the effect that under the present plan the falling off in receipts under Title

VIII of the Social Security Act increases the deficit for the year, it should be stated that the transfers from the general fund to the old-age reserve account pursuant to appropriations are made as nearly as practicable to conform to the amount of receipts under Title VIII. In making the appropriations for the ensuing year, recognition is given to any discrepancies between receipts and appropriations of previous years. The excess of 71 million dollar expenditures in 1937 over and above receipts was due principally to the fact that there was some doubt as to whether the unexpended balance of the 268 million dollar appropriation (if any) would be available after June 30, 1937.

With reference to the statement on page 5 of your report that trust fund investments are limited by the Social Security Act to United States Government securities, attention is invited to the fact that such investments may also be made in securities guaranteed by the United States as to both principal and interest.

I would appreciate being advised as to whether you feel that Table II should be revised so as to include expenditures under the Social Security Act other than those which relate to the old-age reserve and the unemployment trust fund, and also whether Table III should be revised so as to exclude such items.

Very truly yours,

(Sgd) D. P. Harrell

Commissioner of Accounts
and Deposits.

DFB:MLB

Prepared by:
Mr. O'Donnell
Mr. White

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DATE November 26, 1937

TO Secretary Morgenthau
FROM Mr. Haas *HAAS*

Summary of the Concensus of Opinion at the Business Conference, November 23, 1937, as to the Forecasts of Business Industries by Messrs.

Walter Lichtenstein (First Nat'l Bank of Chicago)
F. Leslie Hayford (General Motors)
Seymour L. Andrew (American Telephone & Telegraph)
Leonard Ayres (Cleveland Trust Company)
Lionel Edie (Investment Counsel)
Wm. L. Crum (Professor of Economics at Harvard)

MORNING SESSION

Federal Reserve Board Index of Industrial Production.

The concensus of opinion was that the Federal Reserve Board Index for the calendar year 1938 will average 95. Messrs. Hayford, Andrew and Ayres felt that it might range from 95 to 100 while Edie felt that it would be 90 plus or minus 5, but 95 seemed to be a conservative average of the feelings of the entire group.

As to the contour of the curve of this Index, there was considerable difference of opinion, primarily as to the timing of the low point of the Index.

The Forecast of the First Six Months of 1939.

It was felt that the course of the Index for the first six months of 1939 would depend in larger measure upon Government attitude toward business. The estimates range

from an average of 103 to 105 with the exception of Edie who stated that it might be as high as 110, although both Hayford and Lichtenstein disputed that the Index could rise that rapidly.

Lichtenstein. Lichtenstein feels that the Federal Reserve Board Index will go lower than the estimate for the present magnitude of the Index of 95. He expects slow business to April or May and then a rising curve. He thinks the fundamentals are sound, with no expanded credit, no load of debt, no great inventories in most instances, and little distressed selling in the recent stock market collapse.

Crum. He expects the low of the Industrial Production Index toward the end of the first quarter but not enough to restore it by May, 1939 to 118. He feels that it is the nature of the Index to decline rapidly until it finally turns up.

He places great emphasis on the stock market as a causal factor, a drop in stock prices representing a depressing factor on business initiative.

He feels that the immediate effect of the repeal of the undistributed profits tax levy might be to cause stocks to sell off, as it reduced the incentive for corporations to declare dividends.

Edie. Edie felt that the average for the first six months of 1938 will probably be 90 plus or minus 5, but will more probably be between 85 and 90 than between 90 and 95. Because of

- 3 -

the rapidity of the decline, he feels that the Index should turn possibly by the end of December but more probably by the end of January. His argument was that January ordinarily witnesses the maximum seasonal decline of automobile production and that we should get a sharp recovery from the decline in the Spring when he visualizes steel production at 55 to 60 percent of capacity.

He feels that a second decline would occur in the Summer which might or might not exceed the low point in December or January, depending upon how low that earlier figure had been. If it were as low as 85, Edie would not expect a lower figure in the Summer.

Edie feels that the average of the Index for the twelve months beginning July, 1938 will not be above 100, although if the Government should immediately adopt a constructive attitude toward business, this Index might average 110 or 115 for that period. He feels that the contour of the curve for the first six months of 1938 will be relatively independent of Government action.

Edie estimated that corporate profits would average about 40 percent less in 1938 than in 1937.

Ayres. Col. Ayres thinks that the low point of the Index will be reached in the next few months, probably December, January or February, but not later than February. He agrees

that the recession has been very rapid and cannot go on at this rate. He studied the Federal Reserve Board Index recently by breaking it into its component parts and adding indexes of business which are not adequately covered by the Federal Reserve Index, such as paper and lumber. By such a procedure, he comes out with a result which he alleges is too high, namely, that the average for next year would be 96 percent of the average for this year. This year's average he feels may be 109 to 110.

He feels that the 1938 Index will not average more than 96. He does not expect the low point to be very much below the present 95.

As to the contour of the pattern, he expects the upturn in the Spring to be led by the iron and steel industries which are now operating at too low a capacity to take care of current use.

He also felt that the index might crawl up in March, April or May and then sag off again. He feels that the iron and steel industries might pick up within three weeks.

Hayford. Contrary to Edie's belief, Hayford believes that Governmental policy will affect the pattern of the Federal Reserve Board Index in the first six months.

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He feels that the decline in the volume of automobile production will be 20 to 25 percent below the level of 1937. He feels that the month in which the low point of the Federal Reserve Board Index will be reached may be either January or February, depending to some extent on the weather this Winter.

He feels that the Index should increase gradually in the last half of the year although it might increase more rapidly with a positive constructive program of Government cooperation with business, particularly along the following lines:

- (a) Wages and hours.
- (b) Tax relief, especially the undistributed profits tax.
- (c) Definite attitude on the labor unions, etc.

He expected the 1938 yearly average to be between 90 and 95 but expects it to be below 100 at the end of the year, with a possible substantial rise in the Autumn and early Winter.

Andrew. While Andrew concurred in the concensus estimate of 95 average for the calendar year 1938, he does not think readily in terms of Federal Reserve Board Index.

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The American Telephone and Telegraph has its own business index, both on a weekly basis and a different monthly index. In 1924, this monthly index was -10, and in 1932 it was -50 at the low points. The index has been going down rapidly for the last eight weeks and in October was -13 as against a preliminary estimate of -9.

He feels that the stock market has not reached bottom and that the Industrial Index will not reach its low sooner than does the Index of stock prices. His thought is that we might start the calendar year 1938 at -20 and that if the Index averaged -10 for the calendar year 1938, it would be doing well.

The Forecast of BLS Index of Wholesale Commodity Prices.

Mr. Edie forecast that this Index would average between 81 and 82 for the calendar year 1938. He felt that it might make a low point of 80.

Andrew also suggested a figure of 82 for the average. Col. Ayres said that the Index is probably currently at about 82½.

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With regard to the Standard Statistics Index of 419 Stocks, both Hayford and Crum thought that the 1938 average would be 105. Ayres felt that it would not average more than 100 and Edie concurred in this opinion unless positive Government action was taken which would affect the rails and the utilities.

This index is about 82 now. CCA

AFTERNOON SESSION (H. D. W.)

I. CAUSES OF THE CURRENT RECESSION

Eddie -

(a) Deflationary policy adopted in 1937 by the Administration and Federal Reserve Board.

(b) Depression has left the banks with greatly depleted capital assets which they have been unable to build up because of the low interest rates on their earning assets. Therefore it is impossible for banks to adopt a sufficiently liberal lending policy to meet the requirements of business recovery.

(c) Growing lack of confidence of business men in Government, brought about, among other things, by sympathy of the Government for the extremist tactics of labor leaders.

(d) Feeling that "utilities were headed for the slaughterhouse."

(e) Rise in wage rates on the railroads at a time when roads were in no position to stand it.

(f) Most important of all, the existence of the tax on undistributed profits.

Ayres -

The current recession "is a spontaneous, unorganized sit-down strike on the part of American investors." The underlying causes are the various and ramified factors

(unspecified) which have restricted the flow of new capital into enterprise. The immediate causes of the recession were:

(a) International incidents occurring this summer -- such as shooting of the British Ambassador in China, acute trouble in Spain -- which increased fear of probable war.

(b) Calling of special session of Congress, with rumors that a new N.R.A., new A.A.A., expansion of the T.V.A. and Government reorganization which would greatly concentrate power in the hands of the Executive were contemplated.

These, Mr. Ayres felt, were not the causes of the downturn, but were the final straw that made business men say:

"If we are going to have a whole new group of further regulations and laws imposed for the restrictions of business, all passed hurriedly this time, I am going to sell all I have for whatever price they will bring and stop the plans that are under way for expansion and for securing new capital."

Andrews -

Government interference with business. Business men haven't much confidence in this Administration. They have been made to feel that the Government believes everything business does is wrong.

Hayford -

Business has no confidence in this Administration, no encouragement to go ahead with plans for increased activity. Business has no reason to believe that it "would not be constantly damned, criticised, interfered with and bawled out publicly by this Administration. Business has justifiably had the feeling that the Administration didn't want big business to make large profits; that the Administration felt that large business corporations were bad; and that the Administration had committed itself to a policy of restrictive controls."

The inclusion of the wages and hour bill on the legislative program of the extra session suggested to business that the Administration still believed that raising wages and reducing hours would create prosperity.

Lichenstein -

Stated he agreed with others as to the causes of the present recession and would like to make two additional points:

(1) The complete elimination of commercial banks from underwriting was a serious error which has contributed to the failure to float more new securities.

(2) The banks now feel they must have a certain amount of excess reserves and are worried if those excess reserves are not there.

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II. VIEWS OF THE FIVE GUESTS AS TO WHAT THE GOVERNMENT SHOULD DO TO INCREASE BUSINESS ACTIVITY

All felt it essential for this Administration to change its attitude toward business and to gradually recreate in the minds of business men the belief that the Administration was in sympathy with their desires for increased business and increased profits.

All except Hayford expressed the view that it would not matter much what the Government did so far as business conditions during the next few months were concerned, but that what this Administration would do or refrain from doing would be very important in determining the trend of business activity in the last half of 1938 and in 1939.

Mr. Ayres stated as follows:

"I don't believe there is anything that the Government can do that can now quickly reverse business and start it on a vigorous sustained recovery. I think that is going to take considerable time, and moreover, it seems to me that much of what the Government can do now will be in terms of what it forbears from doing, as well as what it positively does, and that the Government will probably have results in a series of acts and statements and a developing attitude rather than in a few specific deeds."

Mr. Hayford and Mr. Andrews emphasized their view that the less the Government "interfered with business" the more likely that business would improve and remain improved.

Their expressed opinions on specific matters were as follows:

(a) Undistributed profits tax.

They all felt it important that this tax be repealed as an indication that the Government had changed its attitude toward business.

(b) Capital gains tax.

Mr. Ayres stated that he did not believe that the capital gains tax had the same psychological importance at the present time. He believed that the repeal of the undistributed profits tax was much more important. The others nodded assent.

(c) Excess reserves.

Mr. Edie said he would regard the decrease in reserve requirements as a second step but he was not certain that it was necessary to go that far yet. He did not favor further large purchases by the Federal Reserve Board of Government obligations. He did not think it wise to load up their portfolio with Government obligations.

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(d) Balanced budget.

Mr. Edie felt no useful purpose is served by having officials make statements nowadays that we will have a balanced budget in 1939 when the public does not believe statements. He also stated:

"You have got to recognize the fact that relief costs might be more and it is no shock to business psychology to face that, but it would be a shock to business psychology if the Government were to give additional subsidies to farmers."

The others were of the opinion that it was necessary to move toward a balanced budget but did not seem to be strongly impressed with the necessity of balancing the budget at once.

(e) Gold.

Mr. Ayres thought the Treasury would be well advised to stop sterilizing new shipments of gold.

Mr. Edie would desterilize all the gold in the Inactive Fund at once, though he did not expect it to be very effective in checking the recession.

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Mr. Ayres and Lichenstein likewise did not feel it to be important but felt that a gradual desterilization of the Inactive Fund was worth considering.

Mr. Hayford and Mr. Andrews stated they were not sufficiently well informed on monetary and fiscal matters to comment.

Miscellaneous -

All felt the Administration should take whatever measures were possible to reduce labor costs but none offered any specific suggestions how it could be done.

Ayres and Edie thought the railroads needed an increase in rates, which should be granted them without delay.

Lichenstein believed that the question of permitting banks to underwrite new issues should be re-examined.

Edie admitted he had no plan in mind to correct the banking situation.

Ayres stressed the view that bankers and business leaders are much more jittery than they were before the depression and that they react much more

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quickly to events and adverse legislation than they used to. It therefore behooves the Administration to proceed very cautiously with any new legislation that affects business.

BUREAU OF THE BUDGET

Office of the Acting Director

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To Mr. McHugh:

Room 285

Here is the draft of letter prepared in this office for the signature of the President, about which I spoke to you on the phone this morning. Mr. Bell said the Secretary would probably be inquiring about it.

As soon as we have any information from the White House as to whether or not the President has signed it will advise you so that you can indicate the action taken on the copy.

M. A. Johnston

Miss Johnson called @ 11am
& said she had just learned
that this letter was signed
& dated yesterday by the
President.

mch
11/27

MR. BELL

Nov. 26, 1937.

THE WHITE HOUSE
WASHINGTON

COPY

My dear Senator:

In the discussion of the proposed farm bill now pending before the Senate I notice by the Record that you asked the following question of Senator Smith:

"* * * It has been generally asserted that the amount available under the Soil Conservation Act was \$500,000,000, subject to a possible contingent additional sum of \$125,000,000, making \$625,000,000. Is that practically an accurate statement of the present financial situation?"

Senator Smith replied that your statement of the financial situation is correct.

In this connection I should like to call your attention to the fact that while the amount of \$625,000,000 has been appropriated for agricultural programs not all of this sum has been provided for in the present tax structure. You will recall that in my message of March 3, 1936, I recommended additional permanent taxes of \$620,000,000, of which \$500,000,000 represented a substitution for processing taxes lost as a result of the Supreme Court decision and \$120,000,000 was to provide funds for the payment of the veterans' adjusted service bonds. This recommendation resulted in the enactment of the Revenue Act of 1936, which provided the additional revenue requested. The \$500,000,000 thus provided for agricultural programs is the only amount now in the tax structure for these purposes.

I assume that the contingent additional sum of \$125,000,000 referred to by you is the permanent indefinite appropriation of an amount equal to thirty percentum of the gross receipts from customs duties collected during the preceding calendar year, for the purpose of encouraging exportation and domestic consumption of agricultural commodities by section 32 of the act of August 24, 1935, amending the Agricultural Adjustment Act. It should be apparent that this appropriation has added a burden of expenditure to the Budget without any provision for additional revenues to meet it.

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There is, of course, included in the tax base an amount for the normal operating activities of the Department of Agriculture prior to the emergency, which amounted to about \$70,000,000 a year, and are separate from the agricultural programs adopted within the past four years. These operating activities, however, have been greatly expanded within recent years without any increase in the revenues to meet the expenditures caused by such expansion. For example the Soil Conservation Service was added two years ago and now expends more than \$25,000,000 a year to control soil erosion; and the Farm Tenancy Act authorizes an appropriation of \$20,000,000 for the current fiscal year, \$45,000,000 for the next fiscal year, and \$70,000,000 annually thereafter.

It is obvious that a constant increase of expenditures without an equally constant increase in revenues can only result in a continuation of deficits. We cannot hope to continue on a sound basis of financial management of Government affairs unless the regular annual expenditures are brought within the revenues. I feel that every effort should be made to keep the new farm program within the present limit of \$500,000,000 per annum. If this is not possible I then urge that steps be taken to provide the necessary increase in revenue to meet any expenditures under the new farm program in excess of this sum.

Sincerely yours,

Honorable Alben W. Barkley,
United States Senate.

November 26, 1937

To: Secretary Morgenthau
From: Mr. Magill

While I was before the Ways and Means Subcommittee this morning I received word that the President wished to see me at 12:30. I got in to see him about 1:30, just as Secretary Wallace came out. The President said to give Mr. Doughton and Mr. Vinson the message from him that they must provide the necessary money for the Agricultural bills which Secretary Wallace had just been showing him. The President had said time and again that the bills must provide sufficient revenue to carry themselves; otherwise he would have to veto them. I asked how much money would be necessary and Secretary Wallace replied about \$200 millions. I asked the President whether I could give Messrs. Doughton and Vinson the message as coming directly from him and he replied in the affirmative. Mr. Wallace suggested that the necessary funds might be raised by a processing tax on cotton and wheat.

After Secretary Wallace's departure the President said that he was not at all satisfied with the plan tentatively adopted by the Ways and Means Subcommittee for a maximum corporate income tax of 20 percent, which could be reduced to a minimum of 16 percent by corporate distributions. He said this would not at all take care of such cases as the Mellons and the Fords. I told him that the Subcommittee adopted the plan while Secretary Morgenthau and I were discussing it with the President on Tuesday morning. I said that I was amazed to find that the Subcommittee had acted while the chairman knew that I was discussing the proposal with the President. The Subcommittee apparently felt that it was under a great deal of pressure to take immediate action. The following morning I told the committee, without quoting the President, what he had said to us in our Tuesday conference, namely, that the rate of 20 percent was not sufficient to force corporate distributions and would not correct the abuses mentioned by the President in his tax message of 1936. Furthermore, the plan would clearly not raise as much revenue as the undistributed profits tax had. I told the President that Mr. Vinson had indicated that the rates might be revised upward to a maximum of 22 or 25 percent.

I said that one of the difficulties seemed to be that there was great pressure on the committeemen to act immediately. Senator Harrison had called me over on Wednesday to ask me whether or not a bill modifying the undistributed profits tax and the tax on capital gains could not be sent through to the Senate for action this session. Senator Harrison told me that he had just talked to Mr. Joseph P. Kennedy, who apparently had urged upon him immediate action and drastic modification

- 2 -

of the two taxes. The President said "What has Joe Kennedy got to do with the tax system?" I said that the situation was certainly confused and that part of the time I did not know whether I was being shot at by my friends or my enemies.

The President then said if the Subcommittee wanted to adopt the Vinson plan it might provide that the higher present rates should apply unless the corporation could show that the amounts of earnings withheld from distribution were used: (1) to pay bank losses; (2) to pay for plant improvements; or (3) to provide reserves which would be earmarked as such.

I told the President that I would again inform the committee that he was not satisfied with the present proposal. The President said that he was going to see Mr. Doughton tomorrow morning and would let me know the result. I told the President that both Senator Harrison and Mr. Doughton were insistent on immediate action and I had told them that any action applicable to 1937 was out of the question because it would be grossly inequitable to companies whose taxes would be raised by the new proposals and companies which had made their plans on the basis of existing law. There was still great pressure to put a bill through at once, effective as of January 1, 1938.

The President asked whether I had seen his statement to the press conference this morning and I said I had glanced at it. He said in substance that he was not opposed to prompt action on the tax revision, provided that enough time was taken to do a satisfactory job. The President closed the conference by saying that if a tax bill was put through which did not preserve the principle of the undistributed profits tax and which resulted in a loss of revenue as against the existing system, he would keep Congress in session all next year if necessary to enact new taxes to make up the deficiency. He said "if necessary I will call them back every Monday morning through the summer and the fall". The President reiterated his position that modifications of the taxes on capital gains and undistributed profits, retroactive to January 1, 1937, would be unfair and undesirable; and that there was no need to rush revenue legislation intended to become effective January 1, 1938. I informed the President that the Committee's drafting experts had informed the Committee that it would be a practical impossibility to prepare the desired legislation even on the two topics before December 15th.

Rm

THE WHITE HOUSE
WASHINGTON

November 27, 1937

MEMORANDUM FOR THE HEADS OF THE EXECUTIVE DEPARTMENTS
AND AGENCIES OF THE GOVERNMENT:

From various industries information has been received indicating that the Government can cooperate with industry by anticipating its needs in all commodities.

It is desired that, within the limits of funds available, each Executive Department or Agency purchase now as much of its needs as may be possible of all essential commodities that will be required during the remainder of the current fiscal year.

Franklin D. Roosevelt

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Nov 27, 1937

TO Secretary Morgenthau
FROM Mr. Haas
Subject: December Financing - Preliminary

There appear to be four principal alternatives with respect to the December financing:

(1) We could use this occasion as part of our attack upon the business recession by boldly announcing that the mid-December bill maturities, the February 1 note maturity, and the March 15 note maturity, aggregating \$1,182 millions in all, will be met by cash from the Treasury's General Fund, including gold now in the Inactive Account. This is the course that we strongly recommend.

(2) We could employ the more usual procedure, by refinancing the mid-December bill maturities by a 5-year note issue of \$400-\$450 millions; with additional amounts of the same notes offered in exchange to holders of the notes maturing February 1.

(3) We could use \$300 millions of sterilized gold to retire a like amount of mid-December bills, and refinance the remainder, as well as provide an exchange offering to the holders of the notes maturing February 1, by a 5-year note issue.

(4) We could avoid a note or bond financing in December, without the use of sterilized gold, by increasing our bill issues to \$100 millions weekly for the nine weeks beginning December 1 or 8; thereby providing the funds for the retirement of the \$450 millions of mid-December bills. If desired, the double bill issues could be continued for an additional five weeks to provide funds for the retirement of the \$277 millions of February notes.

Secretary Morgenthau - 2

I

We could use this occasion as part of our attack upon the business recession by boldly announcing that the mid-December bill maturities, the February 1 note maturity, and the March 15 note maturity, aggregating \$1,182 millions in all, will be met by cash from the Treasury's General Fund, including gold now in the Inactive Account.

We strongly favor this alternative both because of its mechanical effects of increasing excess reserves and reducing the public debt and because of its probable stimulating effect upon business sentiment.

If further gold outflows occur, these can well be handled by the Stabilization Fund; a development which would enable that Fund to acquire Government securities. If gold inflows are resumed, we should recommend suspending the application of the gold sterilization program for the present.

Conditions today are strikingly different from those under which the gold sterilization program was adopted. The problem then, particularly as seen by the Federal Reserve Board, was to reduce the possibilities of inflation presented by the large and growing volume of excess reserves. The problem today is to halt a drastic deflation.

The course that we recommend would have the effect of adding some \$1,200 millions to excess reserves, thereby raising the total to perhaps \$2,200 millions. It is highly important to note that the credit-expanding power of \$2,200 millions of excess reserves under the present reserve requirements is no greater than was the credit-expanding power of \$1,100 millions of excess reserves before the Federal Reserve Board raised reserve requirements.

We are of the opinion that the available evidence strongly supports the view that the combined programs of gold sterilization and drastic increases in reserve requirements, applied during the period when Federal deficit spending was being sharply curtailed, have exerted a marked deflationary effect.

Secretary Morgenthau - 3

In raising the reserve requirements, too much attention was centered upon the pre-depression effectiveness of relatively small amounts of excess reserves. Far too little consideration was given to present day conditions in American banking, under which large amounts of excess reserves are required for a normal and orderly expansion of bank credit.

These conditions have been cited in detail in previous memoranda. They include:

(a) The small amount of banking capital in relation to deposit liabilities -- a fact that makes banks unwilling to lend freely unless excess reserves are abundant;

(b) The greatly reduced mobility of excess reserves, attributable in part to the prohibition of interest on demand deposits -- which means that excess reserves do not move promptly to the centers most in need of them, hence reducing the effectiveness of a given volume of excess reserves; and,

(c) Keen memories of the banking collapse of 1932-33 -- a fact that makes bankers extremely cautious in the utilization of their excess reserves.

If we are to look forward to a healthy resumption of business recovery, we must prepare the way for easy capital markets. Because the effects of changes in excess reserves are often delayed, this process cannot be begun too soon. The course that we recommend has the advantage of putting the market definitely on notice as to the extent of the additions to reserves that we contemplate, and yet spreads these additions over a period of several months.

II

We could employ the more usual procedure, by refinancing the mid-December bill maturities by a 5-year note issue of \$400-\$450 millions; with additional amounts of the same notes offered in exchange to holders of the notes maturing February 1.

Secretary Morgenthau - 4

This procedure would be the most conservative course under ordinary conditions. It would convert very near-term obligations aggregating \$727 millions into notes maturing five years hence.

At the present writing, it appears that a 5-year note issue with a coupon rate of 1-3/4 percent would command an adequate premium. The outstanding 2 percent notes maturing three months earlier, or on September 15, 1942, are selling (November 24 close) to yield 1.54. The proposed 5-year 1-3/4 percent issue would command a premium of 31/32, if it sold on a 1.55 percent basis; 23/32, if it sold on a 1.60 percent basis; and 15/32, if it sold on a 1.65 percent basis.

If the market should deteriorate substantially during the next two weeks, the coupon rate could be raised. It does not appear that an earlier maturity would be desirable because of the heavy concentration of note maturities in 1939, 1940, and 1941.

III

We could use \$300 millions of sterilized gold to retire a like amount of mid-December bills, and refinance the remainder, as well as provide an exchange offering to the holders of the notes maturing February 1, by a 5-year note issue.

This course would have some of the advantages of the first alternative, but would have enormously less psychological effect. The amount of the cash note offering -- \$150 millions or thereabouts -- would be quite small as compared with recent practice. Hence, a large oversubscription, with comparatively small allotments to subscribers, could be anticipated. The publicity attaching to a very large oversubscription would be entirely favorable. If, however, it is concluded that this advantage is outweighed by the small size of the cash offering, no such offering need be made; and instead, the \$150 millions could be recouped by extra bill issues.

Secretary Morgenthau - 5

IV

We could avoid a note or bond financing in December, without the use of sterilized gold, by increasing our bill issues to \$100 millions weekly for the nine weeks beginning December 1 or 8; thereby providing the funds for the retirement of the \$450 millions of mid-December bills. If desired, the double bill issues could be continued for an additional five weeks to provide funds for the retirement of the \$277 millions of February notes.

The chief argument in favor of this alternative is that the market is likely to be highly receptive to additional bill issues; and that such issues, since they go into the portfolios of banks most largely, would be financed mainly by an expansion of bank credit rather than by the absorption of bona fide savings. The same would be true of a note issue, however, in only moderately less degree.

The principal objection to this alternative is that the market now appears to be highly receptive to a note issue, as well as to additional bill issues; and since the latter may in some respects be regarded as an emergency resource, it would be more prudent to offer notes rather than bills at this time -- if our recommendations with respect to the use of gold are unacceptable.

Monday, November 29, 1937

At the request of Ambassador Wang, Mr. Ing, Counselor of the Chinese Embassy, called today and met Mr. Lochhead to request that a bid for 10,000,000 ounces of silver be made to the Chinese Treasury.

Upon this request being referred to Mr. Morgenthau, he instructed that a bid be made in the usual manner for 10,000,000 ounces of silver on the regular terms and conditions.

A. L.

November 29, 1937.
9:24 a.m.

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H.M.Jr: Hello.

Operator: Mr. Brown of Princeton.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Brown: Hello.

H.M.Jr: It's Henry Morgenthau, Jr.

B: Yes, Mr. Morgenthau.

H.M.Jr: I just returned to Washington after Thanksgiving and I have your letter here.

B: Yes.

H.M.Jr: And I want to explain to you why you hadn't heard from me.

B: I just took for granted that it was something like that. I didn't want to bother you unduly.

H.M.Jr: No, I'd be more than pleased to see you. When would you be coming to Washington?

B: Well, I'm afraid - the - I don't know whether I could come down the early part of this week or not now, you see I have teaching in the middle of the week, here, and -

H.M.Jr: Well, how about next week.

B: Well, early next week certain. I'd be delighted if you could see me.

H.M.Jr: Well you want to come down on the 10th, is that when the -

B: Well, I'm coming on the 10th, let's see -

H.M.Jr: That's a Friday.

B: Yes. I wondered if it would be possible for me to come, say the 6th of the 7th.

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H.M.Jr: The 6th would be all right.

B: Well, suppose then, that I came down on the 6th and then as your schedule was worked you could let me know just what time of the day -

H.M.Jr: I'll tell you right now.

B: All right.

H.M.Jr: 11 o'clock on the 6th.

B: 11 o'clock on the 6th.

H.M.Jr: Now, you want anybody here from the Treasury?

B: Well, the thing that we hoped was, you might select some representative.

H.M.Jr: Yes.

B: To come over to the meeting of the council on the 10th.

H.M.Jr: Yes.

B: So that as the members of the council, you know, want to ask questions, that there would be someone who could tell them of the problems, and of administration and so on, as faced by the Treasury.

H.M.Jr: Well, is the - is it the administrative problems or is it the financial one?

B: Well, it really is the financial one.

H.M.Jr: Well, supposing you talk to me and let me see what the problems are because I need education, and then I can tell who to send over. How would that be?

B: That would be fine, sir.

H.M.Jr: See. I hate to - I'd be more than pleased to listen and find out what's bothering you and then I can tell you who in the Treasury would be most helpful.

B: That's fine. Well that would be very good and I'll plan to be there 11 o'clock -

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H.M.Jr: On the 6th.

B: On the 6th of December.

H.M.Jr: That's right.

B: And I certainly appreciate it and I know the council will certainly appreciate that you were able to get it.

H.M.Jr: Well, we want to work with you. Thank you.

B: Thank you, sir.

H.M.Jr: Goodbye.

B: Goodbye.

GROUP MEETING

November 29, 1937
9:30 a.m.

Present: Mr. Magill
Mr. Taylor
Mr. Gaston
Mr. Lochhead
Mr. Oliphant
Mr. McReynolds
Mr. Upham
Mr. Haas
Dr. Viner
Mr. Bell

H.M.Jr: You (Magill)?

Magill: Nothing important going on in my department.

H.M.Jr: Good. You were ~~all~~ right.

Magill: (Nods yes)

H.M.Jr: I got a call in for Berkley. I thought I'd call him up and say, "God bless you." He told the world.

McR: He got the front pages yesterday, saying there wasn't going to be any tax legislation.

H.M.Jr: Well, he said something else. He said, "What's the use of trying to kid the American public that we are?" He said it on the doorstep of the White House. And I think it was about time we stopped kidding them. It gives us a chance to do a decent bill.

Incidentally, those of you who are interested in taxes I thought might be interested that I had a very pleasant and fruitful evening with Professor Wesley Mitchell Friday night. And he says that all this idea of trying to hang this recession, or depression, on the taxes is just absolutely crazy. He wouldn't use a word like that. And he said that at no time in the history of American business had there been an upturn that lasted as long as this one did. And he said it's perfectly ridiculous to hang it on the tax thing.

What I want to give you (Viner), which I've got him working on, which happens to be my idea - and I'd like you to think about it, and anybody else, over the week-end, is this - I get a few ideas; I mean I've come to the - I'd like to keep this very, very

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much to myself in here -: There is no group - put it this way: all the research groups which are working for the President are studying the earth's surface, the top five inches of the earth's surface; nobody is studying the people walking on it. The problem, as Wesley Mitchell puts it, is to find a method so that the people who want to work and produce - to find other people who will buy what they will produce. Now, there is no place in this government a study of the question of - I call it redistribution of work; it just isn't going on. And I've asked him and I'm going to ask you and anybody else in this room to give me a list of names in about two weeks of people who could be helpful on that, whom the President could appoint on a committee to study this long-time question of employment.

(Bell comes in)

He says one of the reasons he got off the Merriam committee is that they are not doing that. With them it's all a question of natural resources.

Viner: Is he off?

H.M.Jr: He is off. It just isn't going on. Nowhere in the Government is there a group making a long-time study of this. I put it up to him; he thinks it's terribly important. And that group ought to be working directly under the President. It isn't to be - it's always a hurry-up job. It happens to be my idea. Clark of Columbia is the only person he thinks - says you'd know him - he says a man like that is just full of ideas. I asked Wesley Mitchell to be thinking about it. I wish you'd be thinking about it. He said he'd come through with a letter in about ten days.

Does it hit you? I consider it a blind spot in this Administration.

Viner: I think it is too. But I probably wouldn't be very sympathetic to Wesley Mitchell's way of going at it. But Clark would be a first-class man on that problem.

H.M.Jr: Well, he says it would - men traveling around the country

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Viner: Oh, you mean the men. I'd say Clark is one of them. I'd say Hanson is another.

Oliphant: Where is Hanson?

Viner: He's at Harvard now.

H.M.Jr: First as to the idea. Am I right that it's a blind spot in the Administration?

Viner: Yes, it is a very serious one.

H.M.Jr: Well, would you sit down and

Viner: But I don't know enough about just where it stands. But I - it seems to me that - I would suppose that the Natural Resources Board had that sort of thing as its responsibility.

H.M.Jr: He says not. Would you mind asking Merriam?

Viner: I will, yes.

H.M.Jr: Would you mind? Wesley Mitchell says that's one of the reasons he got off. He says more and more it's just a question of natural resources; does not take up the question of planning as to work for human beings. Is that a phrase out of his book, this thing of finding groups to buy what other

Viner: Well, that is the basic economic problem, to synchronize people's desire for work and other persons' desire for their products, the product of their work. That's the problem.

H.M.Jr: Is that a stock phrase?

Viner: Oh, it didn't surprise me. I wouldn't recognize it as a stock phrase.

H.M.Jr: I mean I haven't seen it used.

Viner: The whole process is one of balancing things.

H.M.Jr: Well, will you for me

Viner: Yes, I

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H.M.Jr: ...talk around town.

Viner: Yes, I will.

H.M.Jr: And see, and then do me, if you would, a paper on it. Did you hear, Jake?

Viner: Sir?

H.M.Jr: Do me a paper on it?

Viner: All right.

H.M.Jr: What?

Viner: All right.

Oliphant: The group that's done most work in the country on this question of effective demand - that is, to get a volume of physical production which people will consume, and the effective demand for it, the ability to buy - is the Moulton group over at Brookings. They've got wads of stuff on it.

H.M.Jr: Well, I come back to the statement

Viner: I'd say Hardy over at Brookings would be another man that would be valuable on that problem.

H.M.Jr: Well, I come back to the thing that I think I'm right, that there is no such group doing that work for the President today - long-time planning work for the people. Bell?

Bell: Well, I don't know what you mean by long-time, and I don't know what you mean by work for the people.

H.M.Jr: Well, I'm talking over a period of ten or twenty years.

Bell: The Natural Resources Board is working on public works for a period of six to ten years. Now, whether they relate that to work for people - but they're doing it and I've got the tentative report on it.

Viner: Isn't Gardner Means working for Natural Resources now on a problem something like that?

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- Haas: Yes.
- H.M.Jr: Professor Wesley Mitchell spent Friday night with me and he said he got off the committee and that's one of the reasons he got off.
- Gaston: The problem of furnishing emergency work under those public works is a totally different problem from the problem of distribution of normal productive effort.
- H.M.Jr: I've got it this way, that they're doing it in relation to the earth's surface, not in relation to the people working on the top.
- Taylor: I think Herman's right; Brookings has been doing more of that than anybody.
- Bell: I'm sure they don't relate it to the number of people involved that need work, but I know they're doing a planning job of public works of all kinds.
- Oliphant: You're talking about - the Secretary is talking about private industry and its ability to employ people by producing enough goods which people can consume.
- Bell: No, I'm sure they don't do that.
- H.M.Jr: That's what I'm talking about.
- Bell: I'm sorry.
- H.M.Jr: Well, you came in a little late, but
- Bell: No, I don't believe they're doing it.
- H.M.Jr: No, I don't think so. And I think it is terribly important.
- Well, you (Viner) might poke around, see?
- Viner: Oh yes, I will. When I get back, he'll be on the train coming here. He's going to be here Friday, I understand.
- Magill: Hop on at Pittsburgh and talk to him.

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- Viner: We know we always meet.
- Gaston: That ought to be one of the chief concerns of the economic staff over at the Department of Labor.
- Viner: What economic staff?
- (Hearty laughter)
- Gaston: Have a man named Lubin. Isn't
- Viner: He's got heavy administrative duties. He's in charge of the basic statistical system of the country. He's busy; he hasn't got time for that.
- H.M.Jr: Well, I'm just - I think I've got something which is absolutely fundamental and what I'd like to do is get it worked out beautifully and then lay it on the President's desk; be able to talk to the point, see? Because here, for instance, we're going in now into a lot of increased employment By the way, I talked to the President and he says they've taken on 120,000 more men. Did you (Bell) know that?
- Bell: No. I talked to Corry Gill yesterday. He said they hadn't been under any pressure.
- H.M.Jr: And incidentally, I asked the President who I should talk to while Harry Hopkins was away and much to my surprise he said Colonel Harrington.
- Bell: Is that right?
- H.M.Jr: Isn't that a surprise?
- Bell: Yes, surprise, but not a surprise to see the main fellow left out.
- H.M.Jr: Well, Dan - I'm going to plan my week - I don't know, but that - who is going to find out whether they have or have not taken on 120,000?
- Bell: Well, I supposed they hadn't.
- H.M.Jr: Would you?
- Bell: I asked him yesterday and he said they hadn't been under any particular pressure to take on additional people. But I'll ask him again this morning.

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H.M.Jr: Well, this was Saturday forenoon. Because Harry wasn't in town. Huh?

Bell: I'll find out.

Olipphant: I'd like to point out that your idea is unusually timely because the important phase of it is the price phase, and the President is moving on that.

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

Viner: Oh, it's fundamental.

H.M.Jr: I think it would be timely any time the last four years.

And again talking very much in this room, I'm terrifically shocked that the President - to think that when a thing like this comes now, the President can't call for Plan A or Plan B or Plan C, the way the Army or Navy is supposed to do if we are attacked on the Atlantic Coast. "All right, we'll take the blue plan." Well, we're being attacked now in a certain way, and the President should have certain plans. He's got nothing. And there is nothing in the Administration.

Olipphant: We were talking here about it two years ago.

H.M.Jr: As I say, I'm - there isn't anything. Here Danny Bell sits here, Director of the Budget; he says 120,000 men have not been taken on and I say they have, because the President told me so. And - good God - I mean either the President or Bell or Corrington Gill is cockeyed. Now, I mean it's unbelievable that the President of the United States should tell me that 120,000 men have been taken on and Bell says it isn't so, based on what Corrington Gill told him. I mean I've got to talk frankly in this room. And then the question is, what are they doing?

Well, that's my week-end contribution anyway.

Olipphant: I want to add another thing. Over two years ago I know George had the figures on what level of business activity would be necessary to absorb all the

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unemployed, keep everybody at work, so that the thing is going on in the Treasury.

- H.M.Jr: Well, it isn't a co-ordinated plan; it just doesn't exist. I mean George may have one piece of it, but he hasn't got the whole piece. Have you?
- Haas: No. It's a job that a staff like mine, doing the Treasury - regular Treasury work, couldn't do. Take a much bigger staff.
- H.M.Jr: No, I don't think they're equipped to do it.
- Magill, any time you're bored, you go on the Hill.
- Magill: I'm not bored, but I expect I'd better go.
- Oliphant: You'll be bored up there.
- Magill: I'd rather be bored here than up there.
- H.M.Jr: On account of Magill going on the Hill, I've asked Senator Ellender to come in at 9:15. You could have a little talk at 9 o'clock tomorrow morning in preparation - 15 minutes.
- You (Oliphant) got a memo?
- Oliphant: Have it on one page, but it's pretty - the margin is pretty narrow.
- H.M.Jr: Could you give him (Magill) a copy too?
- Magill: I don't need one now, but I could use one this noon.
- H.M.Jr: Herbert?
- Gaston: No, I don't think I have anything. That housing message, as you know, is going up today. Eccles had a conference over at the White House Saturday morning on it.
- H.M.Jr: Well, that's - that's Wayne Taylor's bill.

(Taylor takes a bow)

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H.M.Jr: Is that right, Dan?

Bell: What's that?

H.M.Jr: The housing bill. I say it's Wayne Taylor's bill.

Bell: I don't believe even Wayne would claim it.

Taylor: "hat do you mean "even" Wayne?

Bell: What?

Taylor: What do you mean "even" Wayne?

Viner: Why, what's the matter with it? Is it a good bill?

Magill: Speaking of Wayne Taylor's babies, why, there are a couple of letters on silver that came from Colonel Marvin McIntyre on Saturday, and you (Taylor) being off hunting cows or quail or something

Taylor: Ducks.

Magill: ... we haven't answered them yet.

Taylor: Well, we'll put them with the others we haven't answered.

Magill: Archie wanted very much to answer them, but I've succeeded in fighting him off.

H.M.Jr: While we're on silver - here, sweetheart (handing Taylor some papers).

Taylor: "Sugar"?

H.M.Jr: My advice to Magill was this. McIntyre told Magill to have an answer for him by not later than Saturday morning, for the President to let Key Pittman know. And my advice to Magill was to do nothing and the chances were nine out of ten that McIntyre would forget he asked him. Now, whether it worked

Magill: Apparently it did. When I got home about four o'clock in the afternoon, Mrs. Magill told me there had been a White House call but they had said not to call back. Whether that was McIntyre or not I don't know, but I took his instructions and did not call back.

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H.M.Jr: Well, my thought is this, to write the President a letter, simply say something along these lines:
"My dear Mr. President: I have received certain correspondence in regard to silver from Senator Pittman and I feel that the matter will wait until you return, when we can sit down and discuss it.

Magill: Can I go now?

H.M.Jr: Yes.

(Magill and Upham leave)

Bell: I see somebody found new uses for silver.

Lochhead: Silver-plated motor bearings.

Bell: Thought that was quite helpful.

H.M.Jr: Bell, if I am asked this afternoon at the four o'clock press conference whether I favor the so-called Taylor bill, which has to do with giving the President the right to veto individual items, should I say "No"?

Bell: Oh, absolutely say you are very much in favor of it.

Gaston: By all means.

Viner: Oh my yes.

H.M.Jr: I should?

Bell: Yes, sir.

H.M.Jr: Could somebody give me a little synopsis before four o'clock?

Oliphant: I'd like to give you a quarter page on it.

Bell: Will you (Oliphant) do it?

Oliphant: That's a constitutional law question. It seems to me they're depriving him of a Constitutional right.

H.M.Jr: The Taylor bill is?

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Viner: No, the way it is now.

Oliphant: By tying the Millard Tydings bill up with the District tax bill, they in effect deprive the President of his constitutional power to veto the Millard Tydings bill.

H.M.Jr: Well, do you gentlemen mind coming in here at a quarter to four and - Bell and you two (Oliphant and Gaston) - and talk to me about that?

Viner: That enables the President to put a stop to tacking, which is a nuisance.

Gaston: He can't control the budget under present conditions.

H.M.Jr: I just wonder if I should say something.

Bell: I don't know as you need to say anything unless you are asked.

H.M.Jr: Well, if I'm asked I'd like to be ready.

Oliphant: Why not give it a boost, Dan? It's a fine idea. Why not give it a boost?

Bell: Well, it's a good idea.

H.M.Jr: Don't I usually say I won't discuss pending legislation, or is that just tax legislation?

Oliphant: You can say you favor it.

H.M.Jr: Well, let's take a look at it anyway. I can be asked. You think it's good.

Bell: Oh, absolutely. I recommended it two years ago.

Gaston: The President has recommended it in messages, hasn't he? That releases us, if he has. I'm quite sure he has. I know he's for it.

Bell: Yes, he's for it.

H.M.Jr: Bell, will you look it up?

Bell: I think maybe in the 1936 message he mentioned it.

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H.M.Jr: Will you (Gaston) look it up?

Gaston: Yes, I will.

H.M.Jr: And you three gentlemen be in a quarter to four.
George?

Haas: I've got a recent figure on residential construction.
It's up a little bit. If you want to take a look
at it ...

H.M.Jr: Let's see it. I've got something for you.

Haas: Here are the figures.

H.M.Jr: (To messenger) That stuff which came down with
Charles I want.

Haas: There's the last one, there's the previous one.
There's your low.

H.M.Jr: Where's the last one?

Haas: Right here.

H.M.Jr: Well, that's less than last year.

Haas: Less than last year, but up from the same period a
month ago.

H.M.Jr: Yes, but less than last year.

Haas: That's right.

H.M.Jr: What's the total? - Oh, I see, I get it. It is
up a little bit.

Haas: Yes.

H.M.Jr: All right, leave it. You got any other ones?

Haas: No. No more have come in. I checked this morning.
The other thing, you still want to have that meeting
at eleven?

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H.M.Jr: At eleven, yes. And I'd like Jake Viner to sit in. We'll have it in this room, I think.

I got this thing - when it comes in, I want somebody to fix it up and photostat it, so I can send it down to the President - on cotton.

(On phone) Ask the White House what time the pouch leaves for the President this afternoon please.

(To messenger) Will you open it up. Open it up. (Advertising material and plans for cotton campaign)

Do you suppose you could have that thing copied, photostated?

Haas: Oh yes.

H.M.Jr: And have it fixed up. I mean that's to go - I want to send one down to the President. Do you think that could be copied or photostated?

Haas: Oh sure. Well, this coloring - that will turn out black. They can blot it out. They may photograph it rather than photostat it.

H.M.Jr: Do you imagine you could have it - I imagine the pouch goes about three o'clock.

Haas: I'll see what they can do.

H.M.Jr: What?

Haas: It can be done, if they have facilities enough to put ...

H.M.Jr: Let them do it. They've got the

Haas: I'll ...

H.M.Jr: As soon as you get out of here. Do you - or do you want Mac to do it? Does that come under you?

Haas: Uh-huh.

H.M.Jr: Yes, I'd like to get it.

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Haas: At three o'clock we must have it done.

H.M.Jr: I'll find out when the pouch leaves.

Bell: I think it has to be at the White House at four o'clock.

Haas: We can make it.

H.M.Jr: Wayne?

Taylor: Nothing this morning.

H.M.Jr: I'm going to ask Wallace if he will come to the house tonight at 8:30 on that cotton. Are you free tonight, Wayne? Could you come?

Taylor: (Nods yes)

H.M.Jr: Bell, could you come?

Bell: I think so. I have guests in town.

H.M.Jr: Well, it isn't I can give it to you in five minutes myself. It's just a question whether you want to or not.

Bell: Well, I'd like to. Let me see how the day works out.

H.M.Jr: All right, if you don't come let me know. Because I want you to know about it. Because I'm tremendously enthusiastic about it. The program calls for taking a million dollars out of Section 32 money. It's an advertising campaign to promote the consumption of cotton goods. The industry is going to put up at least \$200,000. And that's the thing - to do a fine merchandising job on cotton goods all over the country for six months - newspaper advertising, radio, so forth and so on. I think we can really do something. I think it's worth trying anyway. Certainly that particular industry - inventory, the whole business - I think they're about as low as anything.

Viner: You mean they're loaded up with inventory.

H.M.Jr: No, they've got about ten, fifteen percent or more in storage that they carry; but they are fighting -

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they are worried about the processing tax. It so happens that the first of January is the time they begin ...

Viner: The White Sales.

H.M.Jr: ... the White Sales. The whole thing is ripe. Would you like to listen tonight when they put on - would you care to come to the house and listen? I mean it's - it's this kind of stuff (showing poster ad); I'm crazy about it. I mean I'm enough of a salesman to - I'm willing to gamble. Then this idea of "June in January" - and they've got - I mean nothing has hit me so favorably. I mean they've only had a little time to work on it.

Taylor: Did a pretty good job, don't you think so?

H.M.Jr: Oh, marvelous job. Well, they've got the best agency in America - N. W. Ayres. And don't forget, they selected the agency, I didn't, so ...

Viner: Got a hosiery ad?

H.M.Jr: Don't worry, I've got that in my mind. Cotton lisle stockings.

Gaston: March of Time is doing that for you.

Viner: Does anybody here know whether the workers that make the silk stockings can be turned over conveniently to making the cotton stockings? That's the biggest question. I mean there's lots of women's organizations that are on the edge of starting a boycott of silk stockings, and they don't seem to know that question.

H.M.Jr: Then the question comes - Mrs. Morgenthau wants to buy lisle stockings; says they can't buy it, can't get them.

Viner: They'll be on the market very soon.

H.M.Jr: But this thing - I'm willing to put my own name to it. I think it's one of the best things that has come down. George, you be there tonight at 8:30. I mean I'm crazy about it.

Haas: You want Daggit too?

H.M.Jr: No, I don't want too many. Do you?

Haas: No, it's all right; I thought maybe you ...

H.M.Jr: All right, bring Daggit.

Haas: All right.

H.M.Jr: You (Viner) are invited.

Viner: Thank you, I don't think I'll go. I have something else I want to do if I can.

Lochhead: Nothing.

Bell: I haven't anything. Saw that our letter got signed.

H.M.Jr: Got good publicity.

Taylor: With knobs on it too.

H.M.Jr: Bell had good publicity. Barkley was there when the letter was given out, wasn't he?

Bell: Was he?

Gaston: I was over at the White House and Steve Early talked about it; asked the boys to be sure and get this letter which Barkley was going to give out, and then he said he wanted to add to that that as a general proposition the President would veto any bills which called for large additional appropriations outside the budget, unless additional revenue were provided.

H.M.Jr: Well, that was a most peculiar story in the New York Times Sunday on Barkley and what Barkley said about taxes. I mean the New York Times did everything possible to bury the fact that Barkley said there would be no tax bill. They brought in Mr. Early - what Mr. Early said; never quoted him before. Most peculiar story.

Viner: There isn't any serious question of making any change

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retroactive, is there? Because that doesn't do any good.

Haas: The serious question ...

H.M.Jr: It is being considered.

Taylor: Seriously considered?

H.M.Jr: I said considered.

Gaston: You mean on the Hill?

Viner: You see, that's water over the dam, as far as business is concerned - no argument just for that. That's just a handout.

H.M.Jr: The position we can take is that nothing would frighten the business man more than if they made it effective from the beginning of this year, because then the Treasury would immediately come in with recommendations for new taxes retroactive for '37; and I've said that just as hard as I know now. But there is still a certain school of thought, very powerful in Washington, who are advocating that.

Viner: Well, their basic argument is against that. I don't know how you can

H.M.Jr: You asked me, "Seriously?" and I answered you, "Yes, it is being considered."

Viner: Well, I think you ought strenuously to oppose it.

H.M.Jr: Well, I just - I've made the statement to everybody, and Magill is making it, and made it very forcefully, and said, "Now, all right, you do this, you people get this across, this undercover lobby, and I'm telling you that immediately we will come through with recommendations for retroactive taxes for '37, and if you want to thoroughly discourage - scare the business man, scare him."

Now, you see, the story that Kennedy, for instance, told on the Hill was that these taxes which are being paid for the fourth quarter - I mean these dividends - will so deplete their cash reserves that they won't be able to pay their taxes in March.

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Taylor: Nuts.

Oliphant: (Laughs)

H.M.Jr: That's his story; that's his story.

Haas: There's an important economic problem in connection with that tax.

H.M.Jr: But that's the story. Jake, it's the most powerful undercover lobby I've seen here in a long time.

Viner: Oh, I think they're very foolish, because ...

Taylor: You've got three quarters already over the dam. Now, why in Christ's name go back and undo the three full quarters, or more than that, now? Perfectly ridiculous.

Viner: Of course they're acting very foolishly, because they're all ganging up on this item and they are just using all their ammunition on this item, while there are certainly other more important things they ought to go for, and their ammunition will have lost its effect, because I

Oliphant: They know exactly what they're doing, Jake.

H.M.Jr: Oh, of course. They're doing - it isn't the surplus tax they're after; it's the capital gains.

Oliphant: The capital gains, on account of the stuff they bought in '32.

Gaston: And it isn't undercover either; they've put on the most magnificent newspaper drive.

H.M.Jr: Incidentally, who is J. Douglas Brown of the Princeton - Chairman of the Advisory Council on Social Security and Director of the Department of Economics and Social - Director of Industrial Relations Section of the University of Princeton?

Haas: He's been down here.

H.M.Jr: He is coming to see me next week.

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Viner: He was working on the Social Security program.

H.M.Jr: Get me a little memo on who he is.

Viner: He is a very able fellow. They're working on the program of revision of that Social Security program.

H.M.Jr: Well, he's coming down to see me. Says the Treasury isn't properly represented over there.

Viner: By the way, I used - you'll have to protect me on this; they've asked me to come down there and testify on the Social Security program, and I said that I'm associated with the Treasury and can't do it without its consent and I don't know what the Treasury's views are and mine may be different, so I'm not free to do it. And he said - wired back that he's going to talk to you and get the release. So don't give the release. I haven't got time to get up a - I've forgotten all the intricacies of the law.

H.M.Jr: Chicago, huh? That's the way they do things. Why should I protect you?

Viner: All right, then I won't protect the Treasury; it's 50-50.

H.M.Jr: 50-50 nothing.

Bell: One rabbit, one horse.

(Hearty laughter)

Gaston: That's pretty rough.

H.M.Jr: No use saying who's the rabbit.

Viner: Except, Danny, that it's one horse, one rabbit.

H.M.Jr: (On phone) - - Oh, all right.

They want it at the White House at three. So you (Haas) get it to me by three. The pouch closes at four.

Well, we fixed up the rabbit and the horse.

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Viner: Well, about this Brown thing. They're working very hard, I gather, to work up a program of revision, and I don't know what the Treasury is doing about it, but the Treasury has many interests and I hope ...

H.M.Jr: He's coming down - I talked to him on the phone - to state what his problem is and what he wants from the Treasury, which no one before has ever told me personally.

Haas: We've met with their staff once.

H.M.Jr: So he's going to come down and tell me what kind of help they need. O.K. It's intelligent.

Viner: Oh yes, he is a very nice and very able person.

H.M.Jr: And he's coming down. And Dan, if it's agreeable to you and Taylor, I'd like to postpone by 24 hours this financing thing, until ten o'clock tomorrow. See?

Bell: Fine.

H.M.Jr: If that's agreeable to you.

Bell: Fine.

H.M.Jr: So I've got you down for ten tomorrow.

Bell: You're having the Open Market meeting Wednesday morning?

H.M.Jr: At eleven o'clock. So tomorrow is plenty of time. And I thought at my press conference, then, if you and Taylor didn't see any objection, I would tell them we're going to sell 450 million into March. I mean that the present would run through the 15th of December.

Bell: Run through the 15th of December.

H.M.Jr: We'll sell 450 million. Is that right? The last one will be offered on the 13th

Bell: ... which will be payable ...

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H.M.Jr: ... which will be payable on Wednesday the 15th. And what we do after that we haven't decided yet. But that gives a little chance for the market to adjust itself. See any objection to that, Wayne?

Taylor: That's only regarding the March. How many more - is that through the 22d?

Bell: No, the 15th.

H.M.Jr: Through the 15th. That's 450.

Bell: Two more after this Wednesday.

Viner: What is it, 150 each time?

Taylor: 50 each time.

H.M.Jr: I just want to give them something. I think they should have that.

Mac?

McR: Nothing new. I got a memorandum on this - Lubin's people's stuff for you about whether they get any statistics on employment; the Procurement Division appears to have adequate authority to obtain that information. If you want to talk

H.M.Jr: Mac, make a note that at eleven o'clock - I don't know whether it's Professor Brown or Dr. Brown or Mr. Brown - will be here on December 6.

Viner: Professor Brown.

H.M.Jr: I'd like you here and I'd like Harold Graves here.

O.K.

November 29, 1937. 232
10:16 a.m.

H.M.Jr: Hello.

Operator: All right.

H.M.Jr: Yes.

O: Go ahead.

H.M.Jr: Hello

Alvin
Barkley: Hello.

H.M.Jr: Alvin Barkley?

B: Hello, Henry.

H.M.Jr: How are you?

B: Fine.

H.M.Jr: Well, I just wanted to give you my blessing for the statement that you made that there's no use trying to kid the American public about getting a tax bill through.

B: Thank you.

H.M.Jr: Because that's made life almost bearable for us, at this end.

B: Really.

H.M.Jr: Oh, yes.

B: Well -

H.M.Jr: The - the pressure last week, the under cover stuff is just terrible.

B: Well, I know that, and I've been saying practically the same thing for ten days.

H.M.Jr: I know.

B: Every time I see a newspaper man, - I've almost decided to put a placard in big letters and hang it over my neck and say 'No Tax Bill Today'.

H.M.Jr: Well, but -

B: And, it's just terrific, and of course it's - it's come from people who ought to know better.

H.M.Jr: Well, there's been an awful lot of wishful thinking, and there's an awful lot of undercover dirty stuff.

B: Yes.

H.M.Jr: And your saying it just clinched it, and we can go ahead now in an orderly manner.

B: Well, that is a -

H.M.Jr: And - did you know that - this is between us - we had all we could do to keep Bob Doughton from making a statement Friday night.

B: That so.

H.M.Jr: Oh, he was all ready.

B: Uh-huh.

H.M.Jr: And so Magill said, "Well you're going to see the President Saturday, don't you think you'd better wait until you see him."

B: Yes.

H.M.Jr: So he did.

B: Well, Bob told me he was - he told me Friday, I guess it was, that he was going to make a statement then, that the Committee was going to make one, through him.

H.M.Jr: Well, I think Ros Magill kept him from making it.

B: Uh-huh. Well, what was he going to say?

H.M.Jr: Well, going to get out something, see.

B: Oh!

H.M.Jr: See, they were going to do something now.

B: Oh!

H.M.Jr: See.

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- B: Yes.
- H.M.Jr: And Hell, they're not ready.
- B: Well, of course not. Why, if they were ready - if they were ready right now, it would take the legislative draftsman and the experts ten days to draw a bill.
- H.M.Jr: I don't think they could do it in ten days, because they were down here Saturday, and they say that they're not ready and they haven't solved this thing to keep the principal of the surplus -
- B: Yes.
- H.M.Jr: They haven't solved it.
- B: Yes.
- H.M.Jr: And this so-called Vinson plan is sixteen to twenty per cent does not keep the principal that the President is insisting on, and we'll need all the time that we can get and I should think that to keep it out of the Senate until after the first of January would help you people up there.
- B: Well, it certainly will, and there's no good that can come from trying to rush something through overnight just in order to satisfy a clammer.
- H.M.Jr: That's right.
- B: Part of which is genuine and part of which is not.
- H.M.Jr: Exactly.
- B: But even if it's all genuine, it ought - they ought to have sense enough to know that it's a kinda hard thing to draw a tax bill, even on a small part of the tax structure.
- H.M.Jr: Well -
- B: Our friend Jimmy Burns, the other day, said he could do it in twelve hours. Well, that's - that of course - if he can do it in twelve hours, I'll say he is a genius.

H.M.Jr: Well, I -

B: Or in twelve days, if he can. Of course that was just for newspaper stuff.

H.M.Jr: Freidman and those people were down here Saturday, and they say it's going to take them, oh well, they're lucky if they'll have something out by the first of January.

B: Yes.

H.M.Jr: See.

B: Well -

H.M.Jr: And those fellows are good, Parker and Freidman.

B: Oh, yes, they're good and they work all the time.

H.M.Jr: Yes. They're not ready and won't be ready.

B: Yes.

H.M.Jr: So, I just want to let you know, it's clearing the atmosphere, and we're up there now and we're going to plug away, and we're not going to lose a day.

B: Well, I appreciate that, -

H.M.Jr: Tremendously helpful, what you said.

B: I'm glad of it. Now let me talk to you about another matter, I just want to call - talk to you about.

H.M.Jr: Please.

B: The other day you helped me to get a man out this Federal service.

H.M.Jr: Yes.

B: Now, I want you to help me keep one in.

H.M.Jr: Yes.

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B: I talked with the President and with Helvering, I didn't want to bother you, but I suppose it would come up through you.

H.M.Jr: It might.

B: About extending the time of Frank L. Board down at Louisville, who's the supervisor for Tennessee and Kentucky of the alcohol unit.

H.M.Jr: Frank L. -

B: Seventy years old this month and he'd have to retire the first of December unless his time is extended. Now, he's vigorous, he don't look over fifty, he's doing a fine job and he wants to work another year. He just lost his wife and if he quits work, why he won't have a thing in the world to do except brood, and I think Guy has recommended it.

H.M.Jr: I don't know, -

B: And it - I don't know whether those things come through over your desk or not.

H.M.Jr: No, because it's very difficult to get - the President doesn't do that very often.

B: Well, he told me that if Guy would give him a letter stating that Board was doing some sort of work that's needed to continue for a while, then that he could do it.

H.M.Jr: I'll get the letter off in the pouch - White House pouch at four o'clock, this afternoon.

B: All right. Thank you.

H.M.Jr: It'll go.

B: Thank you very much.

H.M.Jr: It'll go.

B: Well, good luck to you.

H.M.Jr: Thank you. Goodbye.

B: Goodbye.

November 29, 1937.
10:41 a.m.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello.

Secy.
Wallace: Hello.

H.M.Jr: How are you?

W: Just - fine.

H.M.Jr: Henry talking.

W: Oh, yes, Henry.

H.M.Jr: I sent word to you Saturday whether you by any chance would be free tonight.

W: Yes, what time?

H.M.Jr: Eight thirty. At the House?

W: Yes.

H.M.Jr: What I'd like to do - I don't know whether you want any preparation - I- I've pretty well cleared - I've got a suggestion I want to make on the use of cotton.

W: No -

H.M.Jr: You see, we've got a whole program worked out.

W: Yes. Has Myers been sitting it with you on that?

H.M.Jr: Yes, but -

W: Do you want Myers there?

H.M.Jr: Yes, and anybody else that you would like.

W: Oh!

H.M.Jr: They've had - what it boils down to they've had in the advertising agencies prepare a program for six months beginning with January 1st, to stimulate the consumption of cotton, and they've done a beautiful job.

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W: Oh!

H.M.Jr: And I'm really quite enthusiastic about it, and they're coming down today to explain it and try to - I mean they sent it up to the house and I've had a chance to look at it, you see.

W: Yes.

H.M.Jr: And I really think it's got real merits.

W: All right. Well, now, do you have any feeling particularly, one way or the other, whether I ought to have Myers there or not.

H.M.Jr: Oh, I'd be delighted if he'd be there.

W: Oh!

H.M.Jr: Oh, delighted. I mean - I - the only reason - I want you to feel you can bring anybody you felt like.

W: Yes.

H.M.Jr: I didn't know whether you wanted to bring anybody from the three A's or not.

W: Well, maybe - how - Tommy's out of town, maybe I'd better - I expect maybe I'd better - Taft is probably the man to bring. I mean he'd be next in command on this kind of thing.

H.M.Jr: Yes.

W: That is, he's the one who was interested in stimulating use of the agricultural -

H.M.Jr: I guarantee it won't last until after ten o'clock.

W: Now it might be - might be - I don't know whether I should bring anybody, any technical man or not.

H.M.Jr: Well, this thing - it's hardly a question whether you as an ex-newspaperman -

W: Yes. Well, I'll bring -

H.M.Jr: Well, if you have anybody who you value particularly on consumer consumption of publicity it - that's what it is.

W: Oh, I see.

H.M.Jr: I mean - it hit me awfully well.

W: Yes.

H.M.Jr: And anybody over there, whom you think - this will or won't hit the consumer. I think that's the idea.

W: Yes. All right.

H.M.Jr: You know where I live?

W: Let's see, where is it now?

H.M.Jr: It's twenty two eleven, thirtieth.

W: Twenty two eleven, thirtieth.

H.M.Jr: It's just off Massachusetts. Sometimes the people get lost.

W: Yes.

H.M.Jr: Twenty two eleven, thirtieth.

W: Yes. All right, I'll be over there at eight thirty.

H.M.Jr: Thank you.

W: Fine.

November 29, 1937

My dear Mr. President:

I have sent you, under separate cover, a plan to increase consumption of cotton goods in the United States.

This plan is the result of conferences which I have held with the Cotton Institute. I am most enthusiastic about the possibilities.

The cotton industry has tentatively agreed to put up \$200,000. I am suggesting that the United States Government put up a minimum of \$1,000,000, this money to be secured from Section 32 funds.

Henry Wallace and Dan Bell are coming to my house tonight and we are going over the plan together. If we agree that this is a good move to make at this time, we will send you a radio.

Yours for better and hotter bee-hives,

As ever, sincerely yours,

The President,

En route to Miami.

MEETING WITH MR. HAAS'S GROUP
RE BUSINESS RECESSION

November 29, 1937
11:00 a.m.

Present: Mr. Haas Dr. Viner
 Mr. White
 Mr. Seltzer
 Mr. Daggit
 Mr. Glasser
 Mr. Murphy
 Mr. Lindow
 Miss Lonigan
 Miss Northrop
 Mr. Adler
 Mr. Ostrander
 Mr. Nichols
 Mr. Tickton

Haas: A week ago you asked that each of these people prepare and have ready for presentation today their idea or ideas as to what might be done to improve the present business situation. And I personally don't know what they've got together, but I see each of them has a piece of paper, and you asked to have it on one sheet. You might - I don't know how you want to proceed. You might just go around the room.

H.M.Jr: Why not do it alphabetically?

Haas: That confuses us too.

H.M.Jr: Whose name begins with A?

Adler: My name is Adler.

H.M.Jr: A.

Adler: "It is not certain"

H.M.Jr: For my benefit do you mind - I'm going to ask you to do something unusual, but do you mind just stating for my benefit your educational qualifications and what you did after you left college until the time you came here? Please. Just for me.

Adler: Well, I had a fellowship

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H.M.Jr: Little louder. You don't mind.

Adler: I had a fellowship to study the N.R.A. ...

H.M.Jr: Yes.

Adler: ... and I taught for a year in Chicago and then I worked on the National Research Project on Unemployment in New York.

H.M.Jr: Now, where did you graduate from?

Adler: I graduated from the London School of Economics.

H.M.Jr: You got a Ph.D.?

Adler: Yes.

H.M.Jr: You graduated. Where before that?

Adler: Oxford.

H.M.Jr: Before that? Oh, Oxford.

Adler: Took A.B. at Oxford.

H.M.Jr: And you took an M.A.?

Adler: That's right.

H.M.Jr: Did you hear any of Dr. Viner's lectures?

Adler: Yes, I heard some of them.

H.M.Jr: Then you came from the London School of Economics?

Adler: Yes.

H.M.Jr: How long were you at the London School of Economics?

Adler: Two years.

Viner: Was I in Chicago when you were there?

Adler: Well, I - I taught in a small college in Chicago.

"It is not certain whether the present recession, if left to itself, will be merely short-lived and

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temporary. It may become acute and long-drawn out. If the latter, it will be fraught with the most dangerous social and political consequences.

"We might gamble on a spontaneous upswing. If, however, we prefer not to take the chance, it is necessary to go ahead with a program much of which would be easily modified and curtailed if and when the upswing does occur, and which in any case will certainly prevent the present recession from deteriorating into a depression of the severity of 1931-1932.

"A comprehensive program is necessary, because I do not believe there is any single step by which a recession can be ended.

"A frank statement by the President that the Government is prepared to use any and every weapon in its arsenal to fight off a serious depression would be of some psychological value.

"The program itself would consist of:

"(a) Monetary measures, such as would increase the excess reserves of the banking system.

"At once:

"(1) Issue of gold certificates against gold in the Inactive Fund and reduction of resultant Federal Reserve balance as rapidly as possible.

"(2) The lowering of the reserve requirements of the member banks.

"Within the next two or three months if the situation has not perceptibly improved:

"(3) The issue of silver certificates against silver in the General Fund.

"(b) Increasing Government expenditures.

"At once:

"(1) Increase in expenditure on unemployment relief. This is both inevitable and desirable.

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"(2) Speeding up of our program of naval construction and mechanization of the army. The construction of ships for the navy, especially, would immediately affect the steel industry favorably.

"To be initiated in March if business does not turn up before March.

"(3) Revival of loans by the R.F.C. to railroads and other industries, the loans to be expended on capital equipment.

"(4) Resumption of the Public Works program, to include expenditure on regional T.V.A. and government buildings.

"The importance of government expenditure can be gauged from the fact that every drop of 5 points in the Index of Industrial Production involves roughly a fall in the national income of at least \$200,000,000 per month. There is still a tendency to underestimate the degree to which government expenditure can contribute to staying off further business declines when capital and labor are becoming idle.

"(c) Stimulation of private enterprise. Most of the measures listed under (b) also provide a significant stimulus to private enterprise. But lest this should not be enough, the Federal Government should at once embark on a policy for encouraging the expansion of housing by bringing about a reduction in the effective mortgage rate, to something like 4 percent, and also of eliminating the 'bottlenecks' arising from any rigidities in the costs of building."

H.M.Jr: All right, that's very interesting. Have you signed it? Oh, you've got your name up on top.

Who's your immediate superior?

Adler: Mr. White.

H.M.Jr: All right. Who in the room wants to ask him some questions?

Murphy: How do you go about getting the mortgage rate down to 4 percent?

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- Adler: Well, I think the Treasury and Federal Reserve Board can cooperate in doing that.
- Murphy: That is, do you create a willingness on the part of lenders to lend at 4 percent, or do you supplement the proceeds of the interest by Government contribution, or do you coerce them into lending at 4 percent?
- Adler: You don't do the second, you do the first.
- Murphy: You create a willingness to lend at 4 percent; that is, interest cost to the borrower.
- Adler: That's right.
- H.M.Jr: Do you think on the housing that just lowering the interest rates will - that that's enough to make people want to build houses?
- Adler: Well, lowering the interest rate makes a tremendous difference in cost. If, say, the mortgage rate is reduced to four percent, that means a reduction in cost of 33 1/3 percent.
- H.M.Jr: Cost of the house?
- Adler: Yes.
- H.M.Jr: Really?
- Adler: Doesn't it? See, if the principal ...
- H.M.Jr: I never figured it that way. Let's take a \$10,000 house. How do you arrive at that? I never thought of it like that.
- Adler: Well, what is the principal? The principal - the value of the house consists of whatever - we'll suppose the value of a house is now \$10,000 and the rate of interest is six percent. If you reduce the rate of interest to four percent, that immediately affects the value of the house. Just as in the case of a security; when the yield of a security falls, its value changes. Exactly the same principle.
- Viner: You're assuming that a house is worth what it would cost to build it. If it would cost \$10,000 to build

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it now, you can't sell it for that. That's why they're not being built.

Adler: Yes, but if you reduce the rate of interest, say,

H.M.Jr: Now, you - mind you, you just happen to be the first fellow and there's nothing personal about this. We're being very gentle with you because you're Number One; wait until Number Three comes along; that's the fellow you want to feel sorry for.

But aren't you confusing in your mind the cost of creating the house and the cost of paying for it? I mean if you reduce the interest rates from six to four I can see where it costs a third less - or you can pay for it a third quicker; but I mean it isn't - the interest rate - I mean - I'm just asking - doesn't make brick and mortar any cheaper and doesn't mean that if the bricklayer gets \$18 a day he's going to work for \$12. I mean it's the cost of payment that - you can pay for it a third quicker, isn't that the answer?

Viner: Not as much as that. The \$10,000 would still be \$10,000. It reduces the interest cost.

H.M.Jr: That's all. But not the cost of the house. I mean I think he (Adler) is wrong.

The point that is bothering me on this thing is this housing message, which is - as near as I can make out, the whole stress is on the interest rate. I don't see that they're going to do anything about making the house cost less. The way I put it to myself is this: A \$5,000 house today costs \$7,000 and until they can get it back so it's \$5,000, I don't think anybody is going to build. And I don't see that making the interest rate five and a quarter percent is going to make people build houses. Maybe I'm wrong.

Seltzer: Makes a considerable difference, though. That is, you're willing to buy a \$7,000 house, whereas previously you could buy only a \$5,000 house, if your

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monthly payments by reason of the reduction of interest on the \$7,000 house are no greater than on the \$5,000 house.

- H.M.Jr: Well, but I still think in a person's mind the reason they are not building today is they think that the house is only worth five and they're not going to spend seven for what they could have gotten two years ago for five.
- Viner: And what they can buy now for five, if they buy an old house.
- White: Oh no.
- Lindow: But isn't the important thing to the purchaser or to the tenant who lives in the house the monthly carrying cost on the house?
- H.M.Jr: That I don't know. Now, this whole bill here which goes up - the whole thing - the only thing I can see they do is to stress the lowering of interest rates. And I hope they're right. My own hunch is they're wrong, see, that that isn't - lowering the interest rates to five and a quarter percent isn't going to make people build. Now, I sincerely hope I'm wrong.
- Murphy: Wouldn't it be a fair statement - I say this because our paper deals with the same thing - to say that both the building cost and the interest rate are very important? We have a quantitative measure of how important the interest rates are, and we point out that a payment of \$25 per month will permit you to support a \$6,000 house at 5 percent, where it would only permit you to support a \$4,236 house at 7 percent. While both construction costs and interest rates are very important and I would agree with you that I think construction costs are more important, I would say that at least in the short run interest rates are more amenable to treatment and the methods we can use to do it are more palatable, perhaps. Your chance of making a successful attack on the interest rate is greater, but that shouldn't in any way check our zeal to attack also on the construction cost front.
- H.M.Jr: I agree with that.

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- Haas: And I think, Mr. Secretary, what is even more fundamental - I agree with what Henry has said, but I think what is more fundamental than that even, than the costs situation with regard to housing, is the outlook for individual incomes. In other words, a person will not make a commitment for a house, a long-term commitment, until his prospects of his job or his income are sufficiently good; and that, possibly, is more important and I think many of the analyses with regard to housing overlook that, which I think is the most fundamental phase of the whole situation. We discussed that when we had some of these people down last Wednesday.
- H.M.Jr: Now, any more A's? Any B's? Any C's? D?
- Daggit: Daggit.
- H.M.Jr: All right, Daggit. You've got to tell them what you did before you came here. Got to be fair to everybody.
- Daggit: Well, I got my Bachelor's and Master's at Minnesota University, and put in three additional years toward my Doctor's degree.
- H.M.Jr: what? Did what?
- Daggit: Studied three years after Master's towards my Doctor's degree while teaching part-time economics - general economics and agricultural economics. Then I spent two years
- H.M.Jr: Did you get your Doctor's?
- Daggit: I haven't finished my Doctor's yet. I spent two years in B.A.E. (Bureau of Agricultural Economics) on commodity prices, and then went into commercial work studying or forecasting cotton prices and cotton prices in the South.
- H.M.Jr: How long were you with ACCA?
- Daggit: About ten years.

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H.M.Jr: Oh, ten years.

Daggit: Uh-huh.

H.M.Jr: (To Viner) American Cotton Co-operatives.

Go ahead.

Daggit: I can't agree with the first speaker that the business situation is as serious as he thinks it is. I believe it is merely the aftermath of a period of overproduction of factory goods, complicated by deflation in commodity prices. I see no evidence favoring a long business recession, since there is no real shortage of credit, no large volume of loans to be liquidated, such as we have had before in some of our previous depressions, and at the present time apparently no large volume of speculative holdings of securities or real estate. However, it appears that inventories of factory goods are still excessive in relation to consumption levels - we have made a number of studies about that - and several months may be required to adjust production to the prevailing levels of consumption.

If that is the case - that is, if this is a minor recession, as I believe it is, it seems to me that no radical Government action designed to bring about an immediate recovery is indicated. On the other hand, it seems to me that Government action should be directed toward two points: (1) Sustaining public confidence and morale while this correction is going on; and, second place, attempting to prevent a further deflation in commodity prices. The moves that the Administration have made so far have definitely been in the right direction; and my impression from financial journals and newspapers is that a definite improvement in public confidence has occurred.

I have no original ideas to suggest, except that these moves, which may seem minor in themselves, can in the aggregate have an important effect, have a powerful effect in bringing about a recovery when the proper time comes. They can have an immediate effect in stabilizing business, but as I see it, this correction of inventories must be allowed to be completed before a resumption of the recovery move can be expected.

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There seem three ideas which are worthy of very important consideration, I believe. One is the return to 1935 reserve requirements. I can't see that that would have an immediate effect, but it would tend to improve public confidence and might have some effect through next year in expanding credit. It seems to me that the maintenance of the present reserve requirements during a business recession is entirely indefensible.

Second point is one brought out by Dr. Crum at a recent meeting; that is the release of sterilized gold by stated amounts each month. It seems to me that if the public can look forward to a certain quantity of gold going into the credit base each month in the future, it will give them a picture of rising commodity prices as a result of the expansion of the credit base, which might stimulate buying earlier than would otherwise occur.

- H.M.Jr: Did Professor Crum say that?
- Daggit: He suggested release of sterilized gold.
- H.M.Jr: If you don't mind, how does he get into the gold field?
- Daggit: I don't know.
- White: He was present at the meeting a few days ago and he commented on it...
- H.M.Jr: I see.
- White: ... in response to somebody else's comment.
- Daggit: His idea was this announcement that so much would be released each month, which it seems to me would be more effective than announcement of a general policy to release sterilized gold.

The third point, which I think is quite important, is that tax laws should be revised very cautiously. While some modification of the tax laws along the lines that business men have suggested should improve public confidence, I think one should guard very

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carefully against a general revision of the tax laws, with prolonged debate which it would inevitably cause. That could easily be destructive to public confidence.

That was all I had.

H.M.Jr: All right, now, who wants to ask Mr. Daggit some questions? Anybody want to ask him?

All right, who comes next, George?

Haas: Glasser, I think - G.

H.M.Jr: Just a minute, Glasser. (Looks at charts and clippings brought in by Mrs. Betts)

All right, Glasser, what are your ...

Glasser: Well, I'm a product of the University of Chicago - undergraduate work and three years of graduate work; one year of graduate work at Harvard and a fellowship at Brookings Institution, 1931; and taught college

H.M.Jr: Pardon me - what did you do at Brookings during that year?

Glasser: Well, research work in economics - economic theory, labor. Then I taught college for three years. In the Government service for two; with the WPA for one year, and Treasury for one year.

H.M.Jr: Well, didn't you take

Glasser: I took quite a bit of work with Mr. Viner.

H.M.Jr: You haven't got your Doctor's yet?

Glasser: No, I haven't.

H.M.Jr: Haven't finished your paper. Have you finished your paper?

Glasser: No, I haven't.

H.M.Jr: Are you working on it?

Glasser: No.

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H.M.Jr: All right, let's have what you have.

Glasser: "To be effective Government action must be comprehensive and powerful."

On that point I can say that Mr. Daggit may be right; I don't know whether this is a serious depression or not. But if Government action is to be effective, it must be comprehensive.

"The action should take the form of a program, and it should be made plain to the public that the mild measures used at first will be followed by more powerful measures if business activity does not react.

"The program should be started by a dramatic statement by the President that we are in a serious depression" - if that is so - "and that the Administration will use all its powers, and ask Congress for additional powers, if necessary, to bring us out of the depression.

"Monetary measures to permit expansion of credit at low interest rates (in order of severity):

"(a) Desterilization of gold - and redemption in cash of Treasury notes (not bills) falling due in 1938.

"(b) Issuance of silver certificates against silver bullion.

"(c) Open market operations.

"(d) Reduction of reserve requirements.

"(e) Purchase of additional silver."

H.M.Jr: Excuse me - just to be facetious a minute. You got that silver when you were studying with Dr. Viner?

Glasser: No.

H.M.Jr: I just wanted to make sure, that's all.

Raas: That's the Treasury influence, huh?

H.M.Jr: Not to be too serious.

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Glasser: Silver wasn't the problem in those days.

H.M.Jr: Go ahead.

Glasser: Stimulation of private capital goods construction by a series of measures including:

"Revision of the housing authority to permit lowering interest rates and longer period of amortization.

"Forcing railroads to carry out a program of modernization of equipment and grade-crossing elimination in exchange for increased freight rates." - for which they are now asking.

"Using Rural Electrification Act to force public utilities to construct new lines."

And then this last point, which I think is new, or at least hasn't been mentioned and probably is no good, because most original things are no good: Drastically lowering the rate of interest to one percent or thereabouts on borrowing for new construction. This can be done without increasing the Government debt by a plan of Government guarantee of principal and interest, plus another feature which is now embodied in the United States Savings Bonds; that is, redemption at any time at par plus accrued interest.

That is a short summary; if it is at all interesting, I can go into further detail.

H.M.Jr: No, I don't - I want to give everybody a chance, you see.

Glasser: Then "Revival of Public Works program in cooperation with local and State governments."

And last, in order of severity, Government spending.

H.M.Jr: I don't quite understand your suggestion on lowering the interest rates to one percent. I mean who would do the borrowing and who the lending?

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- Glasser: The proposal is to have a security which would have the feature of a Treasury bill, which now sells at - or is now sold at an effective rate of less than a half of one percent; and the borrowing would be done by people who wanted to construct capital goods. Now, they could borrow up to a certain percentage of the value of the capital good, that percentage to be adjusted in accordance with the desire of the Government to encourage further capital goods construction. That is, if the Federal Reserve index, say, is at 70, the Government can lend up to 50 percent on the cost of the new capital good; if the Federal Reserve index rises to 90, the percentage can be lowered to, say, 20 percent of the capital good; having a sliding scale in accordance with the fluctuation of business activity.
- Seltzer: Would the Government take a mortgage or any other lien?
- Glasser: Well, the Government could have - of course, would have a first lien.
- Seltzer: That means that other people who contribute capital would have to take a secondary lien.
- Glasser: That's right. That's one of the grounds on which there would be probably some popular objection. They would say that the Government is taking the cream of the capital goods financing. However, we might get around that by, say, restricting the size of the loans or the amount that can be borrowed by any individual to a certain sum, which would bring the capital construction in the field where most of the capital is raised by reinvesting profits rather than borrowing in the security markets.
- Murphy: Is that any implied comment on the undistributed profits tax?
- Glasser: Well, it also occurred to me that it would - it might be used in effect as a mild revision of the undistributed profits tax; that is, to permit exemption from the undistributed profits tax on a certain amount of money that is used for new construction within a certain period.

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- White: When you speak of these things in order of their drastic nature, do you have in mind announcing a program ahead of time or applying each - or announcing each as the index of business activity recedes, gets lower and lower? What thought did you have in mind?
- Glasser: Well, the important thing, to get the maximum psychological effect, is to say that you are starting out with certain items, but if business continues to be bad you'll use more powerful measures, without indicating what the measures are, of course.
- Viner: Of course, if the leak gets out that you are thinking of guaranteeing loans at one percent if necessary, everybody who was thinking of a flotation will wait until he can get the one percent rate and you'd shut down things as completely as you'd want to that way.
- Glasser: That's right; it would have to be done very quickly.
- H.M.Jr: Well, as far as this group, I'm not worried about leaks here.
- Glasser: Well, after all, the gold policy in 1933 certainly had that same objection. You might make it retro-active.
- Murphy: Well, did the gold policy of 1933 have the same objection?
- White: He means there was no leak.
- Murphy: I thought you meant answering Viner's criticism. The gold policy impelled a person purchasing capital goods to do so while the dollar was still more valuable.
- H.M.Jr: Who comes next?
- Haas: I don't know. I think H comes next. Do you want
- H.M.Jr: I think for your sake - I think you better come last, don't you think so?

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Haas: All right. Who's I? J? K? Lindow.

Lindow: Yes. I graduated from Wayne University and since that time I worked for a while in the Accounting Department of the Kroger Grocery and Baking Company, I worked in Farm Credit for about a half year, and have been in the Treasury three years. I have taken graduate work at Wayne University, at Brookings Institution, and at George Washington University.

H.M.Jr: In economics?

Lindow: Yes, economics and accounting.

H.M.Jr: I want Miss Lonigan.

(On phone) Ask Miss Lonigan to come in please.

Lindow: The paper I am about to read was prepared jointly by Henry C. Murphy and myself.

"The outstanding weak spot in the 1933-37 recovery movement was the absence of any marked revival in residential construction. If this long delayed revival could be brought about now it would do much to stem the current recession and bring about a renewal of the upward movement.

"Interest is by far the most important element in the cost of housing to the occupier. A reduction in the effective interest rate from 7 to 5 percent would raise the amount of housing which could be carried (with respect to interest only) by a \$25 monthly payment from \$4,236 to \$6,000. Such a change would make the existing ability to pay rents constitute a far larger demand for housing than it does now.

"Capital is currently available in superabundance but the facilities for directing it into housing are very imperfect. As a consequence interest rates in this field are much higher than elsewhere. In order to improve the home-mortgage market and thus stimulate residential construction, we submit the following recommendations (taken from our memorandum on "Federal Aid to Building and Loan Associations and Some Aspects of Federal Policy Concerning the Home-Mortgage Market")

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"(1) The Federal guarantee of debentures issued by the Mutual Mortgage Insurance Fund in the event of default of insured mortgages should be indefinitely extended.

"(2) The \$2 billions limit on the amount of mortgages which may be insured (unless an increase is approved by the President) should be repealed.

"(3) A statutory limit should be set to the expenses of the Federal Housing Administration which may be paid from premium income.

"(4) Premiums on insured mortgages should be based on declining balances rather than original principal.

"(5) Insured mortgages, debentures of the Mutual Mortgage Insurance Fund, and debentures of national mortgage associations should be completely exempt from taxation with respect to principal, but granted no tax exemption with respect to interest.

"(6) The maximum amount of debentures which a national mortgage association may have outstanding should be increased from 12 to 15 times its capital stock.

"(7) National mortgage associations should be allowed to originate mortgages on large-scale housing projects."

Most of these suggestions are designed to facilitate the organization of national mortgage associations, in order to improve the home mortgage market.

H.M.Jr: You haven't seen the bill that's gone up?

Lindow: No, sir.

H.M.Jr: Would you, for me, again tomorrow - would you take your suggestions and lay them down against this? The bill will be out tonight. If you can get a copy of the bill - I mean I don't want to rush you too much - as soon as you can, and see where the bill does or doesn't do the things that you are suggesting.

Lindow: Yes, sir.

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- H.M.Jr: In other words, I'd take the bill and see how far does this new bill succeed in doing, and where does it fail to do, the things that you think are necessary.
- Lindow: We can set up a columnar comparison of the points involved.
- Viner: What taxes do you have in mind on the principal?
- Lindow: Personal property taxes.
- Viner: You mean the Federal Government - make them instrumentalities of the Federal Government?
- Lindow: You see, now they are exempt. Insured mortgages are, for example, taxable in the states just the same as the property itself would be taxable, and that, of course, is an erratic and largely obsolete form of taxation, and it falls very inequitably on the states.
- Viner: Yes, but what power has the Federal Government to control local taxability?
- Murphy: They could be made instrumentalities of the United States, and under the constitutional limitation
- Viner: Because we guarantee them, you mean?
- Murphy: No, because we declare them to be so. Look at the joint stock land banks; they are completely exempt from taxation.
- Viner: Has any state tried to test that?
- Murphy: Yes. When I say yes, I know that there was definitely a suit on the subject of the Federal land banks, and that was decided in favor of the Government.
- Viner: Another question there. When you say that reduction in the interest rate from - what was it - from 7 to 5 would reduce the carrying charges - would increase the amount of housing that could be carried with the same carrying charge from 4-something to \$6,000, what did you take, a 20-year period?

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- Lindow: No, that's just interest.
- Viner: You're not including amortization.
- Murphy: Well, should you?
- Viner: Oh yes. What the buyer wants to know is at how much per month he can pay all he has to pay on the house.
- Murphy: I would disagree with that. It seems to me - suppose for the sake of argument this house falls down at the end of 20 years, it's only a 20-year proposition. Suppose that the owner of the house is contemplating renting it. A \$25 a month payment will enable him to carry the interest on a \$4,286 house if it is at 7 percent, on a \$6,000 house if it is at 5 percent. Now, the amortization is an entirely different factor. We have segmented out the costs of running a house. One, and by far the most important, is interest. There are other costs. There are taxes, there is depreciation amortization, of course, properly, isn't a cost. It is just the depreciation that is just a cost.
- Viner: Well, it depends on whether the amortization is more or less rapid than the depreciation.
- Murphy: If the amortization is more rapid, the surplus amortization is part of the investment, which I wouldn't expect to
- Viner: But I think it's a misleading figure to use there. If you - what you are saying is that if you reduce the interest costs by a third, you reduce the interest costs by a third. Well, there is no question about that. The question is, how much do you reduce the cost of housing to the buyer?
- Murphy: Well, you notice that we say "to the occupier." We are interested in it both from the standpoint of rental housing and from the standpoint of owner-occupied housing. And the only common denominator that can be applied to all occupancy is the interest cost on a perpetuity basis. But we carefully say that we are considering the interest segment of housing costs, and that is by far the most important of the costs to the occupier. As the Secretary pointed out in connection with Mr. Adler's paper, it makes no difference at all in the cost of the

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house as such; the \$6,000 house costs \$6,000 and the \$4,236 house costs \$4,236; but the interest costs of living in them are the same at the respective interest rates.

- Viner: All you are saying is that if you reduce it from six to four, you reduce it from six to four; I don't see any point in that - and that that is an important part of the cost, the most important single part of the cost probably. But I'd say in an ordinary city now three percent wouldn't be an excessive amortization rate to figure, or a depreciation rate to figure, on a residential house; and I certainly would say I'd figure much more than that for the first five years. I'd figure five percent as a minimum for the first five years. Then later on the depreciation is less. And I'd certainly not fool anybody who is buying a house into thinking that you have reduced the cost of carrying the house by a third because you have reduced the interest by a third.
- Murphy: I don't think that there is any misleading statement. I think the difference is merely in our theoretical scheme. We have merely subdivided the total cost and taken one segment, but the segments we cut off were fully indicated.
- Viner: Well, the important effect on the buyer is how much you reduce his total cost of carrying the house, and that's the effect, and by reducing the interest rate by a third you reduce the total cost by less than a third.
- Murphy: well, of course you don't reduce the costs of taxes and cost of plumbing and water.
- Viner: No depreciation.
- Murphy: Well, I would place depreciation in the same category with these other costs.
- Viner: But in figuring the effectiveness of it, you see, the globular figure - that's the appeal to the buyer, and ...

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- Murphy: Well, of course, since we have attacked only the one segment, we can only make a generalization.
- Viner: Well, the other costs are significant too.
- White: Henry, there is no difference between you that is worth talking about. There is no difference even of opinion. He is merely saying that the reduction in the cost of the financing is only a reduction in part of the cost, to which you agree at once.
- H.M.Jr: That's what I said before. That's what I said when Adler said
- Haas: But it is a very important cost, and therefore a substantial reduction in that is a very important reduction. That's all they say.
- H.M.Jr: But what I think you all seem to - this housing message - I think you'll find that they have approached it from just the angle - they have only approached it from the interest angle, and I'm terribly afraid it's going to fall down for that reason. All they have done, as near as I can make out, is they have taken the thing and they have reduced the interest rate from $6\frac{1}{4}$ percent to $5\frac{1}{4}$ percent. That's all they've done, and I don't think anybody is going to build any houses on that basis.
- Murphy: We would love to reduce other costs as well as the interest. The important thing is the relationship between the cost of carrying a given amount of housing per month and the rent, or implied rent if you are living in it, that you can get for it. And anything that can increase rents or decrease the cost of carrying a unit of housing for a month will stimulate ownership. Now, the two objects are to reduce building cost and reduce interest cost. I think you can get more reduction quantitatively in that monthly unit by reducing interest costs than building costs. But the psychological effect is
- H.M.Jr: Well, if you don't mind, I think you're going over the same amount of ground over and over again, if you don't mind my saying so. And I think the way Dr. Viner pointed out and I've pointed out earlier. You attack just one segment of the whole thing. No

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one is arguing with you; everybody agrees with you. If you reduce interest costs, that's one of the things that help. And I think Viner and I take the position that if you do that alone, you're not going to get houses built - if you just do that and nothing else.

Viner: If you reduce the interest cost on mortgages on old property to a corresponding degree, you get almost no stimulation to building, as long as the old buildings cost less than the new for what you get in them, and they do; and nobody puts up housing now unless it is in a new suburb or unusual location, or persons who have some special needs of their own. Otherwise - in Chicago the experts tell you that old housing is at least 30 percent cheaper than new housing for what you get, after allowance for depreciation and lack of modern features.

Lindow: If you'll pardon me, I'd like to add just one qualification to that statement. There is one - a large - very large demand for housing which at present levels can't be satisfied; I mean that the demand is uneconomic at present levels. And if we can reduce costs either in the construction part of the monthly carrying charge or in the interest part of it, we can make economic a large number of projects which now are uneconomic and can't be handled. So I think there would be some increase in stimulus to new building in spite of the fact that

Viner: Not until you have exhausted the stock available of old housing. Now, the figures you get of occupancy are not of legitimate occupancy. In other words, there are lots of houses that are being occupied now waiting a real occupant. In other words, in Chicago I've seen a little local survey where the figures are that there are two percent vacancies in self-contained single-unit houses, whereas there are something around 15 percent effective vacancies. These houses are being occupied by persons who are allowed to live there and occupy the house, not paying any rent, and the houses are on the market for sale. If that were typical, you have a 15 percent surplus of housing that can't be sold at the present

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reduced price of old housing. Now, the new housing in Chicago is all - 99 percent of it is the kind I have indicated: in suburbs and certain areas where there is a shortage of housing for the people who want to live in those areas. And then there's a sprinkling of new housing throughout the city for persons who don't care how much it costs; they want a house designed to their taste. Otherwise, there is no housing at all.

Tell you this. Within three blocks of where I live there are two apartment houses which were started in 1928 or 1929 and are completed except for fixtures and windows and so on, which have been boarded up since, and it hasn't paid yet to open them up; hasn't paid or they haven't done it.

I mean the figures as to occupancy misled me until very recently when some real estate people admitted to me frankly that they knew that those figures weren't correct.

Seltzer: Don't you suppose those particular apartments were tied up by litigation?

Viner: Well, I knew of three there and one of them is now being fixed up and it's the same lot, so that if that was true and that was untied, the other two could have been untied; if there was a strong enough incentive, they could have.

Seltzer: The additional investment for fixtures is so small, as compared

Viner: It was probably - plumbing wasn't in; what it was was the floors and walls and roof. From the outside it looked complete except that the windows were boarded up.

H.M.Jr: I just want to say that I think it is terribly important that anything the President does now should be a success, and I'm very much worried about this housing bill, the angle that they have taken, which as far as I know is simply the interest angle. So those of you who think that housing is important study the bill and then come back, and if you think that they have left out some of the

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pieces ... I know that Mr. Eccles - I don't know what's happened the last ten days, but certainly ten days ago he felt labor costs and material costs were tremendously important. A "little birdie" told me that every time they brought up that he was silent; that is, on the labor end. So I don't know what's happened. But the Treasury has had nothing to do with this thing. As a matter of fact, Mr. Bell and I refused to give it our approval. But I still say that for the country's sake and for the sake of the President I think all of us ought to do anything we can after it goes up today, and if there are blind spots to get together and I'll bring it to his attention if it is necessary.

Viner: That is a lesser reduction than you are talking about, isn't it - in the bill? You said $5\frac{1}{4}$ to $4\frac{1}{4}$, and ...

H.M.Jr: Let me just take a minute and read this.

"Here is a copy of the President's message on housing, to be delivered to the Congress Monday. I attended a press conference at the White House this morning, lasting from 10:45 to 12:00 o'clock, at which Eccles explained what is proposed. The substance is:

"(1) Revive Title I of the Housing Act for modernization and repair insurance, with a limit of \$10,000, to include plumbing and heating, but not removable equipment.

"(2) Increase the loan from 80 to 90 per cent on small homes (\$6,000 or less) reducing the over-all charge from the present $6\frac{1}{4}$ per cent limit to $5\frac{1}{2}$ and $5\frac{1}{4}$ on the small home.

"(3) Increase the insurance limit from \$16,000 up to \$200,000 on one mortgage if all the structures covered do not represent a mortgage allocation of more than \$1,000 a room. This would include not only apartment houses but groups of single houses, multiple dwellings.

"(4) For limited dividend housing corporations raise the loan limit to five million dollars where the mortgage figures not more than \$1200 per room.

(Miss Lonigan comes in)

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"(5) Create a Government backed mortgage association with fifty million capital, to be supplied by RFC, and with authority to sell debentures up to twenty times the capital, that is, one billion dollars, and authority also to make direct loans.

"Eccles spoke as Chairman of an unofficial committee of which the other members were Gerard Swope, General Wood, Sloan Colt, Ed McGrady and Turner of the Turner Construction Company. The message mentions proposed conferences with representatives of industry, labor and finance with the hope of promoting building revival, with the implied aim that these conferences will be devoted in part to trying to get costs down."

Now, may I say I consider this hour is worth while and I'd like to continue it in twenty-four hours. I'll take this thing as rapidly as I can. If you people come back at eleven tomorrow, we'll do it for another hour, and that gives each person, I think, a chance to express himself, gives me a chance to evaluate their expression. And Miss Lonigan, you're included; everybody's got a chance to put on one page what they think should or should not be done in the present situation, and the sky's the limit as to the subject matter.

- Viner: Mr. Secretary, I wonder if this could be worked out; that is to say, take a table on the basis of 20 years on what all the carrying costs would be for a typical working man's five-room bungalow, at the different rates of interest, so we can see.
- H.M.Jr: These boys ought to have all that. At least they ought to know where to get it.
- Lindow: Yes, we know where to get it.
- Murphy: We can get it for interest and amortization. Now, getting it on repairs and things of that kind - taxes - is a
- Viner: I think you can get something. There's material like that available in the real estate literature, I know. And then that would be very enlightening to see just what figures you could present to a

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potential buyer. "Here before this it would have cost you so much per month; your house would have cost you so and so. Now it's reduced to so much." And see what is the reduction to. That's the significant percentage to me if I were a buyer. I don't care what item has been reduced. What I do care about is how much the total cost has been reduced.

It is not certain whether the present recession, if left to itself, will be merely short-lived and temporary. It may become acute and long-drawn out. If the latter, it will be fraught with the most dangerous social and political consequences, with possibilities ranging from the defeat of the Democratic party and the end of the New Deal economic and political policies to the complete break-down of our democratic system of government and the institution of fascism.

We might gamble on a spontaneous upswing. If, however, we prefer not to take the chance, it is necessary to go ahead with a program much of which would be easily modified and curtailed if and when the upswing does occur, and which in any case will certainly prevent the present recession from deteriorating into a depression of the severity of 1931-1932.

A comprehensive program is necessary because I do not believe there is any single step by which a recession can be ended.

A frank statement by the President that the Government is prepared to use any and every weapon in its arsenal to fight off a serious depression would be of some psychological value.

The program itself would consist of:

(a) Monetary measures, such as would increase the excess reserves of the banking system.

At once:

- (1) Issue of gold certificates against gold in the Inactive Fund and reduction of resultant Federal Reserve Balance as rapidly as possible.
- (2) The lowering of the reserve requirements of the member banks.

Within the next two or three months if the situation has not perceptibly improved:

- (3) The issue of silver certificates against silver in the General Fund.

(b) Increasing Government expenditures.

At once:

- (1) Increase in expenditure on unemployment relief. This is both inevitable and desirable.
- (2) Speeding up of our program of naval construction and mechanization of the army. The construction of ships for the navy, especially, would immediately affect the steel industry favorably.

To be initiated in March if business does not turn up before March.

(3) Revival of loans by the R.F.C. to railroads and other industries, the loans to be expended on capital equipment.

(4) Resumption of the Public Works program, to include expenditure on regional T.V.A. and government buildings.

The importance of government expenditure can be gauged from the fact that every drop of 5 points in the Index of Industrial Production involves roughly a fall in the national income of at least \$200,000,000 per month. There is still a tendency to underestimate the degree to which government expenditure can contribute to staving off further business declines when capital and labor are becoming idle.

(c) Stimulation of private enterprise. Most of the measures listed under (b) also provide a significant stimulus to private enterprise. But lest this should not be enough, the Federal Government should at once embark on a policy for encouraging the expansion of housing by bringing about a reduction in the effective mortgage rate, to something like 4 percent and also of eliminating the "bottlenecks" arising from any rigidities in the costs of building.

November 29, 1937

WHAT CAN THE GOVERNMENT DO TO BRING
ABOUT A BUSINESS RECOVERY?

The present business recession is the aftermath of a period of overproduction of factory goods, complicated by a deflation of commodity prices. While no conditions favoring a prolonged recession appear to exist, since there is no real shortage of credit, no large volume of loans to be liquidated, and no heavy speculative holdings, nevertheless the supplies of factory products seem temporarily excessive in relation to consumption levels, which is bringing about a corrective reduction in factory output. Several months may be required to complete the adjustment now under way.

No radical Government action designed to bring about an immediate recovery is suggested. Any such action might in fact, prove ill-advised and costly when long-term results are considered. On the other hand, a series of moves designed (1) to maintain public confidence and morale during this corrective period, and (2) to prevent further deflation in commodity prices, could in the aggregate exert a powerful influence toward curtailing the business recession. Recent moves along these lines to cooperate with business in stimulating industrial buying have been definitely beneficial, and are accomplishing results in creating a more confident public sentiment.

While no original ideas are presented here, the following additional steps seem, after careful study, to be worthy of important consideration:

(1) Return by stages to the 1935 reserve requirements. This would mainly affect public sentiment at present but might have some effect in expanding credit. The maintaining of present requirements during a business recession appears indefensible.

(2) Release sterilized gold by stated amounts monthly. The reaction on public sentiment of successive future quantities of gold going into the credit base would be favorable for commodity prices.

(3) Revise tax laws cautiously. Some modification as desired by business would tend to increase public confidence. Prolonged debate and general tax revision, on the other hand, would have a destructive effect.

E. M. Daggit

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 29, 1937

TO Secretary Morgenthau

FROM Mr. Glasser

Subject: Government action to revive business activity

1. To be effective Government action must be comprehensive and powerful. The action should take the form of a program, and it should be made plain to the public that the mild measures used at first will be followed by more powerful measures if business activity does not react.
2. The program should be started by a dramatic statement by the President that we are in a serious depression, and that the Administration will use all its powers, and ask Congress for additional powers, if necessary, to bring us out of the depression.
3. Monetary measures to permit expansion of credit at low interest rates (in order of severity):
 - (a) Desterilization of gold - and redemption in cash of Treasury notes (not bills) falling due in 1938.
 - (b) Issuance of silver certificates against silver bullion.
 - (c) Open market operations.
 - (d) Reduction of reserve requirements.
 - (e) Purchase of additional silver.
4. Stimulation of private capital goods construction by
 - (a) Drastically lowering the rate of interest to 1 percent on borrowing for construction. This can be done - without increasing the Government debt - by a plan of Government guarantee of principal and interest plus redemption at any time at par plus accrued interest.
 - (b) Revision of the housing authority to permit lowering interest rates and longer period of amortization.

Secretary Morgenthau - 2

(c) Forcing railroads to carry out a program of modernization of equipment and grade-crossing elimination in exchange for increased freight rates.

(d) Using Rural Electrification Act to force public utilities to construct new lines.

(e) Revival of Public Works program in cooperation with local and State governments.

5. Government spending.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 29, 1937

TO Secretary Morgenthau

FROM Mr. Glasser

Subject: Suggestions for Government action to stimulate construction of capital goods

1. A plan designed to stimulate capital goods construction by radically reducing interest rates, but without increasing the Government debt, has the following features:

- (a) Government guarantee of principal and interest on borrowing for the purpose of new construction of all capital goods, whether buildings, machines, railroad equipment, public utility expansion, homes, apartment buildings, etc.
- (b) The borrowing to be at an extremely low rate of interest, say 1 percent, and the amount to be borrowed to be a specified percentage of the total cost of construction but not more than 50 percent.
- (c) The percentage on which the Government will guarantee the loans to be varied according to the index of business activity. When the index of business activity falls the percentage of Government guarantee will rise and when the business index is rising the percentage which the Government guarantees will be lower.
- (d) The Government will not be a direct party to the financing transaction. The loans will be sold to the general public at the 1 percent rate of interest. Banks will act as the agent to consummate the transaction according to regulations established by the Government.
- (e) The bonds to have the same privilege now attached to the United States savings bonds - redeemable at any time at par plus accrued interest. This privilege will permit the security to be sold at the extremely low rate of interest of 1 percent.

(f) The Federal reserve banks to repurchase at any time the securities representing the guaranteed loans but with the requirement that the Federal reserve bank offset any increase in its holdings of these bonds by open market sales of its present holdings of Government securities.

(g) Amortization of the loans to be at the same rate as the depreciation rate used in income tax calculations.

(h) The banks to serve as the agent for the liquidation of the loan with a small charge to the borrower for the service, perhaps 1/10 of 1 percent.

(i) Losses on these loans to be met out of the fund which was given to the Federal Reserve Board for loans to industry from the gold devaluation profits.

2. Stimulation of investment by railroads.

At the present time the railroads are asking for a 15 percent increase in rates. Although the economic system would be much healthier if the railroad rates were reduced by 25 percent, it is probable that some increase in rates is going to be granted by the Interstate Commerce Commission. It is my suggestion that if an increase in freight rates be granted, it be coupled with the following proposals:

(a) The railroads set aside a certain sum from the increased rates to prosecute a program of grade-crossing elimination; this construction work to begin immediately and continued at a specified but adjustable rate during the next ten years.

(b) Replacement of obsolete and depreciated equipment, a certain rate each year.

3. Revision of the rural electrification laws to eliminate the ability of private utility companies from forestalling construction of rural electrification lines without actually constructing them themselves; that is, to stop the private utilities from blocking a construction of power lines without actually completing the power lines themselves.

4. A drastic revision of the provisions of the housing program which will lower the interest rate to 3 percent per year and extend the period of amortization.

5. Revival of the P.W.A. for public works construction in cooperation with local and State governments.

SUGGESTIONS PREPARED FOR THE SECRETARY, NOVEMBER 29, 1937

The outstanding weak spot in the 1933-37 recovery movement was the absence of any marked revival in residential construction. If this long delayed revival could be brought about now it would do much to stem the current recession and bring about a renewal of the upward movement.

Interest is by far the most important element in the cost of housing to the occupier. A reduction in the effective interest rate from 7 to 5 percent would raise the amount of housing which could be carried (with respect to interest only) by a \$25 monthly payment from \$4,286 to \$6,000. Such a change would make the existing ability to pay rents constitute a far larger demand for housing than it does now.

Capital is currently available in superabundance but the facilities for directing it into housing are very imperfect. As a consequence interest rates in this field are much higher than elsewhere. In order to improve the home-mortgage market and thus stimulate residential construction, we submit the following recommendations (taken from our memorandum on "Federal Aid to Building and Loan Associations and Some Aspects of Federal Policy Concerning the Home-Mortgage Market"):

- (1) The Federal guarantee of debentures issued by the Mutual Mortgage Insurance Fund in the event of default of insured mortgages should be indefinitely extended.
- (2) The \$2 billions limit on the amount of mortgages which may be insured (unless an increase is approved by the President) should be repealed.
- (3) A statutory limit should be set to the expenses of the Federal Housing Administration which may be paid from premium income.
- (4) Premiums on insured mortgages should be based on declining balances rather than original principal.
- (5) Insured mortgages, debentures of the Mutual Mortgage Insurance Fund, and debentures of national mortgage associations should be completely exempt from taxation with respect to principal, but granted no tax exemption with respect to interest.
- (6) The maximum amount of debentures which a national mortgage association may have outstanding should be increased from 12 to 15 times its capital stock.
- (7) National mortgage associations should be allowed to originate mortgages on large-scale housing projects.

Submitted by:

Henry C. Murphy *HCM*
Wesley Lindow *WL*

November 29, 1937

Lunched with Governor Harrison. Harrison said that he wanted to get it straight from me what I had told Eccles because Eccles reported a couple of weeks ago that I was apt at any hour to come out with a plan to desterilize gold and he used this as a club over their heads to go into the bill market and buy additional bills.

I explained to Harrison that the only time that I had been considering this was on Friday, November 5th, and at that time I had invited them all in the next day and then called it off because I had decided not to desterilize gold. Since then the only thing I have been thinking about was the possibility of announcing the discontinuance of sterilization; that I had nothing in mind such as Eccles had reported of depositing several hundred million dollars more of gold.

He then asked me what I had in mind about financing this week and I told him, and he then asked if a couple of them could come over this afternoon as that would save them two days of argument because Eccles evidently is misrepresenting my position.

Harrison tells me that he is in favor of our discontinuing further sterilization of gold. He agrees with me that the time to do it is when things are quiet the way they are now. He says that Eccles is violently opposed to my doing it. He finally said to me, "Of course, you know that Eccles himself wants you to get rid of some of your gold". I said, "I know he does, through having me spend a billion dollars this winter". He said, "Yes, that is right".

Harrison is very friendly and I feel trusts me much more than he does Eccles. I told him that if I was going to do anything about announcing the discontinuance of the sterilization of gold that I would do it on December 22d, which is the one year anniversary.

November 29, 1937.
10:41 a.m.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello.

Secy.
Wallace: Hello.

H.M.Jr: How are you?

W: Just - fine.

H.M.Jr: Henry talking.

W: Oh, yes, Henry.

H.M.Jr: I sent word to you Saturday whether you by any chance would be free tonight.

W: Yes, what time?

H.M.Jr: Eight thirty. At the House?

W: Yes.

H.M.Jr: What I'd like to do - I don't know whether you want any preparation - I - I've pretty well cleared - I've got a suggestion I want to make on the use of cotton.

W: No -

H.M.Jr: You see, we've got a whole program worked out.

W: Yes. Has Myers been sitting in with you on that?

H.M.Jr: Yes, but -

W: Do you want Myers there?

H.M.Jr: Yes, and anybody else that you would like.

W: Oh!

H.M.Jr: They've had - what it boils down to they've had agencies prepare a program for six months beginning ^{in the advertising} with January 1st, to stimulate the consumption of cotton, and they've done a beautiful job.

W: Oh!

H.M.Jr: And I'm really quite enthusiastic about it, and they're coming down today to explain it and try to - I mean they sent it up to the house and I've had a chance to look at it, you see.

W: Yes.

H.M.Jr: And I really think it's got real merits.

W: All right. Well, now, do you have any feeling particularly, one way or the other, whether I ought to have Myers there or not.

H.M.Jr: Oh, I'd be delighted if he'd be there.

W: Oh!

H.M.Jr: Oh, delighted. I mean - I - the only reason - I want you to feel you can bring anybody you felt like.

W: Yes.

H.M.Jr: I didn't know whether you wanted to bring anybody from the three A's or not.

W: Well, maybe - how - Tommy's out of town, maybe I'd better - I expect maybe I'd better - Taft is probably the man to bring. I mean he'd be next in command on this kind of thing.

H.M.Jr: Yes.

W: That is, he's the one who was interested in stimulating use of the agricultural -

H.M.Jr: I guarantee it won't last until after ten o'clock.

W: Now it might be - might be - I don't know whether I should bring anybody, any technical man or not.

H.M.Jr: Well, this thing - it's hardly a question whether you as an ex-newspaperman -

W: Yes. Well, I'll bring -

H.M.Jr: Well, if you have anybody who you value particularly on consumer consumption of publicity it - that's what it is.

- 3 -

W: Oh, I see.

H.M.Jr: I mean - it hit me awfully well.

W: Yes.

H.M.Jr: And anybody over there, whom you think - this will or won't hit the consumer. I think that's the idea.

W: Yes. All right.

H.M.Jr: You know where I live?

W: Let's see, where is it now?

H.M.Jr: It's twenty two eleven, thirtieth.

W: Twenty two eleven, thirtieth.

H.M.Jr: It's just off Massachusetts. Sometimes the people get lost.

W: Yes.

H.M.Jr: Twenty two eleven, thirtieth.

W: Yes. All right, I'll be over there at eight thirty.

H.M.Jr: Thank you.

W: Fine.

November 29, 1937.
11:34 a.m.

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H.M.Jr: Hello.

Operator: Chairman Eccles. Go ahead.

H.M.Jr: Hello.

M.
Eccles: Hello, hello. Hello, Henry?

H.M.Jr: Yes.

E: George Harrison said that he had had lunch with you.

H.M.Jr: That's right.

E: And you told him virtually what you told Ronald and I a week ago.

H.M.Jr: That's right.

E: Do you object if I should tell the Committee that's in session today in preparation for coming over there Wednesday.

H.M.Jr: No, I'd be delighted.

E: Well, now then I - in that case then -

H.M.Jr: Yes.

E: George suggested that - that you'd be willing to meet some of us this afternoon.

H.M.Jr: Only if it was Jesse.

E: But it occurred to me that it wouldn't be necessary to take up your time in that connection unless there was something new and from what he told me, that's the same thing that we discussed last week.

H.M.Jr: Word for word.

E: So that I think I understand the thing pretty well, and if you don't object.

H.M.Jr: No.

E: Well, - either today or tomorrow we can discuss the various aspects of it particularly the financing end.

H.M.Jr: I know.

E: So we'll be better prepared to discuss it with you on Wednesday morning.

H.M.Jr: Fine.

E: All right, then.

H.M.Jr: Go to it, and

November 29, 1937

To: The Secretary

From: Mr. McGill

1. Nicaraguan refund

The Commissioner and General Counsel have agreed upon a refund to Ferrocarril del Pacifico de Nicaragua, Portland, Maine, a railway owned by the Government of Nicaragua. There are certain credits from the Government of Nicaragua in favor of the United States which reduced the net refund to \$72,000. Mr. Parker's staff has objected to the allowance of the refund on the ground that there is no legal justification for making it. Mr. Oliphant and Mr. Wenchel both believe that the refund is legally authorized and should be made and the State Department is very anxious that it should be made as a matter of policy. I have, therefore, suggested to Mr. Parker that he request the chairman to call a meeting of the Joint Committee on Internal Revenue Taxation at which the facts can be fully presented by Mr. Wenchel and a representative of the State Department.

3. Revenue revision

Mr. Doughton asked me to meet Mr. Vinson and himself at four this afternoon to discuss the desirability of preparing a report on the subject of the taxes on capital gains and undistributed profits, in advance of the general report of the subcommittee on other topics. I suggested that I thought this was unnecessary and undesirable at this time since Senator Barkley's statements had removed a good deal of the pressure for immediate action. It was finally agreed that the draftsmen should be requested to complete their work on the two topics for presentation to the committee as soon as possible in order that the committee might answer the various questions which will no doubt arise while the drafts are being prepared. At the conclusion of its consideration the subcommittee may make a further statement of the character of the revision which is proposed but it will not make any report to the full committee until the entire subject of tax revision has been discussed. I hope that this method of procedure will tend to prevent further demands for a rush job on a partial report or on a bill embracing merely the two subjects.

Mr. Vinson wants the committee to continue to meet every morning to consider the other topics involved in a general revenue revision. I pointed out that if this procedure were followed it would be some time before a draftsman could prepare even preliminary drafts of the desired legislation on the two topics. Mr. Vinson wished to proceed in this way, however, notwithstanding the possible delay which will be involved. I do not think that drafts on the two topics can be completed in such form that the subcommittee can take any action upon them before the early part of January.

Dictated but not read.

November 29, 1937.
3:15 p.m.

H.M.Jr: Hello.

Operator: Mr. Rummell. Go ahead.

H.M.Jr: Hello.

Mr. Rummell: Hello.

H.M.Jr: Mr. Rummell?

R: Yes, sir.

H.M.Jr: Henry Morgenthau, Jr.

R: Yes.

H.M.Jr: Are you up in New York?

R: I am in New York, sir.

H.M.Jr: I wonder if you could do something for me.

R: I'd be delighted.

H.M.Jr: I don't know just how to get these retail figures for the country quickly, I mean I read the dispatches from the Federal Reserve districts, Sunday Times.

R: Yes.

H.M.Jr: And they seemed so - ten out of the twelve districts that the business was pretty good. I wonder if you could get those for me?

R: Yes, I can do that. How frequently do you want them?

H.M.Jr: Well, what I'd like to get - how frequently are they -

R: I can't hear you very well.

H.M.Jr: How frequently are they released?

R: Well, the - those weekly figures are not particularly reliable. The only things are the Federal Reserve figures.

- 2 -

H.M.Jr: Well, those - those I can get, of course, through Goldenweiser.

R: Those you can get. But I don't believe those come on a weekly basis. You can get them every two weeks, and they're about four days late.

H.M.Jr: Well, those we get.

R: Yes.

H.M.Jr: There's nothing - I didn't know whether the - the retail stores had an association whereby they gave each other figures.

R: No, there's nothing you can get that's better than that.

H.M.Jr: Uh-huh.

R: The difficulty I can warn you about is the comparisons of last year.

H.M.Jr: Yes.

R: And unless you use an adjusted figure that will take away the accidents of last year's business, you'll get very misleading results from time to time. For example that headline you refer to in the New York Times saying that business was ten per cent behind a year ago.

H.M.Jr: Yes.

R: Well, we expected it to be ten per cent behind a year ago, if it was as good as it was the week before.

H.M.Jr: Uh-huh.

R: Due to the fact that it was an extraordinarily good week a year ago.

H.M.Jr: Uh-huh.

R: Now, I think that some service could be performed if the Federal Reserve Board would give a little more emphasis to its index, and less emphasis to its comparisons of last year.

- 3 -

H.M.Jr: Well, could you do this for me, without - could you, for instance, write me today - what you think the situation is as you know, either in New York or other districts, as to both retail and stocks.

R: Surely.

H.M.Jr: And - just how you look at it, both for New York, say your own business, if - that - whatever you give me I don't show to anybody -

R: Yes.

H.M.Jr: I - it's strict confidence.

R: And you would like to have me do that today?

H.M.Jr: Well, if - I - I don't know how late you work.

R: Well, the only point is that if you don't want it until Wednesday I could get somewhat better information than I can today.

H.M.Jr: Wednesday's all right.

R: That'll be all right.

H.M.Jr: Well, I'd like to have it, if you would, if you'd let me have what Macey's have themselves, that would be New York, and Newark and Atlanta, wouldn't it?

R: Yes.

H.M.Jr: And then, I mean, right up to the minute, how it looks to you, and then any other information which you could get for me.

R: Very good. Well, I shall be delighted to do that.

H.M.Jr: And if, - would it be asking too much if I could have that, say, once a week for the rest of the year.

R: No, not at all. I'll be delighted to do it.

H.M.Jr: Now, in order that I'll get it - it doesn't go all through the mail room, if you would address it to Mrs. H. Klotz - K-L-C-T-Z.

- 4 -

R: H. Klotz?

H.M.Jr: Yes.

R: K-L-O-T-Z.

H.M.Jr: Office of the Secretary of the Treasury.

R: Yes.

H.M.Jr: And then I'll get it.

R: Very good.

H.M.Jr: And on account of this time, if you also didn't mind, putting a special delivery on it.

R: I'll be delighted.

H.M.Jr: And if you do that for me, once a week, you see.

R: Yes.

H.M.Jr: And, just let me ask you this, while you are on the phone, the impression I got was that the Thanksgiving trade was better than what the retail people expected.

R: No - that was true the week before, Mr. Secretary. Last week business was not quite as good as -

H.M.Jr: Not quite as good.

R: Not quite as good.

H.M.Jr: Well I had George Harrison -

R: There was nothing very shocking about it.

H.M.Jr: Well I had George Harrison for lunch, that's how I happened to think of you.

R: Yes.

H.M.Jr: Because he said - he gave me the impression that you told him that business was much better, for the first time in three or four weeks.

R: That was the week before that.

- 5 -

H.M.Jr: I see - that, - I see.

R: See.

H.M.Jr: But the week of Thanksgiving, it was not as good.

R: Not quite.

H.M.Jr: Uh-huh.

R: Not quite.

H.M.Jr: Well, if you'd let me have that once a week, it would be very helpful.

R: All right, sir, I shall be delighted.

H.M.Jr: And the next time you come to Washington, give me twenty four hours notice, I'd like to see you.

R: Well, I'm going to be down for a resources committee meeting on Saturday.

H.M.Jr: For what meeting?

R: The meeting of the National Resources Committee.

H.M.Jr: Oh! Well, Saturday morning -

R: - come over there some time.

H.M.Jr: Well Saturday morning, I've got to make^{up} our mind on - on financing, you see.

R: Well.

H.M.Jr: And - we kinda go into a huddle here Saturday, it's kinda -

R: Yes.

H.M.Jr: So I think I'll have to make it the time after that.

R: Very good.

H.M.Jr: That's if you don't mind.

R: I'll be delighted.

H.M.Jr: Thank you.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Geneva, Switzerland

DATE: November 29, 1937, 3 p.m.

NO.: 368

FOR SECRETARY MORGENTHAU FROM RIEFLER.

STRICTLY CONFIDENTIAL.

On the fourth of December I expect to leave Geneva for Paris and London. On the fifteenth of December I will sail for the United States on the Steamship AQUITANIA. I saw Clay and had an opportunity for a full personal discussion of the gold problem. Clay himself is in accord with our general view of this question.

BUCKNELL.

EA:LWW

RECEIVED
NOV 30 1937
THROUGH MAIL
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.

LMS

GRAY

London

Dated November 29, 1937

Rec'd 3:35 p. m.

Secretary of State,
Washington.

742, November 29, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

(1) Bewley states that through inadvertency prior notification was omitted regarding following question asked of the Chancellor of the Exchequer in the House of Commons this afternoon:

"Are consultations taking place with either the United States or France with regard to monetary policy and if so what is their object; if not, are discussions to be initiated with a view to remedying the defects in the technique of price stabilization disclosed by recent events in the city?" The reply is: "His Majesty's Government are in frequent contact with the United States and French Governments with regard to monetary policy with the objects in view which are set forth in the tripartite declarations of September 1936. The Chancellor of the Exchequer does not propose to initiate any special discussions at the present time".

(2)

LMS 2-No. 742, November 29, 7 p. m., from London.

(2) Dr. Neumayr, Austrian Minister of Finance and Dr. Kleinbock, President of the Austrian National Bank, arrived in London yesterday to conduct discussions in the city regarding the possibility of converting the 1930 loan. It will be recalled that the British tranche of the 1923 loan was similarly converted two years ago. In this connection Bewley stated that it was not an easy operation at any time and that naturally it was quite difficult now; that arrangements had to be made with the city but that the Treasury's attitude was sympathetic. From city sources I understood that prior to their arrival it had been made clear that any such conversion was impossible now but that every effort would be made to undertake it as soon as possible. Neumayr and Kleinbock nevertheless decided to come to London both for its effect on Austrian opinion and to "show the flag" in London.

(3) There has been surprisingly little discussion in the city of the Shanghai customs situation due to the coincidence of the Halifax and Chautemps visits. Although those with substantial Far Eastern interests are worried they seem to be equally confused; they are fast becoming intensely anti-Japanese but are apparently
advocating

LMS 3-No. 742, November 29, 7 p. m., from London.

advocating no specific remedial action.

(4) The Bank of France again bought dollars and sterling in substantial quantities.

JOHNSON

WVC

RECEIVED
NOV 29 1942
COMMUNICATIONS SECTION
U. S. DEPARTMENT OF THE TREASURY

LMS

GRAY

Paris

Dated November 29, 1937

Rec'd 4:47 p. m.

Secretary of State,
Washington.

1673, November 29, 5 p. m.

FOR TREASURY.

The exchange and security markets here today were extremely dull and uneventful and only a moderate amount of business was transacted. The sterling and dollar rates have remained in the neighborhood of 147.10 and 29.45. We are told by our market contact that the fund has been able to secure a fair amount of both currencies around these levels.

Rentes and other securities were practically unchanged.

Taking stock of the progress made so far by the Chautemps Government, it is the view of careful observers that, although there has been some repatriation of capital and a certain irregular improvement in the economic situation, fundamentally the financial and economic situation remains uncertain. Only a small proportion of the funds repatriated have so far returned to circulation, and

medium

LMS 2-No. 1673, November 29, 5 p. m., from Paris.

medium and long term borrowing remains costly. The improvement recorded in the economic situation is not very comprehensive. It relates chiefly to a moderate increase in industrial production, a halt in the upward trend of wholesale prices, more satisfactory revenue returns, and increased railway receipts.

It is noted nevertheless that higher revenue reported recently is due in a large measure to the increase of certain taxes voted in July, and to improved receipts from customs duties due to increased imports. Furthermore carloadings have lately begun to show a definite downward trend. Weekly increases in the number of unemployed are also recorded, and AGENCE ECONOMIQUE (issue of November 26) points out that advance indications of depression have appeared in certain key industries and in the turnover of a number of retail enterprises.

The view appears to be general in business and investment circles that a definite and stable improvement can only be looked for if an atmosphere of complete confidence can be established, and if certain of the recent social laws, principally the forty-hour law, can be modified. In addition, the Government must also

resist

LMS 3-No. 1673, November 29, 5 p. m., from Paris.

resist the pressure of certain elements of the Left for exchange control, as well as efforts by the latter to persuade the administration to embark once more on an unrestricted spending program.

Rumors are current that the Treasury is contemplating the issue of a short term loan in the near future. We hope to have definite information in this respect ~~presently~~.

Subscriptions have just been opened for a loan of 300,000,000 francs for Morocco. The issue price is $90\frac{1}{2}$ and the interest rate six percent. The life of the loan is fifty years. The bonds are exempt ^(from?) for French or Moroccan taxes.

Revenue for taxation during the month of October is about 317,000,000 francs more than estimates, and about 774,000,000 more than for the corresponding period of last year.

BULLITT

NPL:SMS

November 30, 1937

After the meeting with Senator Ellender (Dr. Magill, Mr. Oliphant, Commissioner Helvering and Mr. Russell were present). Dr. Magill stayed behind and said that under the circumstances there was nothing we could do but accept the \$134,000 which Mayor ~~Mastery~~ offered us.

Mastr;

November 30, 1937

9:40 am

After Senator Ellender's call on the Secretary this morning, in regard to the Maestri tax case, the Secretary met with Mr. Magill, Mr. Oliphant, Mr. Helvering and Mr. Russell.

Mr. Magill: (Miss Chauncey came in while Magill was speaking, so first part of his remarks were not recorded.)

If there was a dispute, if we say he owes \$200,000 and he says he owes \$100,000, then we had better try the case. Mr. Oliphant was there too. I remember saying it again, 'Let's get precisely what's owed to us and not get anything more than is owed to us. If there are duplications, throw them out. But if, on the other hand, we come to a place where he says he owes \$75,000 and we say \$100,000 there was to be no horse trading; then we go before the Board and try the thing out in public.'

I don't remember, for my part, anything being said about a \$134,000 offer, but I do remember distinctly giving the type of instructions which I have just outlined here. Coming to the Maestri case, I am stilling arguing the same thing: going over the evidence as carefully as we know how and seeing what it shows, what his income deductions were, how much this man owed.

HM, Jr: Give me the last thing that either you or these people have said to Mr. Maestri's lawyer. Who saw him last and what did you say?

Mr. Russell: We told Mr. Wentworth, Maestri's lawyer, that we thought we could settle on the basis of \$134,000.

HM, Jr: When did you tell him? Approximately.

Mr. Russell: About two months ago, about three days before that conference between Oliphant and Magill.

HM, Jr: About three days? Have you any memorandum of what you told him?

-2-

Mr. Russell: No.

HM, Jr: How did you word it?

Mr. Russell: He made a proposal that he would settle. There was a remaining issue of \$150,000. In support of as to where he got that he submitted four affidavits, one from his mother and two from two sisters and one from another man, that they were present when he was given the \$150,000. There had previously been another issue of \$80,000, leaving the only remaining issue of \$150,000, and he says, 'If you will give me half of it I will settle and pay you fraud penalty.' We said, All right. We will try to get that through. Just a question of weighing evidence.

HM, Jr: Then when did you talk to Mr. Helvering and Mr. Wenchel?

Mr. Russell: I think the following day.

HM, Jr: Were they together?

Mr. Russell: Yes, sir.

HM, Jr: Then what happened, Guy, as you remember?

Mr. Helvering: On this issue of \$150,000, that was the only issue really that was open. The thing that taxed my credulity on that is that was a transfer of that much money in cash from father to son and I told him I would not be willing to say that a man was just handing over \$150,000. He showed me affidavits supporting -- showed affidavits of the two sisters and Maestri's mother and Maestri himself and this other man that that had actually transpired. I said that even on that I did not think we ought to give up the whole issue. They said they had conceded half of that, pay half of it, and that computed on that basis made \$134,000.

Mr. Russell: That was after the allowance of the \$80,000. The question was, Where he got the money? The \$80,000 claim, he sold some stock in 1933 and produced the affidavit of the man who bought it, giving the specific date he bought it from him, and an attorney up here, Norman, said you could depend upon the man's

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affidavit -- absolutely reliable -- that he bought the stock from Maestric and got the stock from him.

HM, Jr: When you and Russell and Wenchel met and discussed this, what did you do, Guy?

Mr. Helvering: As I said, that was the day I was leaving and I told Russell and Wenchel that that was O.K. with me; that is, to settle for \$134,000.

HM, Jr: Was that word passed on to Maestri's attorney that you were agreeable to settle?

Mr. Russell: We passed it on. We told him that we would settle for \$134,000.

Mr. Oliphant: When did you see him? After you saw Helvering?

Mr. Russell: He came down the following day; wanted to know if we would accept the offer.

HM, Jr: Did Wenchel see him?

Mr. Russell: I don't think so. Wenchel was in on the conference.

HM, Jr: But the day after Helvering left, you saw Maestri's attorney?

Mr. Russell: Yes. No, I did not see him. He called long distance, Mr. Carter, from New York and Mr. Carter told him that we would take it.

HM, Jr: Well, after telling them that they would take it, you put it up to Oliphant and Magill.

Mr. Russell: Mr. Magill and Mr. Oliphant called us up here on the case.

HM, Jr: I just want to clean up that. And then I don't know what happened over at this end. After having told these fellows that, this meeting took place with Mr. Helvering and that they had accepted, then how did it get from Internal Revenue to the Secretary's Office?

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Mr. Russell: I imagine Mr. Wenchel.

HM, Jr: Who can take it up from there?

Mr. Oliphant: Do you remember the occasion of calling the conference?

Mr. Magill: I can check that. My recollection....

Mr. Helvering: An order came over from your office that we would not settle these so-called New Orleans or Louisiana cases until it was submitted over here.

HM, Jr: Yes, but the point I am making, Guy, is this: this takes place, this attorney is told that we will accept this offer, then it comes over here, and all I heard about it was, I think, that Mr. Magill wrote me a memorandum on Saturday in which he said that the Maestri case was up; that we had sent word to them that we would not settle, but I don't believe that when Magill wrote me that that he could have known that the attorney for Maestri had been told the Bureau of Internal Revenue had a meeting and would accept \$134,000.

Mr. Magill: To the best of my recollection, this is the first I knew of that.

HM, Jr: Did you know about that?

Mr. Oliphant: No. At most, I knew from Wenchel (and I would like to verify that) that there was a discussion held, but this is the first time I knew that the taxpayer had been advised.

Mr. Magill: More than that, this is the first time I knew that there was any definite proposition in the Maestri case of any \$134,000 and what I don't get is that this conference in my office, in which the thing was canvassed pretty fully, I am very sure that nothing was said to the effect that this proposition had been made and the attorney was advised that we would accept it. The discussion was all along the line of what we ought to do in this type of cases.

HM, Jr: When can you people have a chance to check this thing and when can we meet again? How much time do

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you want to refresh your memories?

Mr. Magill: This afternoon.

Mr. Oliphant: Any time this afternoon.

HM, Jr: Let's say at 9:15 tomorrow morning. This puts the Secretary's Office in an impossible position.

Mr. Helvering: Don't get the idea that that thing was told to them; that that was what we would accept.

HM, Jr: That's what he (Russell) said.

Mr. Russell: I would have to ask Carter what he told them. I told Carter that the Commissioner and Wenchel had agreed to recommend settlement of that kind.

HM, Jr: He said three times that he told this attorney after you left town. First you saw the attorney and said we will recommend this to Mr. Helvering. Then you meet with Helvering and after you meet you tell the attorney, 'We have had this meeting and we have agreed'.

Mr. Russell: I told Mr. Carter, of the Special Adjustment Section, 'When the attorney calls, you tell him that Mr. Wenchel and Mr. Helvering will recommend adjustment'.

HM, Jr: Notwithstanding that there was a memorandum in the files that we would not settle these cases.

Mr. Russell: The only instructions I had was we would not settle without notifying the General Counsel's Office

Mr. Oliphant: Let's take it on that basis. Did you communicate with me before you told the lawyer?

Mr. Russell: Wenchel sat in on all the conferences.

HM, Jr: Does Wenchel represent you (Mr. Oliphant)? He does, doesn't he? And Wenchel sat in?

Mr. Russell: Wenchel sat in on the conferences.

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Mr. Helvering: Two conferences. One was when the lawyer was contending that \$150,000 should not be kept in at all.

HM, Jr.: The part I don't like, aside from everything else, is just that -- you say that this man makes an affidavit and that a representative of the Justice Department

Mr. Magill: I think he is in Oliphant's office -- Mr. Norman.

HM, Jr.:..... that this fellow Norman says he's an honorable fellow and he says if the \$150,000 passed, it did.

Mr. Russell: That was on the \$80,000 stock transaction.

HM, Jr.: Have you wiped it out?

Mr. Russell: We have not. We propose to. It was on the \$150,000 we said we would go 50 - 50.

Mr. Magill: The \$80,000 is out.

Mr. Russell: Yes; that's out.

HM, Jr.: But the \$80,000 is in the 90-day letter, although you say the fellow's affidavit is all right.

Mr. Russell: If you don't accept the affidavit on the \$80,000 you can't accept it on the \$150,000. It's a matter of weighing evidence.

HM, Jr.: You take his word on the \$80,000. All right, we will kiss it good-bye. But you don't on the \$150,000?

Mr. Helvering: One was the sale of stock in which the man who bought it makes an affidavit. The \$150,000 was a cash transaction between father and son.

HM, Jr.: Oh, I see!

Why do you put the \$80,000 back in the 90-day letter, Russell?

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Mr. Russell: Thought we would put it before the Board of Tax Appeals and put the burden of proof on them.

HM, Jr: You are willing to take the \$184,000 with the \$80,000 out and then you put the \$80,000 back with the 90-day letter?

Mr. Helvering: Of course, he was willing to fight the whole thing if it went to the Board of Tax Appeals.

Mr. Magill: I don't like that Guy. Aside from this case, I have been fighting on that kind of business all along. You come before the Board -- what knocked me off the Christmas tree in going over this case the last few days was the business of making a deficiency which you know you can't support.

HM, Jr: If I was the attorney for this fellow I would say everybody, from the Commissioner down, said they would take \$134,000 and put the \$80,000 out; then they come along with a 90-day letter and put the \$80,000 back. Either they believe we did not owe the \$80,000 when they said they would take the \$134,000 or they fake, something or other. I don't think the United States Government can afford to do that.

Just one more question. You are all lawyers here. Wenchel agreed to this?

Mr. Russell: Yes, sir.

HM, Jr: Then we will come back at 9:15 tomorrow.

Mr. Helvering: You see, Mr. Secretary, this whole income was based not on direct evidence of income received, but his net worth as we computed it at the present time.

Mr. Magill: I think, in general I would like to say this: on these deficiency letters, that anything you can do to make that deficiency letter represent your real conclusion as to how much this fellow owes is all to the good because I think nothing has brought us into

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more disrepute than sending out deficiency letters which we have to admit ourselves are incorrect. That's particularly bad in cases like this where you are charging a man with fraud. I think it's grossly unfair; grossly immoral, as far as that is concerned, and I personally can't condemn it too strongly.

Mr. Helvering: You don't any more than I have.

HM, Jr: Who makes up these deficiency letters?

Mr. Russell: Income Tax Unit.

HM, Jr: It's your responsibility, your unit?

Mr. Russell: Yes, sir. And the \$80,000 is in exactly the same category as the \$150,000.

HM, Jr: If this thing has done nothing else -- the first time I get a breathing spell I want to go over this deficiency letter with you same four people because I think it smells to Heaven. If he did nothing else, he has done that for us. Check?

Mr. Helvering: All right with me.

oOo-oOo

November 30, 1937.
10:53 a.m.

H.M.Jr: Hello.

Operator: Colonel Harrington.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Colonel
Harrington: Yes.

H.M.Jr: Colonel Harrington.

H: Yes, sir.

H.M.Jr: Henry Morgenthau, Jr.

H: Yes, sir.

H.M.Jr: I talked to the President on Saturday and I asked him who I could do business with while Hopkins was away, and he said I should contact you.

H: Yes, sir.

H.M.Jr: Now I take it that means that your acting in Hopkins absence.

H: Well, no, Mr. Aubrey Williams is the acting administrator. I'm one of the assistant administrators.

H.M.Jr: I don't know why the President said I should contact you, but he did. Hello. Well, is it going to be embarrassing to you if I ask you to come over and give me the latest on employment figures.

H: Why, no indeed, I'd be very glad to, Mr. Secretary. Mr. Corrigan Gill is the assistant administrator who has that particular thing in his charge.

H.M.Jr: I know, well I'd better do what the President suggested, see.

H: Yes.

H.M.Jr: Although I wasn't in the Army, I once was in the Navy, and I know how to take orders.

H.M.Jr: So let's - could you come over at two forty-five.

H: Two forty-five?

H.M.Jr: This afternoon.

H: Yes, sir.

H.M.Jr: And what I'd like from you is just to give me the trend - the - how many people you're putting back, and if you could tell me what you have in mind for the rest of this year, that is really just for the month of December.

H: Yes.

H.M.Jr: And - if you can go any further on that, I'd - I'd like to have it, as far as you know, you see.

H: Yes, Mr. Secretary.

H.M.Jr: In other words what I'd like to have, if you've got just the figures, say go back, say - the first of September, the number of people that are unemployed, by weeks - have you got it that way?

H: Yes, we get it every week.

H.M.Jr: Well, I'd like to have it by weeks, the latest figures, and if you can forecast it as far as you can for me.

H: Be very glad to.

H.M.Jr: You see we're working this week on our financing, and we come out Monday with our financing, and I've got to know what the thing looks like.

H: Well, I'll be there at two forty-five.

H.M.Jr: Thank you.

H: All right, sir.

H.M.Jr: Thank you.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 30, 1937

TO Secretary Morgenthau

FROM M. A. Harris

Mr. Burgess telephoned that Mr. Tompkins of the Bankers Trust Company would be in to see you at 11:15 am on Thursday. Mr. Tompkins is a vice-president and in charge of the bond department.

~~SECRET~~

November 30, 1937.
2:06 p.m.

H.M.Jr: When you and Russell come over at nine-fifteen tomorrow -

Guy Helvering: Yes.

H.M.Jr: Ask Russell to make out a time table just when he saw these people, when he met, when he saw the lawyer, when he met at your office, when he told them afterwards, you see.

H: Yes.

H.M.Jr: Today.

H: Yes.

H.M.Jr: And you check it with him, will you?

H: Well I know the day we had the conference here first, and the day I approved that, but I don't know -

H.M.Jr: No but the whole time table, when he came over here to see Magill and Oliphant.

H: Yes.

H.M.Jr: Who he saw over there, all the contacts that they had with this man's lawyer, what day they were.

H: Yes. All right.

H.M.Jr: In other words just a time table.

H: Yes. All right.

H.M.Jr: Do you know what I want?

H: Yes, indeed.

H.M.Jr: And look at it before he brings it over to see that it's all inclusive.

H: Yes. All right.

H.M.Jr: If you please.

H: You bet.

H.M.Jr: Goodbye.

MEETING WITH MR. HAAS'S GROUP
RE BUSINESS RECESSION

November 30, 1937
11:00 a.m.

Present: Mr. White Dr. Viner
 Mr. Seltzer
 Mr. Daggit
 Mr. Glasser
 Mr. Murphy
 Mr. Lindow
 Miss Lonigan
 Miss Northrop
 Mr. Adler
 Mr. Ostrander
 Mr. Nichols
 Mr. Tickton

H.M.Jr: Where were we yesterday? We got through

White: Lindow. And Miss Lonigan - if she would care to read hers now; she didn't have much opportunity for preparation.

H.M.Jr: Would you like to do it now?

Lonigan: Yes.

H.M.Jr: Go ahead.

Lonigan: I listed three barriers to what I thought might be a revival of housing. First, the small quantity of investment funds; second, the obstructions to low-cost housing that come from the structure of industry and trade; and third, the small margin of purchasing power left to workers in metropolitan communities because the cost of food rose before employment rose over the last three or four years.

And then, to take the conclusions first. For the investment funds, I think the first need is an investment instrument that will draw in the small investors. The large investors have decided they won't come in - the banks and insurance companies. The small investor wants a bond like what the S. W. Straus people gave him in '20 to '29. He wants something safe, small and negotiable. We must bring in small investors. I think the large investors won't come in. And we must bring in quantity, regardless of low interest cost. I think volume comes first.

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I think there are an enormous number of barriers set up against low-cost materials and units, because the wholesale trade people refuse to carry the new low-cost operation units that are going on the market. I could get lists of them. The only remedy I see for that is either a very elaborate program of governmental control or organization of large scale housing construction companies with capital of a million dollars or more who will be strong enough to fight their battles with the trade associations, etc. The manufacturers say they're licked; they can't do it. The small construction - the small contractor can't do it. Large scale construction companies could do it.

So far as the purchasing power of the workers in metropolitan communities is concerned, I think it means rental housing and not purchased housing. I think it is too late now to get home ownership in the places where housing is needed, because those people had to put out their excess money for high-cost food before they got large scale employment.

I think the barriers that lie in the structure of trade are much more serious than the high cost of wages. I think that if you break through on any large scale construction at all the craft unions are out of it. I think the craft unions are out. I think you'd have to set up a whole new labor scheme. It's a question how much energy ought to be put into that particular field.

A few other incidental things. There is an enormous amount of something that - if I may call it devilment, which is practiced in the large cities by the holders of mortgages at the present time against any home owners, in trying to extract from them every last dollar of money they have for payment on mortgages, fees for transfers, and the rest of it; which is one of the extreme deflationary forces in the cities.

Then I also add payroll taxes, which I include as one of the important deflationary forces reducing this purchasing power out of which the purchase of homes might have come.

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H.M.Jr: Miss Lonigan, out of that I get barriers, but I don't get any suggestions of what we could do to break them down.

Lonigan: I'm afraid the mortgage instrument will have to provide absolute security for the small investor. That probably means - the mortgage companies of FHA must be good enough so the small investor will come into them - probably means Government guarantee. It may mean Government guarantee. I don't know what they'll insist on, but if they're going to come in in volume they've got to have security.

The large scale construction company could be set up by Government stimulation - million dollar companies. There is a plan already proposed for the construction company as distinct from mortgage company. They want 48 large scale million dollar construction companies, with the R.F.C. providing some of the money, if necessary, to get them started, which will take on the problem of providing a market for the low-cost houses.

And on the cost of living in the cities, it means rental housing and not ownership. The 90 percent mortgages aren't good enough if there isn't any margin. It's the rental housing - the large scale unit for the development of more things like Resettlement did.

H.M.Jr: Who wants to ask Miss Lonigan questions?

Northrop: Well, do you think the construction company should be newly organized or would it be private construction companies cooperating ...

Lonigan: Well, if you set it up under the Department of Commerce or R.F.C. and incorporate 48 construction companies with a minimum capital of a million dollars, then they would be new companies. They might be combinations of old small builders; ten or fifteen small contractors might unite if they wanted to. You'd run the danger that you'd get the big manufacturers to set up dummy construction companies, and you'd have to meet that danger.

White: Miss Lonigan, I want to make sure I understand you in one point. Most of the emphasis has been placed

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on reducing the cost of building in order to stimulate the demand for building; but I take it you feel there is an adequate demand for borrowing at rates which are available; that is, at six percent - between six and six and a half; and that what is necessary is capital that is willing to make those loans at six and six and a half.

- Lonigan: Yes. In the big eastern cities the banks and insurance companies are not lending institutions. There is no capital.
- White: How would you account for the decline in building recently? Would you ascribe it to the fact that banks are not as willing to lend - or I mean capital holders are not as willing to lend now as they were last fall or last spring.
- Lonigan: Now, I think both material costs and labor costs were a very serious item last spring, and fear of increasing labor costs must be set down as a factor.
- White: They are all factors in the demand.
- Lonigan: Yes, the demand from both the family and the construction company. But I think the underlying things have been there a long time and are more serious.
- Daggit: These securities do have to be more attractive than the savings bonds.
- Lonigan: Well, there would be a larger ultimate risk, yes.
- Murphy: A larger element of risk, you say.
- Lonigan: Yes. Have to be somebody who was watching the handling of the mortgages, some operating agency to see that the mortgages were carefully selected and watched.
- Murphy: Would the underlying mortgages be insured?
- Lonigan: Well, insurance is one form of protecting it, yes. That would reduce somewhat the need for other protection. In other words, I am satisfied that that

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would have to be matched to what the investor wanted, whether it's much or little. It seems to me it is like what the farmers had to do from 1910 to 1930: get a channel - large volumes of investment funds through an instrument to an operating field; to provide operating capital. There is no instrument.

- White: The guaranteed portion of the suggested bill would be adequate to meet your request for forthcoming capital on the grounds that it eliminates the risk?
- Lonigan: I wouldn't be willing to say what is adequate for ~~the~~ investor, because I don't know. I'm just putting emphasis on volume, and enough inducements to the investor to get the volume for large-scale construction. That's a technical field; I don't know what the investor will take in 1937.
- Murphy: Are these large-scale construction companies that you speak of - I think we all share your wish that we could have them; but the process of implementation is not simple. There is nothing to prevent one from starting and being in business tomorrow; yet, somehow, they haven't. Merely providing for their incorporation doesn't help. Now, you propose that they be given Federal assistance. That means that some certain entrepreneurs are given Federal capital and
- Lonigan: It represents everything I dislike.
- Murphy: It would seem to me to be one thing almost impossible of doing. In the second place, if we did it, it would be a major departure from the principles - shall I say - we have long held dear.
- Lonigan: Absolutely violates all my ideas of corporations. But I think it is timing that is important now. I think they can be controlled in time.
- H.M.Jr: All right. Who comes next?
- White: Mr. Murphy, unless - did you want to add something?
- Murphy: Could I make just - I promise just a very few remarks.

H.M.Jr: You don't have to promise.

Murphy: Mr. Lindow and I presented a joint paper yesterday in which we concentrated our attention exclusively on the interest factor in the cost of housing, and Dr. Viner raised the question of how important the interest factor was in the whole cost; and in response to his request and your own, Mr. Lindow and I have spent most of the intervening interval in preparing an estimate

H.M.Jr: You mean you didn't go to bed? What did you say?

Murphy: We went to bed. Except for the eating and sleeping, we spent our time on that.

H.M.Jr: Well, I just want to be accurate, you know.

Murphy: And I can summarize our results in a very few words. If the meeting is interested, we can go into it in a way which would take considerably longer.

If we assume that the interest rate which is charged against housing is reduced from 7% to each of the assumed hypothetical rates - 6, 5½, 5, 4, and 3 percent respectively - we obtain the following percentage reductions in the total cost of occupied housing.

We have taken it on two bases. The first we call cash outlay; that is, the cost of acquiring a house, making 20% down payment, paying off the remainder over a period of 20 years - just the automatic course, not including any allowance for any return on the down payment or for the fact that the fellow has a house at the end of 20 years.

If the interest rate is reduced from 7 to 6 percent, it would reduce the total monthly cash outlay by 4.7%. If the interest rate is reduced from 7 to 5½ percent, the reduction would be 7%. If the reduction - if the interest rate is reduced to 5, the reduction would be 9.2%. If the interest rate were reduced to 4, the reduction would be 13.5%. If it were reduced to 3, it would be 17.6%.

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We have also taken it on the basis of the economic rent. The economic rent is different from the cash outlay in only two respects; first, that we have charged against the house interest on the down payment at the assumed rate; and second, that we have made a credit for the fact that the person is doing some saving, and at the end of the period he has his house. And we have assumed, based on discussions with the Procurement Division, although we take the sole responsibility for making the statement, that the lot will be worth the same at the end of 20 years as when he started, and that the house will be worth one-half of what it was at the end of 20 years.

On that basis, a reduction in the interest rate from 7 to 6 percent will result in a reduction in the monthly cost of occupancy of 7.1%. If the rate is reduced to 5½, the reduction will be 10.6%. If the rate is reduced to 5, the reduction will be 14%. If the rate were reduced to 4, the reduction would be 20.9%. If the rate is reduced to 3, the reduction is 27.7%.

That very briefly summarizes our conclusions. To which I would like to add that we don't expect to achieve any miracles by any of the proposals we have made. We have confined our attack to a very narrow sphere. We are skeptical of the great short-run efficacy of these methods, but we do think that the proposals that we made would represent a genuine and quantitatively important contribution to a very complex situation.

- H.M.Jr: Who wants to ask Murphy some questions?
- White: As between the two, do you venture an opinion as to which constitutes the important factor in the decision as to whether or not to build the house? Is it the carrying monthly charge or is it the cash outlay? In which is the reduction more significant?
- Murphy: We believe that the reduction in monthly economic rent is more significant.
- White: Now, your second question. To what extent do you think the average individual who goes in for purchasing would be able to use the refined technique that you

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have and be able to arrive at similar results?

Murphy:

I think that the results which the average individual would arrive at would exaggerate our results. In our figures we have assumed that 3% of the original cost of the house will be expended on repairs over the whole 20-year period, and I don't think the average individual would estimate his repairs nearly that high. The house which we have set up here, which is the house used by the Home Loan Bank Board in computing the cost of building, which gives you detailed costs of building this house, is a frame house requiring to be painted every three years, has considerable upkeep on it, and in accordance with our discussions we have estimated rather generous maintenance on it. I think the individual would be inclined to chisel that maintenance, so that the interest would loom larger in his mind than he would find it had been in 20 years.

However, I think the individual would be influenced by the present price as well as by the cost of occupancy. He would much rather buy a lower-priced house at the same monthly price of occupancy. In other words, he would rather take his savings if he could. He would believe, with Omar Khayyam, that he would take the cash and let the credit go.

Now, weigh those two factors. And then, they are different for different individuals. Very difficult to say.

H.M.Jr: Any other questions? All right.

White: Mr. Nichols.

H.M.Jr: Nichols, we forgot what we were doing yesterday. Do you mind starting again, telling us about your education?

Nichols: I graduated from DePauw University.

H.M.Jr: Where?

Nichols: DePauw. It's in Indiana. And I worked four years for the Indiana Bell Telephone Company and spent two years in graduate work at the University of Chicago. I've been with the Treasury for a little over two years.

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H.M.Jr: Are you one of Dr. Viner's boys?

Nichols: I had very little work from Dr. Viner. In fact, I never took one of his courses for credit. He was away the first year I was at Chicago.

H.M.Jr: Who do you work under?

Nichols: Mr. Daggit.

H.M.Jr: I see. Well, he didn't bring - you were here before Daggit.

Nichols: Yes, sir.

This memorandum is based on the supposition that the present recession may be short-lived but that it is nevertheless indicative of the violent swings which characterize this economic system.

"Immediate recovery can be achieved, if at all, by inflating the supply of circulating media in the possession of the public, either directly by: 1. Embarking on a large-scale Government spending program, financed by the issue of greenbacks or silver certificates or by the sale of bonds to the Federal Reserve Banks; - or indirectly by: 2. Increasing bank reserves, either by lowering the required reserve ratio or by freeing sterilized gold.

"The adoption of either of these policies is likely to lead eventually to a recurrence of the present situation; consequently, a program which looks more to the future is advisable.

"A more lasting type of recovery may best be promoted by restoring confidence in the future, and by foregoing action designed to stimulate immediate business activity. The Government can probably help to restore confidence in the future by stabilizing, so far as possible, its relations to the business community. It can also help to make this restoration of confidence effective by lowering the costs of building construction. Stabilization of the Government's relations to the business community probably requires that it:

"1. Give the business community to understand that there are to be no further short-run inflationary

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or deflationary monetary programs; 2. Adopt and maintain a consistent attitude toward the business community, rather than indulging in temporary programs either of aid or of reform; 3. Give assurances that the credit supply of the country will not be varied by the Federal Reserve Board or other Governmental agencies, except in so far as such action is necessary to offset temporary gold flows.

"The costs of building and engineering construction may be lowered by: 1. Instituting proceedings against suppliers of construction materials who combine in defiance of the Anti-Trust law to maintain high prices; 2. Assisting in the amalgamation of the building craft unions into vertical unions, in order to minimize as far as possible the raising of hourly wage rates in individual crafts."

H.M.Jr: Into what?

Nichols: "into vertical unions, in order to minimize as far as possible the raising of hourly wage rates in individual crafts.

"Permanent recovery, or the complete and continuous utilization of the country's resources in the production of goods and services, can probably be achieved only when the nation chooses whether its economic activity is to be organized in the main by the free play of price forces or by some centralized Governmental agency; that is, whether the economy is to be on the whole competitive or collectivistic. The restoration of an effective competitive economy demands the fullest possible scope for competition in those fields of economic activity where competition is at all possible. A positive program of action would probably include the following points:

"1. The destruction of monopolies, including the recognition that a trade union may act as a monopoly.

"2. Reduction of our import barriers, whether or not by means of reciprocal trade agreements.

"3. The repeal or the defeat of such laws as are

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designed to restrict the free play of price forces:

- "a. The Robinson-Patman Act.
- b. The Resale Price Maintenance Act.
- c. The Guffey Coal Act.
- d. The Wages and Hours Bill.
- e. The latest Farm Bill. "

H.M.Jr: Thank you.

Did somebody want to ask him some questions?
Everybody for the capitalistic system?

Northrop: We haven't time to argue about all that.

White: No, silence means assent or dissent.

H.M.Jr: Well, I think it's a very good paper. All right.

White: Miss Northrop.

Northrop: I took my A.B. and A.M. at the University of Missouri and my Ph.D. at Columbia; taught economics for eight years, was Brookings fellow in 1934 and 1935.

H.M.Jr: What was your thesis?

Northrop: In central banking. I studied the credit control policies of the Reichsbank from 1924 to 1933.

H.M.Jr: You studied under Dr. Shacht and not Dr. Viner?

Northrop: That's right.

Viner: Was it under Dr. West?

Northrop: No, it was Dr. Angell.

First of all, housing.

H.M.Jr: Excuse me. Are you under ...

Northrop: Dr. White.

Housing program was part of my suggestion - a large extended housing program. I didn't go into it in

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detail, but I would like to add to what's been said here that I think one of the most important things for the Government to do is to publicize what it wants to do; that a large, extended publicity program throughout the United States ought to be a very definite part, in so far as what mortgages are available, slum clearance programs, what is in existence in various cities, and how persons can go about finding out how to improve their housing. And that seems to me one of the best ways of stimulating the demand and probably the most - one of the first steps that ought to be taken along with this housing set-up.

With the other things that have been said I am in complete agreement.

Then one other point I should like to emphasize that is already brought out is that on the monetary end I think it is important to reverse the control devices which were put into effect in the fall of '37 - or in the spring of '37; and that of the possible things we might do I think the most important is if we can see to it that the Federal Reserve System decreases its reserve requirements, and if they don't do it, then I think the Treasury ought immediately to use its sterile fund for the repayment of December maturities. But I think that timing is very important and that something should be done as soon as possible; preferably, persuading the Federal Reserve to reduce its requirements.

I think that the silver program could very well be extended for one year without any fuss - just let it go on - because I think the repeal of it would be looked upon as mildly deflationary and I think '39, with reviving prosperity, probably would be a better time to get rid of it.

H.W.Jr: Excuse me - you know, the only thing the President has to do is through a proclamation fix the price for domestic silver.

Northrop: I know.

H.M.Jr: Now, what are you recommending on that?

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- Northrop: Well, I just think it would be better - I really think it would be better to get rid of the silver program as soon as possible, but not in this present depression period. It ends on the end of December, doesn't it, unless something is done?
- H.M.Jr: Just as to price.
- Northrop: Just as to price.
- H.M.Jr: I mean he has to say at what price he will buy domestic silver beginning January 1, 1938.
- Northrop: Well then, I'd just continue the way he's been buying it for the last year.
- H.M.Jr: Same price. That's what I wanted.
- Northrop: I don't think it makes enough difference to fuss about it at the moment.
- H.M.Jr: I'm just asking, not arguing.
- Northrop: Then in the third place, I think that probably some clear statement from the Administration on taxes would be settling to the present situation, not in any sense giving up the direction in which we have gone but probably making concessions on the undistributed earnings tax and the capital gains tax. I only think that is psychologically important, but I think we certainly ought to maintain our - the principle of the undistributed earnings tax; it is more important to maintain the principle than to give it up after a fight. And that's all.
- H.M.Jr: All right, who wants to ask questions now?
- Incidentally, why isn't Miss Michener given a chance to sit in on this?
- White: She should be.
- H.M.Jr: What?
- White: She should be.
- H.M.Jr: At the next meeting will you call her?

White: I don't know why she was overlooked.

H.M.Jr: Who would come next?

White: Mr. Ostrander.

Ostrander: I graduated from Williams College and had a fellowship for one year's study at Oxford; studied one year at Chicago, and during the year that Professor Viner wasn't there also.

Viner: These boys are very smart; they seem to pick the right years to study there.

Ostrander: Then I taught economics one year at Williams College. Have been with the Treasury for two years, one year with taxation and study of income tax returns and one year under Mr. White.

My paper falls into three parts. First part, things which should not be done. And second part, things which should be done to stimulate new investment. Third part, things which should be done to stimulate confidence.

In the first place, things which should not be done, even though they would undoubtedly exert a stimulating influence on business, are:

"(1) There should be no abandonment of the fundamental reform program of this Administration. The character of the present business recession does not warrant any such concession to the widely publicized demands of business." I mean as far as its - the main orientation of the reform program, particularly the S.E.C. and interest in the redistribution of income throughout the community, and things of that sort.

"From the Treasury point of view specifically, there should be no abandonment of the capital gains and undistributed earnings taxes. Any changes made should be in the nature of improvements in the administration of the taxes." - and, I should suggest, widely publicized - that is, small concessions widely publicized.

"(2) The Administration should avoid giving its approval to the type of business activity and the

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level of security and commodity prices which characterized the first half of 1937. Positive measures to combat deflation should not be of such a nature as to create any abnormal (i.e., temporary) rate of activity in the capital goods industries."

Now, on the subject of confidence, I think the Administration should reiterate, possibly once a week, the reform program and its attitude that within the framework of that reform program it considers it essential to the Administration, to business activity, and to the economic welfare of the country that the present system of private enterprise and private profit continue to function. I think a weekly reiteration of that point would be possibly destructive of the point of view that exists in New York and Chicago, represented, for example, by a statement of Walter Lippmann's that the Administration is trying to run a private capitalist economy with administrators who believe in a collectivistic economy.

At the same time, such statements that it would not concede anything in its fundamental reform program would make obvious the futility of the prevailing "wait and see" attitude on the part of business, and its hope that the threat of business recession may now be used to force the removal of existing or pending "adverse" (i.e., reform) legislation.

"The Treasury role in such statements would be the frank public description of the social principles and taxation philosophy lying behind the undistributed earnings and capital gains taxes. This would amount to the first adequate defense of its stand against the flood of protest over these two taxes."

Another stimulation to confidence, and only confidence, I think, at this time, would be the removal of the 16% increase in reserve requirements which became effective on May 1.

And a third stimulation to confidence would be some support of the - or some statement that rising labor and material costs will not be allowed to abolish profit margins entirely, as they have begun to do. The Administration might "withdraw its support from the proposed wages and hours legislation except for the guarantee of a geographically differentiated and low

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minimum wage. It should take the position that full employment of the labor force must precede any important further moves to better the lot of special groups of laborers, and it should promise some protection to the national economy that the improvement of the economic position of labor (through organization) will not be the cause of too costly delays in business activity."

On the subject of new investment, I have proposals for stimulating new investment generally, and housing is a part of that.

"There should be definite encouragement of the market for new private investment. One form of stimulus would be the exemption from normal income tax for a period of two to five years of all interest and dividends received from securities issued after January 1, 1938." That would be to force ...

H.M.Jr: Say that again please.

Ostrander: "One form of stimulus would be the exemption from normal income tax for a period of two to five years of all interest and dividends received from securities issued after January 1, 1938.

"Another form of stimulus would be the expansion of 5-year, direct loans to industry by the Federal Reserve Banks; or it might come from renewed lending by the R.F.C. specifically for expansion purposes. A more permanent step in this direction would be the creation of a Federal Investment Bank, a lender of last resort in the long term investment field, the only major credit field not yet covered by a permanent Federal institution.

"From the Treasury point of view, even aside from the problem of the Federal deficit, some such measure of encouragement is particularly important since one effect of the undistributed earnings tax is to force industry to resort more frequently to the new investment market."

In other words, instead of giving up the undistributed earnings tax, to make the workings of the undistributed

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earnings tax, particularly as far as it affects new expansion, more simple.

"(5) Every means possible should be utilized immediately to stimulate the housing industry. Once begun, an expansion in this field might continue for at least a decade and the stimulation of this field would not create the same dislocation of the capital goods industry as occurs when other types of public works are pushed. A specific program in this direction would include not only immediate expansion of public low-cost housing activity, but should bring a large increase of private investment in this field by some program such as the following:

"(a) The creation of a new National Emergency Housing Administration directed by men representing private contractors, investment bankers and existing housing agencies.

"(b) This body to stimulate in every way possible the permanent investment of private capital in housing. i.e., the creation of corporations of several million dollar capitalizations to engage in the building of moderate-cost and low-cost apartments and houses, not in either case primarily for sale but for rental.

"(c) The Government's contribution to this movement to include: the setting of modern building standards and the supplying of government-trained modern housing experts to administer those standards; the guaranteeing of a certain percentage of the annual return to private capital so invested, for a period of five years; the making of agreements with producers of building materials concerning price rises; the conclusion of contracts with labor organizations guaranteeing yearly salaries instead of hourly wages; and the training at W.P.A. expense of skilled construction laborers who will make up the shortage of such laborers which would exist if housing activities were successfully expanded."

H.M.Jr: Very good.

Lonigan: When that's finished, would it be private capital or would it be the collectivist system?

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Ostrander: I think it would be very definitely private capital.

Lonigan: Would people who favor private capital think it was?

Ostrander: I think it could be publicized in such a way that it would be.

Lonigan: You think publicizing alters convictions.

Ostrander: I think it can be very successful. The greatest weakness in the President's housing speech, as it occurred to me, was that the Government will set up a framework within which private capital can, if it is interested and willing, operate to build houses, but the Government doesn't go out of its way to bring private capital into the building of houses. Some statement by an investment banker of the same national importance as, for example, Mr. Carlisle is in the public utility field, that investment bankers are going to put 20 million dollars or 50 million dollars into housing on a permanent basis, as they would easily put it into the railroads, would be an important thing.

Lindow: You mentioned that one thing the Government could do as a contribution to this large-scale rental housing would be to arrange in some way for labor to be paid on an annual contract basis. How would you go about that?

Ostrander: One way that might be done - I'm not sure I'm in favor of it - but one possibility would be for the Government through devious routes to foster a C.I.O. vertical industrial union in the construction industry, which would have as its basis not hourly wages, as the craft unions do, but an annual salary.

Murphy: Do I misread the undertone of your paper in that you believe that the present recession was due at least in part to a wilful effort on the part of private initiative?

Ostrander: There is an undertone of that sort there.

Murphy: And I read it not awrong?

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- Ostrander: No - that, at least once things began to turn down, there was some unorganized feeling that "Now, if we can delay things a month or two months, possibly we can use the rapidly declining indices as a weapon to force some concessions."
- Murphy: And it is for that reason you want the weekly reiteration of the reform program, in order to let them know they're not getting anywhere.
- Ostrander: Yes.
- Lonigan: Why under your system couldn't the people who were subject to this heavy taxation refinance all their present holdings and make them new finance capital and come out under your tax exemption?
- Ostrander: Well, it would have to be for purposes of new expansion.
- Lonigan: Well, you'd have to have a device for being sure that it was that.
- Ostrander: And the device is very difficult to define without having the Government approve the new expansion. That's the most difficult point. If the Government should set up a group of economists to do the same work in approving the type of expansion that the S.E.C. does in approving the character of the legal contract, it would then be getting itself into a rather difficult position; yet, some such move would probably be necessary.
- Lonigan: And you still think that's private capital. I mean you think that's the competitive system.
- Ostrander: Uh-huh.
- Daggit: If the securities issued for expansion purposes were earmarked, there would be all sorts of subterfuges to get earnings paid through those securities, and not through the original ones.
- Ostrander: Any program would have things of that sort, but the thing that is most important for our economy is to have the necessary new investments started.

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- Murphy: That is, any program involving complex administrative controls would have.
- Ostrander: Yes.
- Murphy: Any collectivist system.
- Ostrander: I - it seems to me there is a very different point between the collectivist system and a free enterprise, free profit system with government regulation. In fact, I think we've got to - as the point of Mr. Nichols' paper showed - if we're going to have a system of private enterprise, it's got to be one which is thoroughly regulated.
- Murphy: That wasn't what I gathered from Mr. Nichols' paper. I felt a ...
- White: I think that's a fair statement, Henry. He says regulation. You remember Nichols pointed out that it would require government stepping in at various points to insure competition.
- Murphy: But Nichols' point was entirely different; that is - well, Nichols can speak better for himself. Ostrander wants everything governed from a desk in Washington; all that Nichols wants is to have certain barriers broken down to make sure that the people regulate each other. For example, he doesn't want to fix utility rates.
- White: Well, that would require - in order to break those barriers down, it would require some large
- Ostrander: Government stimulus rather than control.
- Nichols: I think you (Murphy) stated my position correctly.
- Murphy: Is it compatible with Ostrander's position?
- Nichols: I don't think so.
- Lonigan: The whole essence of the revival of the capitalistic system is whether it's going to revive through artificial government stimulus or function on its own energies, and I can't see that Mr. Ostrander's system allows capital any freedom at all; the energy and the direction come from the government.

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Ostrander: I think you're reading too much into my system.

Lonigan: They have posed the complete extremes of the ...

Murphy: The absolute extremes.

White: That's right. I merely have in mind that there is involved in both cases

Murphy: They both differ a great deal from the present system, because one proposes to eliminate as far as possible private initiative, and the other proposes to as far as possible force private initiative to stand up and fight for itself.

White: Quite.

Ostrander: Well, in defense, is there anything more radical in the direction of destroying private initiative - any proposal I have made here - than there was in the President's speech on housing?

White: Well, you wouldn't want to raise the issues here as to the merits of the two different schools of philosophy.

H.M.Jr: No, I don't see why

Ostrander: I want to get out of that argument.

H.M.Jr: That's what he thinks. Mr. Nichols thinks something else. And what I've asked is each man to give me what he thinks himself; and I wouldn't try to make a fellow take back his words. That isn't the point of this. You can do it outside afterwards, if you want to. I don't know whether you people ever meet like this together, but if you don't you should. And you have said what you thought and that's what I have asked for. I get the difference. But I wouldn't - I don't want anybody to have to take back what he thinks. The whole point of this thing is to let each man express himself; that's what he's doing, and I'm getting just what I want.

White: Tickton.

Tickton: I went to Wayne University, Detroit, and worked for

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the Detroit Bureau of Governmental Research; was over at Farm Credit for a year; been over here for three years.

My paper deals with just one ...

H.M.Jr: Excuse me - who are you with?

Tickton: Seltzer.

H.M.Jr: Seltzer.

Tickton: My paper deals with just one aspect of the problem; that is the undistributed profits tax.

"Part of the current business pessimism is due to the psychological opposition to the undistributed profits tax that has grown up among business men within the last year. While we feel that their attitude cannot be justified from any equitable point of view and while we are prepared to maintain stoutly the principle of the tax"

Viner: "We" is who there?

Tickton: Treasury.

"...I wish to suggest that it may be wise to recognize that concentrated public opposition does exist, that such opinion may very well have contributed to the current business recession and that we should take some steps to relieve ourselves of such opposition at the present time. It may be particularly desirable to make some concessions now in the interest of business recovery and to forestall thereby the attacks on the principle of the undistributed profits tax that are being formulated at the present moment. If they gather momentum these attacks may be successful enough in a very short time to obtain the complete repeal of the tax or at least to emasculate it.

"The critics of the undistributed profits tax contend that the direct reinvestment of a large portion of corporate earnings is essential to the expansion of corporate enterprise. They insist again and again that plant and equipment can be purchased from reinvested earnings only and they cry out for an exemption of that portion of earnings so invested.

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"We have observed that if such an exemption were permitted, wealthy stockholders could continue to avoid individual surtaxes, without compensatory taxes on their corporations, on that portion of their corporations' earnings which was used to expand plant, whereas other individuals, including members of partnerships, would continue to be taxed on their whole incomes, regardless of the proportion employed for new construction and equipment.

"We have also observed that the application of such a proposal might be quite arbitrary and inequitable. To the extent that it provided a real subsidy for the encouragement of new construction, it would be available only to relatively prosperous concerns, and somewhat in proportion to their prosperity, to the competitive disadvantage of other enterprises. And this subsidy would be provided by the Federal Treasury, through a reduction in tax revenues.

"However, in view of the necessities of the current recession and in view of the depressing effect that the undistributed profits tax is having on business sentiment I suggest the Treasury might consider making a limited concession to corporate business by permitting for a limited time only -- say the first six months of 1938 -- exemptions from the undistributed profits tax for those expenditures made for new plant and equipment. By means of this concession we may stimulate business at the same time that we shut up some very vociferous opposition and we may be able to save the undistributed profits tax from emasculation or complete abandonment. The concession might be on a percentage basis; that is, \$1 of exemption for every \$2 or \$3 of expenditure, so that the stimulation might be considerable in proportion to the revenue lost."

H.M. Jr:

Any questions?

I'm going to stop you. Before I do, I just want to snoot out a couple things which I need.

Daggit, would you give me a weekly review now on the cotton situation, taking in everything - import, export, consumption, number of spindles, carry-over, everything.

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Daggit: Would you want that on Monday morning, or ...

H.M.Jr: Is that what - when the cotton week ends?

Daggit: No, not necessarily. Whichever would be convenient.

H.M.Jr: Monday morning would be - I'd like a cotton letter, just as though I'm in the cotton business now.

And incidentally, on that thing I can't still get the figures right. Mr. Bell gave me a figure that we're committed to loan - just get this - 250 million dollars on this year's crop, plus 130 million we pay the farmers outright for this year's crop, which is 380. And, talking to Mr. Wallace, he said that that does not include - the 380 does not include the soil conservation money.

Daggit: I'll look that up.

H.M.Jr: So I'd like - just like to get a total figure of what we may be committed to on this year's crop; 380 so far from Mr. Bell, but on top of that goes the soil conservation - what the Government's interest is in this crop.

Daggit: I understand some of those payments can't be decided until later in the season.

H.M.Jr: Some of them, the commitment goes through till 1940.

Daggit: Uh-huh.

H.M.Jr: But give me a cotton letter every Monday, will you?

Daggit: I'll do that.

H.M.Jr: See what I mean?

And then, Miss Lonigan, did you have a chance to find out whether the W.P.A. people are starting these work rooms?

Lonigan: I didn't quite understand what you wanted.

H.M.Jr: work rooms for women, in which women do something.

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Lonigan: Well, they've had them all along.

H.M.Jr: I thought they'd laid them off.

Lonigan: They've kept it going continuously.

H.M.Jr: Well, will you find out?

Lonigan: Well, I

H.M.Jr: Have you a contact there?

Lonigan: Yes.

H.M.Jr: I mean just how much - what the sewing projects are doing. The reason I'm interested is - if you'll talk with Daggit - now we just bought 13 million yards of cotton for Hopkins - 13 million yards. Now, how much more are they going to need? Is that particular kind of project - is it all cotton? I mean, in other words, how many women - have they got any equipment - could they put more on, would they do more? I'm thinking of it just for the moment in terms of cotton. And Mr. Daggit's handling that. Now, we just did last week put out bids for 13 million yards. Does that mean - I think you'll find that you're wrong, that they laid off - closed up a lot of them.

Lonigan: They did. Closed the volume, but maintained the skeleton organization.

H.M.Jr: As I say, are we going to have to expand that? If so, how much does that mean in terms of cotton, see?

Lonigan: Yes.

H.M.Jr: You people might be interested in just this. Contrary to the general situation - this is as of last night; this is a memorandum I got from Mr. Hopkins' organization - "the present unemployment is 1,509,000, increase from a low of 1,460,000, increasing about six or seven thousand per week, with local relief agencies taking up the brunt of the additional load."

You (Lonigan) might be here at 2:45. Colonel Harrington is coming over.

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I just can't understand this. What does that mean - "local relief agencies taking up the brunt"?

Lonigan: Means there are a lot of applications at the local relief agencies now. There is no connection between the ...

H.M.Jr: I can't understand it.

Lonigan: And no one knows the employment figures by weeks.

H.M.Jr: Well, he says he does.

Viner: Those are the unemployed on relief.

Lonigan: The number on work projects is a matter of policy.

H.M.Jr: Yes, but

Lonigan: The number on work projects is wholly a matter of administrative policy.

H.M.Jr: I understand. What's happened to the rest? I'm interested in people.

Lonigan: They don't have the figures.

H.M.Jr: He's coming at a quarter of three; you might be here. But I don't know - don't know - I can't understand this whole unemployment thing the way it is today. It doesn't fit together. Maybe the answer is that the local agencies are taking the brunt. If so, maybe it would be well for you to make a week's field trip and see what's happening.

Thank you. I can't tell when the next meeting

White: You've heard everybody, in any case, except Mr. Seltzer and myself.

H.M.Jr: Oh, it's just down to you two people.

White: And I - that's why I think you can probably end it.

H.M.Jr: Well, I mean - you people don't want to give your papers?

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White: Oh, I have no objection.

Seltzer: I don't think it's necessary.

H.M.Jr: Well then, it's a question of finding - I might just - I'm running into my financing now. Just a second - I'll see if I can't give you the time now.

(Has conversation with Oliphant on phone)

I'll give you a time - I'll try to give you a time later. Thank you very much.

NOTE: Papers of Seltzer and White attached, as well as those of other conferees, in order given.
(No paper from Miss Lonigan)

Comparative Analysis of Proposals in the President's Message on Housing
November 29, 1937, and Suggestions Submitted by Messrs. Murphy and Lindow
at Meeting Held by Secretary Morgenthau November 29, 1937

President's Message

Our Memorandum

<p>1. The Federal guarantee of debentures issued by the Mutual Mortgage Insurance Fund in the event of default of insured mortgages should be indefinitely extended.</p>	<p>The same.</p>
<p>2. The \$2 billions limit on the amount of mortgages which may be insured (unless an increase is approved by the President) should be <u>changed</u> to \$2 billions of insurance <u>outstanding at any one time</u>.</p>	<p>The \$2 billions limit on the amount of mortgages which may be insured (unless an increase is approved by the President) <u>should be repealed</u>.</p>
<p>3. The administrative regulation prescribing a 5 1/2 percent maximum interest rate (including service charge) on insured mortgages, should be changed to provide a 5 percent maximum (including service charge).</p>	<p>Not covered.</p>
<p>4. Premiums on insured mortgages should be based on declining balances rather than original principal.</p>	<p>The same.</p>

<p>5. Premiums (based upon declining balances) should be reduced to as low as 1/2 of 1 percent on general construction, and 1/4 of 1 percent on new construction where the estimated value of the property does not exceed \$6,000 and where the mortgage is insured, prior to July 1, 1939.</p>	<p>Not covered.</p>
<p>6. The limit of loans eligible for insurance to 80 percent of appraised value should be increased to 90 percent in the case of owner-occupied properties where the appraised value does not exceed \$6,000.</p>	<p>Not covered.</p>
<p>7. Not covered.</p>	<p>Insured mortgages, debentures of the Mutual Mortgage Insurance Fund, and debentures of national mortgage associations should be completely exempt from taxation with respect to principal, but granted no tax exemption with respect to interest.</p>
<p>8. Congress should eventually limit the insurance of mortgages to housing on which the application for insurance is approved prior to the beginning of construction.</p>	<p>Not covered.</p>

9. Not covered.	A statutory limit should be set to the expenses of the Federal Housing Administration which may be paid from premium income.
10. The maximum amount of debentures which a national mortgage association may have outstanding at any one time should be increased from 12 to 20 times its capital stock.	The same, except the ratio should be 15 to 1.
11. National mortgage associations should be allowed to originate mortgages on large-scale housing projects.	The same.
12. The R.F.C. should make available \$50 millions to be used for the capital stock of national mortgage associations.	Not covered.
13. Insurance should be provided for repair and modernization loans similar to that formerly provided under Title 1 of the National Housing Act.	Not covered.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 30, 1937.

TO Secretary Morgenthau
FROM Mr. Murphy and Mr. Lindow

Subject: Estimate of the effect of a given reduction in the rate of interest upon the cash outlay in purchasing, or the economic rent of occupying, housing

I. Assumptions

(1) We have based our study of the effect of changes in the rate of interest on the cash outlay in purchasing, or the economic rent of occupying, housing upon the "standard house," the cost of construction of which in a large number of cities is estimated quarterly by the Home Loan Bank Board. We have assumed that this standard house is built in Detroit, Michigan, in October 1937. The estimated cost of construction is \$6,121 and the house is described as follows:

"The house on which costs are reported is a detached 6-room home of 24,000 cubic feet volume. Living room, dining room, kitchen, and lavatory on first floor; 3 bedrooms and bath on second floor. Exterior is wide-board siding with brick and stucco as features of design. Best quality materials and workmanship are used throughout.

"The house is not completed ready for occupancy. It includes all fundamental structural elements, an attached 1-car garage, an unfinished cellar, an unfinished attic, a fireplace, essential heating, plumbing, and electric wiring equipment, and complete insulation. It does not include wall-paper nor other wall nor ceiling finish on interior plastered surface, lighting fixtures, refrigerators, water heaters, ranges, screens, weather stripping, nor window shades.

"Reported costs include, in addition to material and labor costs, compensation insurance, an allowance for contractor's overhead and transportation of materials, plus 10 percent for builder's profit.

"Reported costs do not include the cost of land nor of surveying the land, the cost of planting the lot, nor of providing walks and driveways; they do not include architect's fee, cost of building permit, financing charges, nor sales costs.

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"In figuring costs, current prices on the same building materials list are obtained every 3 months from the same dealers, and current wage rates are obtained from the same reputable contractors and operative builders."

(2) We have added \$1,000 to the cost of the standard house to provide for wall-paper, lighting fixtures, an electric refrigerator, a water heater, a gas range, screens, weather stripping, window shades, landscaping of the lot, and the construction of a cement driveway, making a total cost for the finished house of \$7,121.

(3) We have assumed that the house will be placed upon a lot valued at one-fourth of the finished cost of the house, or \$1,780. This makes a total cost for the house and lot of \$8,901.

(4) It is assumed that 80 percent of the total cost of the house and lot (i.e., the full cost of the house) will be borrowed upon a 20-year amortized mortgage, payable in equal monthly instalments, principal and interest combined, throughout the entire 20 years.

(5) It is assumed that at the end of the 20 years the lot will have the same value as at the time of the construction of the house, but that the house will have depreciated to half of its original cost.

(6) It is assumed that taxes will be levied at the rate of 2.62 percent of the real value of the property, the average rate for 241 cities in the United States in 1936, as estimated by the Detroit Bureau of Governmental Research. It is assumed that the real value of the lot will continue the same throughout the entire period, but that the real value of the house will gradually diminish, averaging 75 percent of the original cost over the 20-year period. Taxes are computed, therefore, upon an amount equal to 100 percent of the original value of the lot plus 75 percent of the original cost of the house.

(7) Fire insurance is assumed to cost \$1 per thousand of the original cost of the house throughout the 20 years.

(8) Repairs are assumed to cost 3 percent of the original cost of the house throughout the entire period.

II. Distinction between Cash Outlay and Economic Rent

We have computed two costs for each assumed rate of interest, one of which we call "cash outlay" and the other of which we call "economic rent."

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The first of these, which represents the actual cash cost of purchasing the assumed house in monthly instalments over a period of 20 years and of maintaining it and paying taxes on it in the meantime, includes an element of saving, since at the close of the 20 years the purchaser owns outright a house which is assumed to be worth one-half of its original cost of construction. This means that a component of the monthly cash outlay during the 20 years has not been bona fide expense, but rather a type of saving. The cash outlay, however, includes no interest on the \$1,780 down payment (equal to the cost of the lot) which the purchaser is assumed to have made. This computed interest should be included, however, in the economic rent. Our figures for economic rent, therefore, differ from those for cash outlay in that they exclude the element of saving contained in the payments for the interest and amortization of the mortgage, but include an allowance for interest on the cost of the lot. We consider that the figures for economic rent are more significant than those for cash outlay.

III. Summary of Results

Our results are presented in detail in the accompanying table showing on a monthly and an annual basis the estimated cash outlay for purchasing, and economic rent for occupying, the standard house at assumed interest rates of 3, 4, 5, 5½, 6 and 7 percent, respectively.

The effect of changes in interest rates upon total cost may be briefly summarized by the following two tables, showing the percentage reductions in cash outlay and in economic rent, respectively, made possible by reductions in the assumed interest rate from 7 percent and from 6 percent, respectively, to each of the lower rates used in the computation.

Secretary Morgenthau - 4

	Interest rate assumed to be reduced from 7 percent to:	
	Cash outlay	Economic rent
(Percent)		
6	4.7	7.1
5½	7.0	10.6
5	9.2	14.0
4	13.5	20.9
3	17.6	<u>27.7</u>

	Interest rate assumed to be reduced from 6 percent to:	
	Cash outlay	Economic rent
(Percent)		
5½	2.4	3.8
5	4.7	7.5
4	9.3	14.9
3	13.6	22.2

Attachment

Comparative Analysis of Cash Outlay in Purchasing, and of Economic Rent
in Occupying Assumed House Under Various Interest Rates

: 3% : 4% : 5% : 5½% : 6% : 7%
: Annual : Monthly : Annual : Monthly : Annual : Monthly : Annual : Monthly : Annual : Monthly : Annual : Monthly

CASH OUTLAY:

	3%		4%		5%		5½%		6%		7%	
	Annual	Monthly	Annual	Monthly	Annual	Monthly	Annual	Monthly	Annual	Monthly	Annual	Monthly
Constant monthly payment for interest and amortization	\$ 473.88	\$ 39.49	\$ 517.80	\$ 43.15	\$ 564.00	\$ 47.00	\$ 587.88	\$ 48.99	\$ 612.24	\$ 51.02	\$ 662.52	\$ 55.21
Fire insurance	7.00	.58	7.00	.58	7.00	.58	7.00	.58	7.00	.58	7.00	.58
Taxes	186.56	15.55	186.56	15.55	186.56	15.55	186.56	15.55	186.56	15.55	186.56	15.55
Repairs	<u>213.63</u>	<u>17.80</u>	<u>213.63</u>	<u>17.80</u>	<u>213.63</u>	<u>17.80</u>	<u>213.63</u>	<u>17.80</u>	<u>213.63</u>	<u>17.80</u>	<u>213.63</u>	<u>17.80</u>
<u>Cash outlay</u>	<u>881.07</u>	<u>73.42</u>	<u>924.99</u>	<u>77.08</u>	<u>971.19</u>	<u>80.93</u>	<u>995.07</u>	<u>82.92</u>	<u>1,019.43</u>	<u>84.95</u>	<u>1,069.71</u>	<u>89.14</u>

ECONOMIC RENT:

Interest on lot	53.40	4.45	71.20	5.93	89.00	7.42	97.90	8.16	106.80	8.90	124.60	10.38
Interest on 50% of cost of house	106.82	8.90	142.42	11.87	178.03	14.84	195.83	16.32	213.63	17.80	249.24	20.77
Interest and amortization on 50% of cost of house	236.94	19.75	258.90	21.58	282.00	23.50	293.94	24.50	306.12	25.51	331.26	27.61
Fire insurance	7.00	.58	7.00	.58	7.00	.58	7.00	.58	7.00	.58	7.00	.58
Taxes	186.56	15.55	186.56	15.55	186.56	15.55	186.56	15.55	186.56	15.55	186.56	15.55
Repairs	<u>213.63</u>	<u>17.80</u>	<u>213.63</u>	<u>17.80</u>	<u>213.63</u>	<u>17.80</u>	<u>213.63</u>	<u>17.80</u>	<u>213.63</u>	<u>17.80</u>	<u>213.63</u>	<u>17.80</u>
<u>Economic rent</u>	<u>804.35</u>	<u>67.03</u>	<u>879.71</u>	<u>73.31</u>	<u>956.22</u>	<u>79.69</u>	<u>994.86</u>	<u>82.91</u>	<u>1,033.74</u>	<u>86.14</u>	<u>1,112.29</u>	<u>92.69</u>

ANALYSIS OF DIFFERENCE BETWEEN CASH OUTLAY AND ECONOMIC RENT:

Interest on lot	53.40	4.45	71.20	5.93	89.00	7.42	97.90	8.16	106.80	8.90	124.60	10.38
Saving	<u>130.12</u>	<u>10.84</u>	<u>116.48</u>	<u>9.70</u>	<u>103.97</u>	<u>14.60</u>	<u>98.11</u>	<u>8.17</u>	<u>92.49</u>	<u>7.71</u>	<u>82.02</u>	<u>6.83</u>
<u>Net difference between cash outlay (+) and economic rent (-)</u>	<u>+76.72</u>	<u>+ 6.39</u>	<u>+ 45.28</u>	<u>+ 3.77</u>	<u>+ 14.97</u>	<u>+ 1.24</u>	<u>+ .21</u>	<u>+ .01</u>	<u>- 14.31</u>	<u>- 1.19</u>	<u>- 42.58</u>	<u>- 3.55</u>

Note: For assumptions and explanations, see accompanying memorandum.

INTER OFFICE COMMUNICATION

DATE November 30, 1937

TO Secretary Morgenthau
 FROM Mr. Nichols
 Subject: Recovery measures

I.

Immediate recovery can be achieved, if at all, by inflating the supply of circulating media in the possession of the public, either directly by:

1. Embarking on a large-scale Government spending program, financed by the issue of greenbacks or silver certificates or by the sale of bonds to the Federal Reserve Banks;

or indirectly by:

2. Increasing bank reserves, either by lowering the required reserve ratio or by freeing sterilized gold.

The adoption of either of these policies is likely to lead eventually to a recurrence of the present situation; consequently, a program which looks more to the future is advisable.

II.

A more lasting type of recovery may best be promoted by restoring confidence in the future, and by foregoing action designed to stimulate immediate business activity. The Government can probably help to restore confidence in the future by stabilizing, so far as possible, its relations to the business community. It can also help to make this restoration of confidence effective by lowering the costs of building construction. Stabilization of the Government's relations to the business community probably requires that it:

1. Give the business community to understand that there are to be no further short-run inflationary or deflationary monetary programs;
2. Adopt and maintain a consistent attitude toward the business community, rather than indulging in temporary programs either of aid or of reform;

- 3. Give assurances that the credit supply of the country will not be varied by the Federal Reserve Board or other Governmental agencies, except in so far as such action is necessary to offset temporary gold flows.

The costs of building and engineering construction may be lowered by:

- 1. Instituting proceedings against suppliers of construction materials who combine in defiance of the Anti-Trust Law to maintain high prices;
- 2. Assisting in the amalgamation of the building craft unions into vertical unions, in order to minimize as far as possible the raising of hourly wage rates in individual crafts.

III.

Permanent recovery, or the complete and continuous utilization of the country's resources in the production of goods and services, can probably be achieved only when the nation chooses whether its economic activity is to be organized in the main by the free play of price forces or by some centralized Governmental agency; that is, whether the economy is to be on the whole competitive or collectivistic. The restoration of an effective competitive economy demands the fullest possible scope for competition in those fields of economic activity where competition is at all possible. A positive program of action would probably include the following points:

- 1. The destruction of monopolies, including the recognition that a trade union may act as a monopoly.
- 2. Reduction of our import barriers, whether or not by means of reciprocal trade agreements.
- 3. The repeal or the defeat of such laws as are designed to restrict the free play of price forces:
 - a. The Robinson-Patman Act.
 - b. The Resale Price Maintenance Act.
 - c. The Guffey Coal Act.
 - d. The Wages and Hours Bill.
 - e. The latest Farm Bill.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
 FROM Miss Northrop

The present business recession seems to be only a temporary setback in a basically upward trend. It is a natural consequence of three factors:

(1) Over-extended buying in late 1936 and early 1937 on a rapidly rising wholesale price level - present cessation for price readjustment is therefore all to the good.

(2) The restrictive measures taken in late 1936 and 1937, such as gold sterilization, increase in excess reserves and price warnings from the President (November 13, 1936 and March 1937).

(3) Actual decrease of Federal spending.

I. Mild stimulating devices could be used profitably. Preferably

(1) Decrease in excess reserve requirements. This is the best because

(a) It is a control device and it is unwise to be "used up" for future action.

(b) Its psychological effect would be immediately stimulating through showing a willingness to use a "control" both ways.

(2) A Treasury announcement with its December 15 financing plans that new money will be raised to prepare for possible increases in relief expenditure due to the present recession in business. Also that repayment of February maturities will be out of the inactive gold fund "unless later developments change the picture".

(If the Federal Reserve will not take action on reserves, then the Treasury should pay off its December maturities from the inactive gold fund and raise no new money. It might also announce that it is prepared to use the inactive account to repay February maturities "if conditions warrant".)

Secretary Morgenthau - 2

II. It might be advisable for the Treasury to agree to an extension of the present silver program for one year since its discontinuance would be regarded as mildly deflationary; 1939 with a new Congress and probably reviving business seems a better time for giving it up.

III. Early consideration of the tax bill should be pressed for and the Administration's attitude should be clearly stated and no tax bill should be retroactive. The tax bill should make some concessions to the demands from business but should

- (1) Retain in principle the undistributed earnings tax (some modifications of obvious flaws would strengthen it).
- (2) Modify capital gains tax ~~to~~ make it more equitable.
- (3) Make income from tax-free bonds subject to surtax.

IV. Increased Government expenditure for housing is all to the good but bound to be slow. To this program I would add an extensive shipping program and begin by asking Congress for an early consideration of the Kennedy report with a view to immediate action. The immediate effect would be psychologically stimulating and the existence of a long-run housing and shipping program of large proportions would be a guarantee against "the bottom dropping out".

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 29, 1937

TO Secretary Morgenthau

FROM Mr. Ostrander

Subject: Suggested remedial action to combat the business recession

I. In the first place certain actions should definitely not be taken at this time even though they would undoubtedly exert a stimulating influence on business.

(1) There should be no abandonment of the fundamental reform program of this Administration. The character of the present business recession does not warrant any such concession to the widely publicized demands of business.

From the Treasury point of view specifically, there should be no abandonment of the capital gains and undistributed earnings taxes. (Any changes made should be in the nature of improvements in the administration of the taxes.)

(2) The Administration should avoid giving its approval to the type of business activity and the level of security and commodity prices which characterized the first half of 1937. Positive measures to combat deflation should not be of such a nature as to create any abnormal (i.e., temporary) rate of activity in the capital goods industries.

II. The following specific remedial actions are recommended:

(1) The Administration should now reiterate with new emphasis its fundamental reform program from which no concessions will be made. At the same time, in frank public statements, it should reiterate and emphasize that within the framework of these reforms, it is essential to the Administration, to business activity and to the economic welfare of the country that our present system of private enterprise and private profit continue to function. It should stress the point that the reform program is considered the only means of prolonging the present economic system.

Such statements should help to remove existing uncertainties as to the real meaning and direction of the reform program of the present Administration, i.e., that it is not "communist", "socialist", "collectivist", etc., and they should make it clear that the reform program is not intended to destroy future profit possibilities. Such statements should at the same time make obvious the futility of the prevailing "wait and see" attitude on the part of business and its hope that the threat of business recession may now be used to force the removal of existing or pending "adverse" (i.e., reform) legislation.

The Treasury role in such statements would be the frank public description of the social principles and taxation philosophy lying behind the undistributed earnings and capital gains taxes. This would amount to the first adequate defense of its stand against the flood of protest over these two taxes.

(2) The 16 percent increase in reserve requirements which became effective on May 1, 1937 should be removed (although the remedial effect of this may be relatively unimportant).

(3) In order to quiet business fears that rising labor and material costs will abolish profit margins, as they have begun to do, the Administration should withdraw its support from the proposed wages and hours legislation except for the guarantee of a geographically differentiated and low minimum wage. It should take the position that full employment of the labor force must precede any important further moves to better the lot of special groups of laborers, and it should promise some protection to the national economy that the improvement of the economic position of labor (through organization) will not be the cause of too costly delays in business activity.

(4) There should be definite encouragement of the market for new private investment. One form of stimulus would be the exemption from normal income tax for a period of two to five years of all interest and dividends received from securities issued after January 1, 1938. Another form of stimulus would be the expansion of 5-year, direct loans to industry by the Federal Reserve Banks; or it might come from renewed lending by the R.F.C. specifically for expansion purposes. A more permanent step in this direction would be the creation of a Federal Investment Bank, a lender of last resort in the long term investment field (the only major credit field not yet covered by a permanent Federal institution).

From the Treasury point of view, even aside from the problem of the Federal deficit, some such measure of encouragement is particularly important since one effect of the undistributed earnings tax is to force industry to resort more frequently to the new investment market.

(5) Every means possible should be utilized immediately to stimulate the housing industry. Once begun, an expansion in this field might continue for at least a decade and the stimulation of this field would not create the same dislocation of the capital goods industry as occurs when other types of public works are pushed. A specific program in this direction would include not only immediate expansion of public low-cost housing activity, but should bring a large increase of private investment in this field by some program such as the following:

(a) The creation of a new National Emergency Housing Administration directed by men representing private contractors, investment bankers and existing housing agencies.

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(b) This body to stimulate in every way possible the permanent investment of private capital in housing, i.e., the creation of corporations of several million dollar capitalizations to engage in the building of moderate-cost and low-cost apartments and houses, not in either case primarily for sale but for rental.

(c) The Government's contribution to this movement to include: the setting of modern building standards and the supplying of government-trained modern housing experts to administer those standards; the guaranteeing of a certain percentage of the annual return to private capital so invested, for a period of five years; the making of agreements with producers of building materials concerning price rises; the conclusion of contracts with labor organizations guaranteeing yearly salaries instead of hourly wages; and the training at W.P.A. expense of skilled construction laborers who will make up the shortage of such laborers which would exist if housing activities were successfully expanded.

Part of the current business pessimism is due to the psychological position to the undistributed profits tax that has grown up among business men within the last year. While we feel that their attitude cannot be justified from any equitable point of view and while we are prepared to maintain stoutly the principle of the tax, I wish to suggest that it may be wise to recognize that concentrated public opposition does exist, that such opinion may very well have contributed to the current business recession and that we should take some steps to relieve ourselves of such opposition at the present time. It may be particularly desirable to make some concessions now in the interest of business recovery and to forestall thereby the attacks on the principle of the undistributed profits tax that are being formulated at the present moment. If they gather momentum these attacks may be successful enough in a very short time to obtain the complete repeal of the tax or at least to emasculate it.

The critics of the undistributed profits tax contend that the direct investment of a large portion of corporate earnings is essential to the expansion of corporate enterprise. They insist again and again that plant and equipment can be purchased from reinvested earnings only and they cry out for an exemption of that portion of earnings so invested.

We have observed that if such an exemption were permitted, wealthy stockholders could continue to avoid individual surtaxes, without compensatory taxes on their corporations, on that portion of their corporations' earnings which was used to expand plant, whereas other individuals, including members of partnerships, would continue to be taxed on their whole incomes, regardless of the proportion employed for new construction and equipment.

We have also observed that the application of such a proposal might be quite arbitrary and inequitable. To the extent that it provided a real subsidy for the encouragement of new construction, it would be available only to relatively prosperous concerns, and somewhat in proportion to their prosperity, to the competitive disadvantage of other enterprises. And this subsidy would be provided by the Federal Treasury, through a reduction in tax revenues.

However, in view of the necessities of the current recession and in view of the depressing effect that the undistributed profits tax is having on business sentiment I suggest the Treasury might consider making a limited concession to corporate business by permitting for a limited time only -- say the first six months of 1938 -- exemptions from the undistributed profits tax for those expenditures made for new plant and equipment. By means of this concession we may stimulate business at the same time that we shut up some very vociferous opposition and we may be able to save the undistributed profits tax from emasculation or complete abandonment. The concession might be on a percentage basis; that is, \$1 of exemption for every \$2 or \$3 of expenditure, so that the stimulation might be considerable in proportion to the revenue lost.

Sidney G. Tickton


November 30, 1937

SUGGESTION RESPECTING ATTACK UPON THE BUSINESS RECESSION

No consideration is given in this note to the character and magnitude of the measures that may properly be proposed in the event that the present recession degenerates into a prolonged and severe depression. Such measures would almost inevitably involve a great expansion of the role of government in the utilization of the country's economic resources; and they would require considerable time for execution, ~~and the recovery that they might stimulate.~~ It would be prudent to plan now against such a contingency; but I believe that proposals for immediate action should be limited to those which can be quickly put into effect, in the hope that uncoddled private initiative will largely suffice for a near-term resumption of the recovery.

Regardless of any other measures that may be concurrently undertaken, I should recommend that announcement be made next week that the mid-December bill maturities, the February 1 note maturity, and the March 15 note maturity, aggregating \$1,182 millions, will be redeemed in cash through the use of gold in the General Fund of the Treasury.

1. Such announcement would put the market definitely on notice that nearly \$1,200 millions will be added to the bank reserves during the next four months, raising the total excess reserves to about \$2,200 millions.
2. It would probably exert a significant psychological influence upon staple commodity prices, the swift downward trend of which, in my opinion, has contributed importantly to the current recession.
3. It would definitely prepare the way for a resumption of activity in the capital markets. Corporate refunding issues would doubtless be the first to be stimulated; but new productive capital issues could be expected to follow the resumption of successful corporate refunding operations.
4. The gross public debt would be correspondingly reduced and future Treasury financing or refinancing would be aided.
5. Gold outflows could be taken care of by the Stabilization Fund, which could purchase Government securities to the extent of such outflows.

 Lawrence H. Seltzer

6. I am not impressed by the contention that, judged by pre-depression standards, excess reserves are already ample. We know that the drastic reductions in excess reserves effected during the present calendar year imposed some measure of strain upon the banking system and the capital markets; and that remedial action has already been necessary. We know, further, that an increase of \$1,200 millions in excess reserves under the present reserve requirements, raising that level to about \$2,200 millions, would make the credit-expanding power of the new level of reserves no greater than was that of \$1,100 millions of excess reserves before the Federal Reserve Board raised reserve requirements. And we know finally that the banking system now requires substantially greater excess reserves than in the past because (1) the abnormally low ratio between banking capital and deposit liabilities, coupled with the scarcity of high-grade short-term investments, forces banks to retain excess reserves for purposes of liquidity; (2) the prohibition of payment of interest on demand deposits has greatly reduced the mobility of banking funds, and therefore the effectiveness of a given volume of excess reserves; and (3) the psychological hangover from the banking collapse has made bankers cautious in their use of excess reserves.

SMS

Dec. 2, 1937

(H.D.W.)

H. D. White

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A. AS YET ONLY VERY MODERATE MEASURES ARE CALLED FOR BECAUSE:

1. The recession hasn't gone far enough, nor is a long continued business decline certain enough as yet to warrant proposing drastic measures for stimulating business recovery. Business may turn up of its own accord this winter or spring. Therefore, the Administration would be well advised, I believe, to avoid taking positive action that might jeopardize the upturn.

2. Outbreak of war between Japan and U.S.S.R. (with European complications) some time during the next few months is likely. Such a war would soon dominate the business situation here.

3. The business community and the Administration both have made curtailed deficit expenditures one of the essential conditions of recovery. We can well afford, I believe, to gamble on recovery for another few months before being forced to retreat from that position.

4. If business does not turn up by the spring, private business will not be able to easily point to some hasty and unusual action promoted by the Administration now as being responsible for the failure. The Administration would then be in a better position to undertake a broad program the effectiveness of which would likely be much greater than were it attempted now.

5. Should business continue to decline this winter, a program involving potent measures will merit and will receive serious consideration. Such a program might well be confidentially and carefully studied in the Treasury during the next two months so that the results can be proposed as soon as hope for recovery in the spring begins to wane.

B. MODERATE PROGRAM THAT COULD BE PURSUED NOW:

1. Cessation of sterilization of additional inflows of gold.

2. No new financing until gold in the Inactive Fund and silver in the General Fund are used up.

3. Modification but not repeal of the undistributed profits tax and the capital gains tax. (If these taxes are repealed and business turns up in the spring, opponents of the New Deal will be in a stronger position to fight for repeal of other and more important portions of the New Deal program.)

4. Consummation of the United Kingdom trade agreement as quickly as possible even though at the expense of better concessions (more for its psychological and political effect than for any immediate actual increase in trade which would result).

These very mild steps, together with the equally mild housing program already initiated, will supply grounds for claiming credit for an upturn should it come, yet leave the Administration free to adopt a positive program in the spring if necessary.

November 30, 1937

Harry Hopkins being absent on the fishing trip in Florida waters with the President and HM, Jr being anxious to know what the unemployment figures showed, he asked Colonel Harrington to come over and discuss it. Colonel Harrington came, bringing Mr. Emerson Ross with him, and the Secretary had Miss Lonigan present.

Colonel Harrington handed the Secretary the attached report. The latter studied the figures for a few moments and then said, "I do not think that you are spending enough money. I was in exactly the same position a year ago and at that time I was responsible for making you spend more money."

HM, Jr then asked Colonel Harrington, "Who is taking care of all these poor people if you are not?" Colonel Harrington replied that most of these people worked over the summer and have enough money to live on.

At this point, the Secretary telephoned Mr. Bell and a copy of their conversation follows on the next page.

After having talking to Mr. Bell, the Secretary said to Colonel Harrington: "I am going to take your figures and go over them with Bell and will then ask you to come over in a day or two."

The Secretary asked Miss Lonigan to go to Boston that night to look over the unemployment situation there. It was Colonel Harrington's suggestion that she visit New England. He also suggested that she visit Connecticut. The Secretary told her he wanted her to see the State, County and Municipal people and see what they were doing.

(Miss Lonigan's report on her visit to is attached.)

November 30, 1937.
2:45 p.m.

H.M.Jr: Hello.

Operator: Mr. Bell.

H.M.Jr: Dan?

D.
Bell: Yes.

H.M.Jr: Where are you?

B: On the Budget.

H.M.Jr: Dan, could you tell me how much you've got down for Hopkins for January, February and March? Each month.

B: Yes. Just a moment.

H.M.Jr: Do you want to call me back?

B: Wait. See if I've got it right here, will you?

H.M.Jr: Please.

B: Hello. Hello.

H.M.Jr: Yes.

B: Hundred million dollars for each of those months.

H.M.Jr: I see. Now this is just for Hopkins.

B: Yes. That's right.

H.M.Jr: Uh-huh.

B: Just for Hopkins - WPA.

H.M.Jr: I see. Uh-huh. I've got Colonel Harrington here, I'm just going over the thing with him.

B: Yes. Well, that's what we got him down for.

H.M.Jr: I see.

B: All right.

H.M.Jr: Thank you.

WPA WORK PROJECTS

Employment Schedule (A)

1937 - 1938	Employment (000)	Obligations (000)
July	1,662	\$115,713
August	1,514	92,081
September	1,458	89,051
October	1,464	89,928
November 20th	1,509,505	
" 27	1,610 1,519,740	
	Estimated	
November	10,235	98,640
December	1,725	110,400
January	1,875	120,000
February	1,875	120,000
March	1,775	113,600
April	1,625	104,000
May	1,475	94,400
June	<u>1,400</u>	<u>89,600</u>
Total Work Projects	1,613	1,235,413
National Youth Administration		50,000
Administrative		<u>66,900</u>
Grand Total Requirements		\$1,352,313
Balances Available		\$1,368,500

WPA WORK PROJECTS

Employment Schedule (B)

1937 - 1938	Employment (000)	Obligations (000)
July	1,662	\$115,713
August	1,514	92,081
September	1,458	89,051
October	1,464	89,928
November 20th	1,510	
		<u>Estimated</u>
November		96,640
December	1,675	107,200
January	1,750	112,000
February	1,750	112,000
March	1,675	107,200
April	1,625	104,000
May	1,575	100,800
June	<u>1,500</u>	<u>96,000</u>
Total Work Projects	1,597	1,222,613
National Youth Administration		50,000
Administrative		<u>66,900</u>
Grand Total Requirements		\$1,339,513
Balance Available		\$1,368,500

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36
65

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WPA WORK PROJECTS

21
60
65

Employment Schedule (A)

1937 - 1938	Employment (000)	Obligations (000)
July	1,662	\$115,713
August	1,514	92,081
September	1,458	89,051
October	1,464	89,928
November 20th	1,509.505 1,510	
27	1,519.740 Estimated	
November	1,023.5	96,640
December	1,725	110,400
January	1,875	120,000
February	1,875	120,000
March	1,775	113,600
April	1,625	104,000
May	1,475	94,400
June	<u>1,400</u>	<u>89,600</u>
Total Work Projects	1,613	1,235,413
National Youth Administration		50,000
Administrative		<u>66,900</u>
Grand Total Requirements		\$1,352,313
Balances Available		\$1,368,500

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WPA WORK PROJECTS

Employment Schedule (B)

1937 - 1938	Employment (000)	Obligations (000)
July	1,662	\$115,713
August	1,514	92,081
September	1,458	89,051
October	1,464	89,928
November 20th	1,510	
	<u>Estimated</u>	
November		96,640
December	1,675	107,200
January	1,750	112,000
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May	1,575	100,800
June	<u>1,500</u>	<u>96,000</u>
Total Work Projects	1,597	1,222,613
National Youth Administration		50,000
Administrative		<u>66,900</u>
Grand Total Requirements		\$1,339,513
Balance Available		\$1,368,500

EMPLOYMENT ON WPA PROJECTS, BY STATE

UNITED STATES AND TERRITORIES

19406

Weeks Ending November 20 and November 13, 1937

(Partly Estimated - Subject to Revision)

State	Number of Persons Employed		Increase or Decrease (-)
	Week Ending November 20	Week Ending November 13	
GRAND TOTAL	1,509,505	1,500,094	+ 9,411
CONTINENTAL UNITED STATES	1,506,917	1,497,526	+ 9,391
Alabama	21,652	21,358	+ 294
Arizona	6,453	6,414	+ 39
Arkansas	19,050	19,099	- 49
California	68,004	66,508	+ 1,416
Colorado	16,577	16,253	+ 324
Connecticut	14,443	14,275	+ 168
Delaware	1,779	1,770	+ 9
District of Columbia	5,802	5,616	+ 186
Florida	23,225	22,818	+ 407
Georgia	21,902	21,830	+ 72
Idaho	5,049	4,639	+ 410
Illinois	106,169	105,596	+ 573
Indiana	42,434	42,180	+ 254
Iowa	16,705	16,660	+ 45
Kansas	25,854	25,714	+ 140
Kentucky	37,354	37,279	+ 75
Louisiana	22,534	22,201	+ 333
Maine	3,170	3,011	+ 159
Maryland	8,732	8,607	+ 125
Massachusetts	62,806	62,312	+ 494
Michigan	42,912	42,725	+ 187
Minnesota	34,725	34,008	+ 717
Mississippi	17,563	17,370	+ 193
Missouri	43,319	42,649	+ 330
Montana	12,019	11,944	+ 75
Nebraska	18,403	17,873	+ 530
Nevada	1,425	1,306	+ 39
New Hampshire	5,039	5,017	+ 22
New Jersey	58,436	58,655	- 169
New Mexico	5,990	5,970	+ 20
New York City	135,223	137,561	- 2,338
New York (Excl. N.Y.C.)	53,251	52,225	+ 426
North Carolina	19,738	19,367	+ 371
North Dakota	11,536	11,168	+ 368
Ohio	87,283	86,936	+ 347
Oklahoma	38,075	38,504	- 429
Oregon	10,075	10,070	+ 5
Pennsylvania	157,180	158,155	- 975
Rhode Island	9,623	9,674	- 51
South Carolina	17,490	16,757	+ 733
South Dakota	14,251	13,937	+ 314
Tennessee	19,845	19,051	+ 794
Texas	45,116	44,056	+ 1,060
Utah	5,934	6,031	- 97
Vermont	2,364	2,265	+ 99
Virginia	17,075	16,758	+ 317
Washington	23,676	22,571	+ 1,105
West Virginia	28,140	27,701	+ 439
Wisconsin	34,620	34,547	+ 73
Wyoming	1,847	1,775	+ 72
Alaska	13	13	-
Hawaii	2,575	2,555	+ 20

12406

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Weekly WPA Employment
Series - Table 2

EMPLOYMENT ON FEDERALLY SPONSORED WPA PROJECT NUMBER 1

UNITED STATES AND TERRITORIES

Weeks Ending November 20 and November 13, 1937

(Preliminary - Subject to Revision)

Type of Project	Number of Persons Employed		Increase or Decrease (-)
	Week Ending November 20	Week Ending November 13	
TOTAL	<u>27,815</u>	<u>27,789</u>	+ 26
Art	3,605	3,573	+ 32
Music	9,920	9,943	- 23
Theater	8,675	8,587	+ 88
Writers	2,926	2,980	- 54
Survey of Historical Records	2,689	2,706	- 17

WORKS PROGRESS ADMINISTRATION
Division of
Research, Statistics and Records
November 24, 1937

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Weekly WPA Employment
Series - Table 3

EMPLOYMENT ON WPA PROJECTS IN SELECTED CITIES

12406 Weeks Ending November 20 and November 13, 1937

(Partly Estimated - Subject to Revision)

City	Number of Persons Employed		Increase or Decrease (-)
	Week	Week	
	Ending November 20	Ending November 13	
Baltimore, Maryland	4,523	4,395	+ 128
Boston, Massachusetts	16,451	16,567	- 116
Buffalo, New York (Erie County)	11,189	11,334	- 145
Chicago, Illinois	50,426	50,496	- 70
Cleveland, Ohio (Cuyahoga County)	22,156	22,082	+ 74
Detroit, Michigan (Wayne County)	12,356	12,499	- 143
Los Angeles, California (Los Angeles County)	25,682	25,706	- 24
Milwaukee, Wisconsin (Milwaukee County)	13,014	13,008	+ 6
New York City, New York	135,223	137,561	- 2,338
Philadelphia, Pennsylvania	23,323	23,216	+ 107
Pittsburgh, Pennsylvania (Allegheny County)	26,613	26,663	- 50
Saint Louis, Missouri (Saint Louis County)	14,852	14,980	- 128
San Francisco, California	13,084	12,909	+ 175
Washington, D. C.	5,802	5,616	+ 186

WORKS PROGRESS ADMINISTRATION
Division of
Research, Statistics and Records
November 24, 1937

EMPLOYMENT ON WPA PROJECTS, BY RELIEF STATUS AND BY STATE

12496

UNITED STATES AND TERRITORIES

Week Ending November 30, 1937

(Partly Estimated - Subject to Revision)

State	Number of Persons Employed		
	Total	Certified as in Need of Relief	
		Number	Percent of Total
GRAND TOTAL	1,509,505	1,465,863	97.1
CONTINENTAL UNITED STATES	1,506,917	1,463,324	97.1
Alabama	21,652	21,202	98.3
Arizona	6,453	6,294	97.5
Arkansas	19,050	18,497	97.1
California	68,004	66,166	97.5
Colorado	16,577	16,245	98.0
Connecticut	14,443	13,836	96.1
Delaware	1,779	1,717	96.5
District of Columbia	5,802	5,541	95.5
Florida	23,225	22,639	97.5
Georgia	21,902	21,548	98.4
Ideho	5,049	4,845	96.0
Illinois	106,169	102,170	96.2
Indiana	42,434	41,171	97.0
Iowa	16,705	16,025	96.3
Kansas	25,854	24,825	96.1
Kentucky	37,354	35,910	96.1
Louisiana	22,534	22,340	99.1
Maine	3,170	3,066	97.3
Maryland	8,732	8,502	97.4
Massachusetts	62,006	62,510	99.5
Michigan	42,912	42,185	98.3
Minnesota	34,725	33,782	97.3
Mississippi	17,563	17,033	97.0
Missouri	48,319	46,079	95.4
Montana	12,019	11,746	97.7
Nebraska	14,403	17,990	97.7
Nevada	1,425	1,393	97.8
New Hampshire	5,029	4,826	97.8
New Jersey	58,486	57,714	98.7
New Mexico	5,990	5,703	95.2
New York City	135,223	130,137	96.3
New York (Excl. N.Y.C.)	53,251	51,589	96.9
North Carolina	19,738	19,193	97.3
North Dakota	11,536	11,326	98.2
Ohio	37,283	35,334	97.8
Oklahoma	32,075	36,661	96.6
Oregon	10,075	9,845	97.7
Pennsylvania	157,100	150,366	95.7
Rhode Island	9,623	9,584	99.4
South Carolina	17,490	17,115	97.9
South Dakota	14,251	13,962	98.0
Tennessee	19,845	19,303	97.3
Texas	45,116	43,649	96.7
Texas	5,934	5,778	97.4
Utah	2,364	2,351	99.5
Vermont	17,075	16,600	97.3
Virginia	23,676	23,339	98.6
Washington	20,140	27,266	97.0
West Virginia	34,620	34,052	98.4
Wisconsin	1,447	1,782	96.5
Wyoming	13	12	92.3
Alaska	2,575	2,527	98.1
Hawaii			

November 30, 1937

Senator Harrison had asked the Secretary to see Messrs. Bilz, Skeen and Le Blanc, whom, the Senator said, "wanted to reorganize the Coast Guard."

The three gentlemen came in at 3:45. They are all Warrant Officers in the Coast Guard

The following conversation took place:

Mr. Bilz: Frankly, Mr. Secretary, this is, you might say, unofficial, simply as three citizens; although we are Chief Warrant Officers we have no axe to grind. We are very grateful to your good self for what we have, but we are still striving to do what we can for the Corps, having in mind the bill that we have up there, whether or not we could enlist your good offices in our behalf on the bill. It has been said you are very hard to see ...

HM, Jr.: I have never been asked, but I had not the foggiest notion what this was. Senator Harrison wanted me to see you gentlemen; said you wanted to reorganize the Coast Guard. This is the bill to make you fellows on the same basis as the Navy?

Mr. Bilz: That's all, Sir. I venture to say it wouldn't take five minutes to paint the picture without benefit of all sorts of counsel with reference to the law. We have here a group of men, the only group that exists in any military branch of our Government, and if it were not for your good self we would not have what we have. Heavens only knows what will happen if you leave. We are deeply grateful to you.

(Mr. McReynolds was sent for and came in at this point.)

HM, Jr.: (To Mr. McReynolds) This is an appointment arranged for by Senator Harrison. Go ahead. (To Mr. Bilz)

Mr. Bilz: I was just saying to Mr. Secretary, in regard to the Corps -- we don't want to take up any

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time.

HM, Jr: That's all right.

Mac, refresh my mind. What's the position? These men know it, but we have so many things. What is the position this office has taken in regard to Warrant Officers in the Coast Guard?

Mr. McReynolds: Recommended against it.

HM, Jr: Why?

Mr. McReynolds: Because there does not seem to be any need for it since the Secretary of the Treasury has the authority to advance the grades as the service justifies.

HM, Jr: I will tell you the argument against it as advanced to me, because I am not an expert on everything and don't pretend to be: that this automatic promotion was unjust to the people who really rendered the Coast Guard outstanding service and that under the automatic promotion there is no incentive for a fellow to work a little harder and take a few extra chances because no matter what he did, he got automatic promotion and we felt if you had a chance to reward those people because they deserved it; that it was an encouragement for men to give the Coast Guard everything they had. That's the long and short of it. If that's wrong, I shall be more than glad to hear it.

Mr. Bilz: I speak as a man of over 30 years' service in the Coast Guard -- the old Revenue Cutter Service. I still stand with my brother Navy officers and argue them down that we have the best little service under the Government right now.

HM, Jr: I think we have too.

Mr. Bilz: I served during the War in the Navy, but as Mr. McReynolds has put it and as you, Sir, so aptly put it, you have some incentive to work for. I have had just as much incentive to work after I became a Warrant Officer and became a Chief, but there are

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100 different arguments can be put up opposing it, but you can't take away the fact, as I said above, if it were not for your good self, and Heavens only knows who will follow and maybe half a dozen others in the years to come -- what protection do we have? There is no legislation, as Mr. McReynolds will bear me out, to protect our Corps. We are made by the administrative head of our service on recommendation of our superiors.

HM, Jr: You are not talking to a military man. You people feel you have not gotten a square deal?

Mr. Bilz: No, so far as protection is concerned, that's not what I am asking.

HM, Jr: Have you or have you not got a square deal from your administrative officers?

Mr. Bilz: Sir, yes, we have, more from you than heretofore.

HM, Jr: Leave me out. I don't decide whether you are promoted or not. Whoever the fellow is who says whether or not a Warrant Officer shall be promoted or not, have you gotten a square deal from him?

Mr. Bilz: That's a moot question. I would venture to say no.

HM, Jr: Always a question of special cases.

Mr. Bilz: Taking it all in all, I don't think we have, for this reason: I got a letter just a short while ago from a man in the Navy. This young chap is Chief Warrant Officer in the Navy and he writes me telling me how he has risen and he tells me, an old timer, what he is. He couldn't see my face is red. I had to tell him I was still hanging on as a Warrant Officer.

HM, Jr: All I can tell you is I will take another look at it.

Mr. Bilz: This is more or less of a gamble.

HM, Jr: Nothing ventured, nothing gained.

Mr. Bilz: And my argument is, if we could not see

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our Chief, then something is wrong.

HM, Jr: No. I am an easy fellow to see. I am not hard to see. I will talk it over and take another look. All I will say is I will take another look.

Mr. Bilz: We have legislation protecting our commissioned line corps, haven't we? We have legislation for the enlisted personnel. We haven't for the down the middle line, for the warrant officers.

Mr. McReynolds: In your commissioned personnel there is no automatic -- pay increase with longevity, but no automatic raise from one grade to another.

HM, Jr: Now, Mac, when you fellows get talking that language, I am at sea. Why don't you fellows go in and see Mac and give him the works. He can take it. Give him the works. He can take it.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: November 30, 1937

TO Secretary Morgenthau
FROM M. A. Harris

Mr. Burgess phoned this morning and asked me to give to you the following list of appointments that he has made:

Wednesday

10:00 A. M. - Messrs. Garner & Rouse of the Guaranty Trust Co.
4:00 P. M. - Mr. Baker, President of the Travellers Insurance Co.

Thursday

9:30 A. M. - Mr. Levy of Salomon Bros. & Hutzler.
3:00 P. M. - Mr. C. J. Devine of C. J. Devine & Co.
4:00 P. M. - Messrs. Mills & Repp of the Discount Corporation.

Friday

11:00 A. M. - Messrs. Aldrich & Green of the Chase Bank.

Mr. Burgess also stated that he thought it would be a good idea to see someone from the Bankers Trust Company and, if it was agreeable with you, he would make such an appointment for Thursday morning.

Mr. Burgess also asked if it would be possible to see you a few minutes sometime tomorrow morning before the first of these appointments.

November 30, 1937

Had Viner, Goldenweiser and Professor Williams
for lunch. The three agreed that it would be a
mistake to do anything about the ^{stabilization} desterilization
fund. They all believe that I should leave it alone.