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February 8, 1938.  
9:40 a.m.

H.M.Jr: Hello.

Operator: Mr. Jones. Go ahead.

H.M.Jr: Hello.

Jesse Jones: Hello Henry.

H.M.Jr: How are you?

J: Pretty good, how are you?

H.M.Jr: A little better than yesterday.

J: That's about the way I am.

H.M.Jr: Jesse. I've got Bell and Taylor sitting here. Taylor told me about his conversation.

J: Yes.

H.M.Jr: Also your offer to take the two boys up on the Hill with you.

J: Yes.

H.M.Jr: This is the way I feel.

J: Yes.

H.M.Jr: We've talked this thing back and forth for a couple of months. You know how I feel. I know how you feel.

J: Yes.

H.M.Jr: I have entire confidence in you, and I'd much rather let you handle it, on the Hill along the lines we talked about it.

J: All right.

H.M.Jr: And for us to send two fellows up, it looks as though there was a difference, we were coming up to watch and all that kind of stuff, and I don't want that.

J: Well I just wanted to be sure that we didn't get -



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H.M.Jr: No. I appreciate it, but I am more than willing to let you handle it for yourself and for the Treasury and for myself. I leave it entirely in your hands.

J: All right. Thank you very much Henry. I'll do the best I can.

H.M.Jr: I know you will.

J: And I'll make it perfectly clear.

H.M.Jr: I mean you'll make it perfectly clear and I'm more than willing to leave it with you.

J: Wayne and I worked out a letter yesterday afternoon.

H.M.Jr: He showed me.

J: Which - all right. Then I'll go ahead and may I speak to Wayne?

H.M.Jr: Yes. Now, just a second.

J: Henry.

H.M.Jr: Yes.

J: I want to talk to you about the bank holding stuff sometime, this week, if I can, the latter part.

H.M.Jr: Well now, when will you be ready?

J: Well, as late as - you going to be here all the week?

H.M.Jr: Yes, but I've got another head on.

J: Yes.

H.M.Jr: And I'd like to make an appointment now, if I knew when you were going to be ready.

J: What I'd like to do. I'd like to have a tentative - a tentative appointment with you, and then report definitely later, because I want first -

H.M.Jr: How about Thursday?

J: Thursday be all right.

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H.M.Jr: Well, let's say Jesse Jones at eleven o'clock Thursday.

J: All right. Fine.

H.M.Jr: What?

J: And that's just - just for the two of us or Wayne, maybe.

H.M.Jr: All right.

J: Just you and I, and Wayne.

H.M.Jr: All right.

J: All right.

H.M.Jr: Now that's - that's for Thursday on bank holdings.

J: Yes.

H.M.Jr: Now, Jesse.

J: Yes.

H.M.Jr: Also, when we get through there, I want to compare notes what's going on in this town on loans to industry with you.

J: On the which?

H.M.Jr: Loans to industry.

J: Loans to industry?

H.M.Jr: Yes.

J: All right. Put that on the calendar for that same time.

H.M.Jr: That's right.

J: All right.

H.M.Jr: I mean I want to - just you and I check what we - we think is going on.

J: I'd like to do it.

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H.M.Jr: See?

J: Well, that's one of the things I want to talk about.

H.M.Jr: All right, let's - we'll do that Thursday and I'll turn you over to Wayne now.

J: All right. Fine.

Wayne  
Taylor: Well.

J: Hello Wayne .

T: Yes Jesse.

MEETING WITH MR. HAAS'S GROUP  
RE BUSINESS SITUATION

February 8, 1938.  
9:55 a.m.

Present: Mr. Taylor  
Mr. Gaston  
Mr. Lochhead  
Mr. Upham  
Mr. Haas  
Mr. Daggit  
Mr. Murphy  
Mr. O'Donnell  
Miss Michener  
Miss Lonigan  
Mr. White

H.M.Jr: Now, George, we will proceed in the usual way.  
I'm to listen, your people to do the talking.

Haas: O.K. Might start with Daggit, take up the domestic  
material first. Then Harry can discuss the foreign.

H.M.Jr: You (Taylor) want to sit over here and see the  
charts? Let Mr. Taylor sit here.

Daggit: I haven't much more to add to what we did last week.  
The commodity situation looks very encouraging to me,  
especially when you consider that futures, which  
reflect sentiment more quickly than spot commodities,  
have held extremely steady since - oh, the latter  
part of November and throughout this ....

H.M.Jr: May I have this (chart) a minute. This is for my  
purposes no good - I mean for what I want.

Daggit: Through this decline ...

H.M.Jr: That isn't what I want. Go ahead.

Daggit: I'll come to the British ...

H.M.Jr: This hasn't got the British. Well, I'll wait.

Daggit: Might take up the British next.

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

Daggit: Want to compare the decline in the stock market with  
the decline in futures. Future commodities have held

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very steady to this decline in stocks.

Now, the British prices have been relatively weaker than the prices in the United States. This is Reuter's index, which went to a new low during the early part of February. This was the latest low. However, those commodities have held steady during the past week.

Moody's index has held quite a bit above the low reached last December.

H.M.Jr: That (Reuter's) seems to go down.

Daggit: Yes, that has been weaker than the nearest corresponding index in this country, which is Moody's.

Looking back over the stock market action, it seems to me very encouraging that stocks have held for three months or more at a very stable level, considering what's happened to business. Industrial stocks got slightly below the November lows in December, but have since held above them. On this latest weakness, the rails have got slightly below, but no important liquidation has come out. The volume on this decline was less than on the December decline, and that on the December decline was materially less than on the November decline.

That seems to indicate that liquidation is drying up, which is confirmed by the brokers' loans. The brokers' loans have been reduced considerably since this November low.

H.M.Jr: Incidentally, I don't know if any of you read the New Republic, but this week's article by Mr. Flynn on S.E.C. - short selling - explaining what happened last September. I don't know where he got it all from, but - I mean how five people did 24 percent of the short selling and 54 people did 60 percent of the short selling.

O'Donnell: S.E.C. made a study of that.

H.M.Jr: Well, this was in language that I could understand. And it's this week's New Republic - Flynn. It's

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very interesting. He boiled it down. Flynn writes so differently for the New Republic than he does for Scripps-Howard. When he writes for New Republic, I like him.

Gaston: Well, if you read the one the week before, I don't think you'd like it. The most ignorant mess of nonsense on Social Security. This last one was good. I read this last one.

H.M.Jr: This was a good one on somebody else.

Gaston: Yes. I don't know the facts, so I assume he's correct. I know the other. I know on the other one his facts were not correct.

H.M.Jr: All right. But you agree this one was good.  
All right.

Daggit: An interesting fact that the S.E.C. reports brought out is that odd-lot buying has been a very strong sustaining factor on this entire decline. From the middle of August, when the fall peak was reached, up until the middle of December, or the end of December, odd-lot buyers had bought seven million shares. I talked to people over in S.E.C. and they say that that - by far the larger part of that has been for cash, which seems to me a favorable factor in the market, although ordinarily we think of heavy public interest as being unfavorable. If that were on margin, it would be unfavorable, but being for cash, it would seem to be in strong hands and would be reducing the floating supply of stocks, which is a bullish factor.

These are individual commodity charts.

H.M.Jr: They don't particularly interest me, unless there is something ....

Daggit: This shows the British Consols compared with United States long-time bonds.

The stock prices, since the increasing seriousness of the war situation, have been going down, and yesterday they had quite a sharp drop. French stocks have gone down too.

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H.M.Jr: I didn't know that.  
I want this one. Isn't this a new one?

Daggit: I don't know. It looks new.

H.M.Jr: Isn't that a new chart?

Haas: Same material reconstructed. Put it on a new year.  
We have had the same thing.

Daggit: That shows up also in foreign transactions in our  
markets.

H.M.Jr: Just a minute.

Daggit: Great Britain yesterday sold fairly heavily in our  
markets, whereas during January it had been on the  
buying side.

H.M.Jr: Yes.

Daggit: The total is shown up here, and the individual  
countries in this detailed chart. Great Britain  
was the only one that sold in any volume yesterday.  
There was a very slight selling from France, from  
the Netherlands, and very slight from Switzerland.

H.M.Jr: Well, in view of that, I'd say the market stood up  
pretty well yesterday.

Daggit: That was about a million and a half net shares from  
Great Britain.

H.M.Jr: You (Taylor) got that?

Taylor: Must be dollars.

Daggit: Oh yes, that's in dollars.

H.M.Jr: Dollars.

Daggit: Yes.

H.M.Jr: What else?

Daggit: On the business situation, there is a slowing up tendency. The New York Times index was unchanged, but certain items in the index were down while others were up.

Automobile production continued down.

H.M.Jr: It's very sour, and it's all Chrysler, if you'll notice.

Daggit: Yes. Well, they're expecting an increase this week, when Chrysler resumes operations.

H.M.Jr: Oh, did they?

Daggit: Yes.

Steel production during the current week, which doesn't appear on these charts ...

H.M.Jr: Is Chrysler going to resume production?

Daggit: This week they're expected to.

Steel ingot production is down this week. No, that would be the week just passed. It doesn't appear in the New York Times index yet.

This should go down and then for the current week will hold steady, with a slight upturn; that's the way the steel chart would look.

There seems no definite change in the business situation other than this slight slackening tendency. Various indications point to a continued reduction of inventories, particularly in retail channels. We hear reports now of retailers not having goods that consumers call for. Someone in the textile trade has called attention to the losses that retailers are probably suffering because they can't satisfy the consumers' demands.

H.M.Jr: All right. Anything else?

Daggit: I can't think of any other important type of ....

Hans: Secretary asked about the woolen industry last time.



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H.M.Jr: I got that.

Daggit: Yes, you got that.

H.M.Jr: I gather the industry is better than American Woolen, isn't that the point?

Daggit: It seems to be either that the industry - either that American Woolen hasn't yet reflected the bullish situation in the industry, or that the industry in general is better than they are.

H.M.Jr: I read all the memoranda last night, so I'm up-to-date. O.K.

Who's next, George?

Hass: Mr. Murphy has some material on the automobile situation. You asked in particular about the export situation, and I asked him also to look up the used car situation, which he has done.

Murphy: What I have isn't in any way a review of the current automobile situation, but it deals with specific points of interest in the automobile situation.

The first has to do with the relative importance of export trade in domestic demand. I have a table here going through it by months, showing the - here's a complete set of tables showing the percentage of automobiles that are made for export demand. You will note that there is an increase in the percentage from 3.8 in August to 13 percent in December; but there are a number of qualifications which I think greatly reduce the importance of that. There has been some decrease in the domestic and some increase in the export trade.

Here are the absolute figures. There are the factory sales in the domestic market and there are the factory sales for the export market. You will note that the export figures include assemblies that are made abroad from American-made parts, so that means that part of the value of those units originates in foreign countries and, therefore, dollar for dollar the export figures do not represent as much national income in the United States.

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Mr. Haas called up Mr. Smith, Vice President of General Motors Export Corporation, for his ideas on export sales - absolute figures - and I listened in on the conversation. Mr. Smith said that it very logically reflected the slightness in domestic sales; that while export demand was satisfactory and no doubt the foreign markets were in better shape than the domestic markets, it wasn't anything like reflecting - it wasn't anything like the magnitude reflected in the figures; that normally they stock their foreign dealers after they have stocked their domestic dealers, but on account of domestic trade being so slight they had surplus capacity and surplus production in the United States, and they exported earlier than they usually do, so to some extent they have anticipated their shipments and there will be a subsequent falling off during the first part of the year.

H.M.Jr: I see. So it isn't something of great importance.

Murphy: It is not something of great importance.

H.M.Jr: That's what I wanted to find out.

Murphy: It isn't a fact of the first order of magnitude.

H.M.Jr: That's all I wanted.

Murphy: Here are the same figures with respect to busses and trucks. The only thing to note there is that they are of much less absolute importance. The exports form a much larger proportion of the total.

Now, you'll notice that the figure for the whole year 1937 is 22.8 percent. A larger proportion of busses and trucks are exported, but the relative picture is about the same, although not of the same order of importance.

H.M.Jr: Well, in value it's about 30 percent, isn't it?

Murphy: Yes; of course, they're more valuable per unit. I haven't the figures on the relative value of the units - not available.

The same underlying facts are true ....

Taylor: Tractors in there too?

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Murphy: Everything except passenger cars.

H.W.Jr: All right. This is worth watching.

Hans: Yes.

Murphy: The second aspect of the automobile industry I want to take up is the relative new and used car position. There is considerable comment around that the used car sales are doing much better than new car sales, and that's a bright factor in the picture. I have here a series which I have taken confidentially from the Automobile Manufacturers Association, which is estimated - based on a sample of estimated retail sales of new and used cars in the United States. The series goes through December. You will note that during November and December used car sales are holding up much better than new car sales. In December they were 76 percent of the previous year, as compared with only 49 percent for new car sales. The same tendency is continuing into January.

Mr. Court, the statistician of the Association, says that this is the phenomenon normally to be expected at this stage; that is, early in a recession that the dealers tend to concentrate their efforts on used cars, because selling used cars improves their position much more than selling new cars - reduces their inventory, gets down their loans, increases their cash. Also, consumers become more economy-minded and become better markets for used cars than new cars, relatively. So he feels this is a development of a situation to be expected, but it is - it fundamentally represents an improvement in the situation. The real demand for automobile transportation in the United States hasn't gone down nearly as much as we might suppose from the new car sales figures. The people are buying used cars.

The final aspect of the automobile situation that I wanted to take up is the cut in Packard prices. I queried Mr. Court on that at some length, and he says that it is the feeling in the industry that this cut represents a technical adjustment of Packard prices; that Packard prices had been increased much more than the prices of other cars during the last model year and that they were out of line, in fact, and were moving back into line. The Wall Street Journal has

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a rather long article endeavoring to prove that, presenting a table showing the relative prices of different makes, and I call your attention to the comparison between Packard and Buick. Packard began the 1937 model year at \$695; they got it way up to \$1075; now they are back down to \$975. If you will compare that with Buick, you will see that Packard got way out of line with other cars in the same class.

I wouldn't like to commit myself irretrievably to Mr. Court's position in this respect, and neither would Mr. Court. There are always two points of view. A person that makes a price cut always maintains that this is just a technical move, and while the opinion in the industry is still that the Packard price cut merely tends to bring it more in line with other makes, it may well be the first crack in the ice of the new car price level. And it is very hard from this distance - all I can do is take their views on the basis that they think the price structure in the industry will confirm itself.

- H.M.Jr: The worst thing right now is the Chrysler situation. Who knows anything about the Chrysler situation?
- Haas: We can find out.
- H.M.Jr: I thought I might call up Mr. Chrysler and ask him. That's the worst picture.
- Murphy: I didn't talk to Mr. Scoville this week.
- H.M.Jr: who is Scoville?
- Murphy: He's the statistician of Chrysler.
- Haas: Been there for a long time. Chrysler would be better.
- H.M.Jr: I think I'll call up Walter Chrysler and ask him if he's got somebody ... - because this automobile thing looms so big in the picture.
- Haas: You asked Mr. O'Donnell on the domestic situation a question with respect to the fourth quarter corporate earnings.

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H.M.Jr: All right.

Q'Donnell: The evidence is not conclusive as yet, with the reports that have become available, to know exactly how we stand with reference to our estimates. There were, as of yesterday, only 29 companies out of the series that we use in our small sample of industrial corporations that have reported. Those 29 companies that have reported are heavily weighted with the kinds of companies that ordinarily report early, and especially steel companies, all of whom had a very bad year. And we just can't tell yet.

We did, however, make one comparison which I think will interest you. The Standard Statistics does run a comparable series to our own, and they do forecast the relationship of the fourth quarter with the previous year's fourth quarter and with the third quarter, not all evidence being available. Now, they estimate that the ratio of fourth quarter 1937 earnings to the fourth quarter of the preceding year will be 73.33 percent. In other words, they expect that decrease as between last year and the fourth quarter of '37.

H.M.Jr: 73 percent?

Q'Donnell: 73. And, as compared with the third quarter of 1937, Standard Statistics estimates that that relationship will be 75.29 percent. I am speaking now of industrial corporations.

H.M.Jr: Yes.

Q'Donnell: Our estimate that we used in the budget estimates, which we have derived by correlations, because we don't use just a few companies like this, was 66.67 percent ratio for the fourth quarter of '37 to that of '36. That compares with the 73 percent figure of Standard Statistics.

And we used 71.59 as compared with 75.29 ....

H.M.Jr: That isn't for my purposes - I mean make it easy for me. Fourth quarter of '37 and fourth quarter of '36, isn't that enough?

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O'Donnell: Yes. Well, both of them are very helpful, because we had reached a very much higher level in the third quarter of '37 ...

H.M.Jr: Let's just see. Fourth ...

O'Donnell: Fourth quarter of '37 as compared with fourth quarter of '36.

H.M.Jr: 1937 fourth quarter, 1936 ... Now, this is Standard Statistics?

O'Donnell: I can give you the Standard first. The Standard was ~~73~~ 73.33.

H.M.Jr: How much was it?

O'Donnell: 73.33.

H.M.Jr: 73. ...

O'Donnell: ...33.

H.M.Jr: That's '37.

O'Donnell: That's correct; that is, with '36 as it was.

H.M.Jr: Yes.

O'Donnell: Then our estimate was 66.67.

H.M.Jr: Treasury's was how much?

O'Donnell: 66.67.

H.M.Jr: 66. ...

O'Donnell: That's right.

H.M.Jr: What?

O'Donnell: 66.67.

H.M.Jr: 66.67.

O'Donnell: Then if you want to compare the fourth quarter with the third quarter, both of '37 ....

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- H.M.Jr: Let me listen. I'll see whether I want to write it down.
- O'Donnell: Standard Statistics had 75 percent, we had 71 percent. Now, those things are both in the same direction, you will note. In other words, Standard estimated in the same direction....
- H.M.Jr: Yes.
- O'Donnell: ... as we did, in both instances.
- H.M.Jr: Yes.
- O'Donnell: Now, as to the sample of corporations ....
- H.M.Jr: In other words, Standard Statistics think they will be 73 percent and we estimated 66.
- O'Donnell: That's correct.
- H.M.Jr: Now, if theirs comes out, that will be a little better.
- O'Donnell: That's right. In other words, we are more conservative than they are.
- H.M.Jr: Which also checks up with the impression I got reading the daily papers.
- O'Donnell: Now, if you take the 29 companies that already reported, you get a very biased sample. For instance, one of those 29 companies is the DuPont Corporation. DuPont represents over half of the sample, when you deal with the income of the company. And their figures are very sadly biased, because more than half of their income is received in the form of dividends from the General Motors Corporation, which reflects the automobile situation.
- H.M.Jr: Well, frankly, I don't think 29 companies is worth enough.
- O'Donnell: It isn't. And the steel industry particularly represents another 25 percent ...

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- H.M.Jr: I wouldn't give it to me, because Standard Statistics uses how many companies?
- O'Donnell: Well, Federal Reserve uses 168 and Standard uses about that many industrials. Your Standard figures are only the industrial figures, because that's the comparability.
- H.M.Jr: Well, when will they have another figure, Standard?
- O'Donnell: This figure was obtained by telephone on Saturday, I think, from them, so it's a very current figure.
- H.M.Jr: Well, I'd ask them again Saturday....
- O'Donnell: All right.
- H.M.Jr: .... whether there's any change in that figure. But I think if we take Standard Statistics, then keep developing your 29 until you've got something - but I don't know whether it's good or bad from 29; it isn't enough.
- O'Donnell: We can follow the Federal Reserve series in New York of 168 corporations, and we can follow our own index that we run.
- H.M.Jr: And let's have that every Monday until we get along.
- O'Donnell: I don't know whether it will keep that ratio.
- H.M.Jr: If it does, that's very nice, isn't it?
- O'Donnell: Yes, except that the ratio that I gave you is purely an estimate ratio of the Treasury.
- H.M.Jr: 66.
- O'Donnell: Yes, that's not based on these 29 companies.
- H.M.Jr: No, no, that's based on ....
- O'Donnell: That's based on a compilation of our forecast. That's right.
- H.M.Jr: No - I mean I'm not going to take much stock in the fact Standard Statistics are higher, but the



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fact they are not lower is encouraging, isn't it?

O'Donnell: That's all right, except that our 29 companies are very much lower.

H.M.Jr: Very much lower than the Treasury?

O'Donnell: Yes, the fourth quarter of '37 to the fourth quarter of '36 is 59 percent. Very heavily weighted with steel.

H.M.Jr: That's all right. But let's - I'd rather take Standard Statistics for the moment until we get up to a hundred companies, then let's take a look at it.

Haas: That's right.

O'Donnell: Then too, Mr. Secretary, that gives you some indication on corporate income, but that is only a portion of the income which will be reported on March 15. You see, you've got all the individual incomes. It is an indication.

H.M.Jr: Well, watch it. I'm not even going to pass it on to the President. But I just want to get a picture.

Haas: Now, Harry has some interesting observations on the foreign aspect.

H.M.Jr: All right.

White: The foreign situation has definitely become worse. The symptoms now are ....

H.M.Jr: Louder, Harry.

White: The symptoms are becoming much more certain. In Europe we have the British situation deteriorating fairly rapidly, for England. In Denmark - Scandinavian countries have begun to turn down; Denmark situation is becoming worse. Netherlands - France is pretty bad. Germany - you know as much as we do about that. And Italy too - the matter is uncertain.

The European picture as a whole, as I say, is turning down. It is characterized chiefly by increasing

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unemployment - sharply increasing unemployment, though there are also the concomitant factors of decreased trade, decreasing shipping earnings, so on.

There is just one point with respect to England that I'd like to call your attention to. England is pursuing a very definite easy monetary policy in contrast possibly with our own. In January of this year, for example, though her unemployment figures didn't begin to approach ours, though her industrial activity is very high - she's turned the corner but still very high - and though money is very easy, she has what would be equivalent to increased her excess reserves by a hundred million dollars, definitely, through - intentionally, I don't mean accidentally - ....

H.M.Jr: Hold your thought. When you're through - I haven't seen the excess reserve figures for the last three or four weeks. When you get through, if somebody has them on their fingertips, so that - I mean get them while he's talking. I want to know what the excess reserves are since the first of January.

(Murphy goes out for requested figures)

White: Our excess reserves have increased partly by virtue of the decreased demand ....

H.M.Jr: Well, I thought they had gone down.

White: Our excess reserves? No. They've risen. Commercial loans ....

Rees: Ceasing of loans has caused them to go up.

White: But our increase is a bad sign, in a sense; it is accompanying a recession. Their increase was an intentional one.

H.M.Jr: How did they accomplish it?

White: Well, they accomplished it by not .... I think the operation, which is rather technical and complicated, can be more easily understood if

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I use American terminology rather than British terminology, so it won't be identical with what they do, but the process is the same.

In the Christmas season they did what would be equivalent to open market operations in which they increased excess reserves by 20 million pounds, about a hundred million dollars. Then, when that money flowed back in the spring - rather, in January, instead of taking the reverse action to put that back, they have not taken the reverse action. They have deliberately left it out.

H.M.Jr: I see.

White: And they are also talking, I notice in Butterworth's cables, about lowering the rediscount rate to one percent. In other words, what they are doing is making every attempt now, in so far as monetary policy is a factor, to remove all brakes and even speed up the situation, even though - I'd like to emphasize this - even though they have not turned down much yet; they are not waiting.

The Far Eastern situation is not a factor in the present continuation of the recession, any more than it was in the past few months. In fact, our exports to Japan have slightly increased. They are buying more cotton. Our exports to China are a little bit less, but the amount less is negligible.

The Latin American situation. Argentine is getting worse. Mexico's trade has very sharply declined, owing to her recent moves. Brazil, curiously, and I don't understand why, has not reduced her imports, notwithstanding her exchange difficulties. Schmidt recently sent a report. Maybe he has an explanation of it. There is no explanation in the data that are available to us.

Taylor: A very good report.

H.M.Jr: Have you got it now?

Lochhead: Yes.

White: So he may have the explanation to that. I don't

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know what the explanation is. We would have expected Brazil to sharply cut her imports, but she hasn't - not from us.

H.M.Jr: You say we have those reports from Schmidt? Well, it's about time.

White: Well, no, he's been sending small reports in. Sent this very quickly in response to the request.

H.M.Jr: All right.

White: Canada is the only one of significance that's left. Canada has been doing very excellent business, with the exception of very recently her exports have begun to decline sharply, due mostly to our decrease in purchases. That is, our decreased imports are beginning now to affect various countries.

Our own exports, which have been holding up excellently until January, have begun to decline sharply; our tentative figures show pretty substantial decline.

So on the whole one can say the international situation is beginning to be somber, bad.

(Murphy returns)

Haas: Miss Lonigan - she's been out in the field.

H.M.Jr: I know. Just ....

Murphy: Did you want the excess reserves?

H.M.Jr: Just give them.

Murphy: They've increased from an average of a billion 71 million to an average of a billion 409 million in the week from January 22 to 28.

H.M.Jr: Where does that show?

Murphy: Here's a table that shows the excess reserves and shows their distribution in the various cities. You notice that the increase is due principally to the returned currency from circulation after the

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Christmas holidays. That return has been much greater than - has been considerably greater than the outflow of currency at the beginning of the Christmas season.

- H.M.Jr: well, of course, suppose - I was just thinking... Just leave this with me. As far as cheap money goes, we're borrowing at decimal eight. Now, can you screw it any lower than that?
- White: No, our policy of discount rates and interest rates has been, in so far as the Treasury has any control over it, or the Federal Reserve Bank - has been extremely low. But their difference lies in their taking measures to make sure there is plenty of money; and their interest rate - central bank interest rate is more significant in England than ours is here. So, though we have maintained a low interest rate policy ...
- H.M.Jr: Yes
- White: ... it hasn't had the same effect as it would have had in England.
- H.M.Jr: Does anybody know what they borrow 90-day money for, the Government?
- White: I think it's about five-eighths of a percent, but I can find out exactly. Five-eighths or a half.
- H.M.Jr: It would be interesting.
- White: I can give it to you instantly.
- Lochhead: Their short-term market is higher than ours, because they're paying one percent on deposits - the banks over there; so it's even attracted a little money from this market over.
- H.M.Jr: How much short-term money has left us now since Labor Day?
- Lochhead: Since Labor Day it's about five hundred million, little bit over five hundred million.
- White: How much has left us since ...

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H.M.Jr: Net movement of capital out of the country.

Taylor: Labor Day.

H.M.Jr: Since Labor Day I think it's a little less than that.

Lochhead: But in the last month, since January 1, it's been about 51 million dollars, total net outflow.

H.M.Jr: Since when?

Lochhead: Since the first of the year.

H.M.Jr: All right, Miss Lonigan.

Lonigan: Mr. Secretary, I haven't a pleasant report.

H.M.Jr: A pleasant one?

Lonigan: No.

H.M.Jr: Well, have you heard anything pleasant here this morning?

Lonigan: No. I'm sorry that I have to add to it.

The mass lay-offs have stopped. You do ....

H.M.Jr: What's that?

Lonigan: The mass lay-offs are not continuing, but you have two other things.

I talked to a public accountant in Rockford who has been handling accounts for the city of Rockford for 25 years, and he read me case history after case history of firms that he had known - firms in Rockford - which all had exactly the same story. The men over-ordered in July and August. The salesman said, "Cover yourself for your Christmas requirements." They over-ordered in July and August, they got the goods in November, just about the time their markets broke, and they got the bills on the 10th of January. They went to the banks and asked for money, and this man said the banks said, "Thank you, Mr. Moto, we

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don't want your business." They can't get money, they can't get any working capital, they have no credit to buy new raw materials, they have no bank credit with which to pay for payrolls. And if the tide turns, as I think it will ...

H.M.Jr: If the what?

Lonigan: When the tide turns on the seasonal basis ....

H.M.Jr: Which way?

Lonigan: Up. I mean the tide, the major lines. .... they won't be floated off. They haven't the means with which to be floated off. They won't be employers, they won't be making employment next March and April. There is a group of firms which cannot get working capital.

H.M.Jr: What kind of firms?

Lonigan: Retail business. Manufacturers of veils, manufacturers of hosiery, manufacturers of clothing, automobile dealers, furniture manufacturers, and glass manufacturers.

H.M.Jr: Now, who was this fellow?

Lonigan: This man is a certified public accountant. He's been in the business of auditing reports for these companies. Been in it 25 years, knows Rockford. He has made autopsy after autopsy of these companies. I mean that's the expression; suggests they are being murdered, and they are. There is a percentage of firms that won't be floated off by any type of business recovery unless they have working capital to pay for their materials, clean up their debts, get money for payrolls.

H.M.Jr: And the banks won't take care of them?

Lonigan: The banks won't - Mr. Secretary, the banks have not been lending institutions for small business in many years. They haven't been, they're not lending institutions so far as small business is concerned. This man said, "The banks are no asset

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to an industrial community." I find the same thing everywhere. They take in the house, fore-close the mortgage, put their money into operating the house, but they do nothing for industry. It isn't there. That's the structural thing that I mentioned yesterday. Now, they won't be employers this March and April.

Now, I've got a picture of the relief situation.

H.M.Jr: Go ahead.

Lonigan: I saw the Director of the Illinois State Unemployment Office. I said, "Can I go down into the districts? I want to see the people when they come and ask for relief." He sent us down to the district offices in South Chicago and Halstead. I talked to the people who were interviewing the clients. I went out into the outside room, where the people came in. They said, "You came at the wrong time. Should have come this morning. In the afternoon everything is very quiet."

I went to a room that was not as large as this; you'd have to take a third off this room. In that room there were 200 men - this is a quiet time - there were 200 men and women sitting there, waiting to be interviewed. Four girls up on a desk, about a foot higher.

Is it all right to go into detail? Do you want this picture?

H.M.Jr: Yes.

Lonigan: There were four girls up on a row, and somebody stood in the corner and shouted the man's name and he walked up and told his story. And they do that from 9 o'clock in the morning until 5 o'clock at night. On the basis of one interview they decide whether to give the man groceries or whether to help him at all or whether to put him on WPA. They know that's impossible. It isn't a system.

H.M.Jr: Which organization is this?

Lonigan: The Illinois Emergency Relief Commission, the only relief ... WPA can't get into the picture until a



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relief agency has been effective.

Now, as to the Chicago picture, Grace Abbott, who is a very steady person, very sensible person, said the relief intake offices were madhouses. That was her description. I mean she's a calm, steady person. "They're madhouses."

One of the women said to me that she came into relief administration in 1931, she'd been with it from '31 to '38, and January was the first time in her career that she was afraid. She went out into the relief offices. The girls told her they were afraid to go back in. She went out and took a look at the thing. She could not go in. Just would have been foolhardy. She telephoned for the police. Police wouldn't send anybody up. Then the central office of the Commissioner telephoned the police headquarters and they sent out four men; and that day three of her workers were assaulted. She said nobody's been killed yet. That's the situation in Chicago.

H.M.Jr: Grace Abbott is not ....

Lonigan: No, the local girl in South Chicago. I want to add one more fact to that, Mr. Secretary. The applications for WPA in Chicago are falling.

H.M.Jr: Are what?

Lonigan: Are falling. Chicago has not been hard-hit. Those two facts go together.

H.M.Jr: How do they go together?

Lonigan: Chicago has relatively not been hard-hit. There are still jobs opening up in Chicago. There are no jobs opening up in Rockford, no jobs opening up in steel cities and automobile cities. There are jobs opening up in Chicago. It's like New York - so many industries.

H.M.Jr: How do you get that WPA is not on the increase but relief is?

Lonigan: The group of people who were put out of WPA last

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spring - the group of people that are leaving WPA today to get jobs is greater than the group of old WPA people coming back.

Now, on the other hand, WPA is certifying - is asking the Illinois Relief Commission to certify people on what they call doorstep certification.

H.M.Jr: I didn't get that. Is that in your report, this stuff?

Lonigan: The report isn't finished yet. I don't know how much you want in this meeting.

H.M.Jr: Well, let me - I just want - if you would take a couple minutes .... I mean I'll read what you have to say - always do - but I'd like ... Aubrey Williams is coming in at 11 o'clock. Now, here's what I want to know from you. In Illinois is the demand on the WPA - is it going up, or is it staying still, or is it going down? I can't go into the State of Illinois and do this.

Lonigan: The WPA is certifying people on the - is asking them to be certified by the Relief Commission. They are being sent in by the precinct captains ....

H.M.Jr: You're not answering .... I'm asking, are the demands on WPA in the State of Illinois going up, standing still, or going down?

Lonigan: The visible demand is going up. I don't think it means anything.

H.M.Jr: The visible demand is going up.

Lonigan: (Nods yes)

H.M.Jr: Well then, are they taking care of everybody? Is their quota big enough?

Lonigan: They're pushing people on when the local administrator says he doesn't need people. They're sending the quota up and telling them to put people on anyway.

H.M.Jr: See, you're not giving it to me clear.

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- Lonigan: It isn't a clear situation, Mr. Secretary. I know it isn't clear.
- H.M.Jr: I mean you've got me all confused.
- Lonigan: I know it isn't clear.
- H.M.Jr: Let me put it this way. Please give me a clean-cut answer to this. Mr. Williams is coming in. Now, supposing he says, "Based on the situation in Illinois, I need for the country another hundred million dollars more." Does he or doesn't he, based on the situation in Illinois? Now, don't - give me "Yes" or "No."
- Lonigan: I don't think he needs it.
- H.M.Jr: What?
- Lonigan: I don't think he needs it.
- H.M.Jr: You don't think, based on what you saw in Illinois, they need another hundred million dollars.
- Lonigan: I think they need it in direct relief. Can't put it to work in WPA. You can't put a man on WPA just ... WPA is now a public works program. They've got the same difficulty as the PWA; can't put a man to work on that.
- H.M.Jr: I don't want to get into a discussion of whether we want work relief or direct relief. That's something else. But, based on Illinois, the program the way it is - the way Hopkins is running it, can they use more money at this time?
- Lonigan: I don't think they can use more money to the advantage of the unemployed. That is an opinion, not a fact.
- H.M.Jr: The way they're running it now.
- Lonigan: I think they're running it very ably, Mr. Secretary. I think Colonel Harrington is doing a magnificent job. I don't think the money should be put there.

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H.M.Jr: If you'd answer my questions .... You never give me a direct answer. You won't answer me "Yes" or "No." I'm going to ask ...

Lonigan: I said "No," Mr. Secretary.

H.M.Jr: What?

Lonigan: "No."

H.M.Jr: All right. Now, when can I have your report?

Lonigan: Well, I want to get it out by 1:30, because I'm supposed to be - I've got self-help.

H.M.Jr: This has nothing to do - but while you're here, how is Mr. Rall getting along?

Lonigan: You mean with his work?

H.M.Jr: With this housing.

Lonigan: I'm seeing him today. Can I send you a note after lunch?

H.M.Jr: Ask him whether he won't send me a progress report - where he's at; I haven't the foggiest idea where he's at. I know he's put in his application for \$30,000 for the thing, but I don't know how he's getting along.

Lonigan: Yes, sir.

H.M.Jr: And would you give Mr. Haas - get the name of this accountant in Rockford.

Lonigan: Mr. Secretary, may I ask one more thing?

H.M.Jr: You can ask me two more things.

Lonigan: This program involves six million families, and my figure shows so far ....

H.M.Jr: Which program?

Lonigan: The welfare program in its various aspects. My figure so far shows an expenditure - not a loan, mostly all expenditure - of \$16,750,000,000. I

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don't think that money is going for the benefit of the unemployed. Now, when may I have a chance to tell you how it is going?

H.M.Jr: Well, you wrote me a long memorandum on that.

Lonigan: That's only the beginning of it. This - Mr. Secretary, I can't make this a simple program, I can't give you clear and simple answers - not to 16 billion dollars.

H.M.Jr: Well, the way I'm situated now, better put it in writing.

Lonigan: All right.

White: Mr. Secretary, I'd like to make a criticism, if I may, and a comment - perhaps I'm out of order, but I'm interested in the reports which are being made, and I have a feeling that the reports have a large element of the subjective, of the impressionistic, which is very valuable; but I'd like to see that coupled - and possibly it is, except that I don't hear of it here - with more objective, total, clear-cut data with respect to various things, so that if - I mean what gives me pause is, I'm not sure if you're making decisions on a basis of this kind ....

H.M.Jr: Well, but the other thing ....

White: I mean with all due - I'm not criticizing her.

H.M.Jr: But another thing you've got to be careful of is this. The most important thing is - I mean it is to see that I keep my balance, you see. Now, I - frankly, I don't know how much good it does me to tell me that there are two hundred people in a room, and that story, if there is nothing I can do about it.

Lonigan: Well, you ....

H.M.Jr: And I don't see where it fits in the picture, because on the one hand you tell me this terribly upsetting story and on the other hand you tell me that WPA

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doesn't need any more money. I mean I can get enough narrowing stories, but if you tell me a narrowing story, before you tell it say to yourself, "What can I tell Mr. Morgenthau that he, as Secretary of the Treasury, or the President of the United States, can do to correct it?" I mean it isn't fair to bring in these things to either the President or myself, any more than I did to him - something which upsets you terribly emotionally and at the same time - I mean just dump it in your lap and then nothing can be done about it.

- Lonigan: The Federal Government is the most important factor in the relief situation. Its withdrawal from relief still leaves it ....
- H.M.Jr: Now listen, Miss Lonigan, you're of age, and you just can't dump these things in my lap and - and make a - that long report you wrote me on the 16 billion dollars didn't have any conclusion. All you suggested in the thing was that we extend these self-help things.
- Lonigan: Well, the first conclusion is the revival of the Federal program of direct relief.
- H.M.Jr: You didn't say that.
- Lonigan: No.
- H.M.Jr: You didn't say that.
- Lonigan: No. That was not referring to specific programs.
- H.M.Jr: If you don't mind, it was just upsetting. You didn't ... I read it, then when I got through I said, "What's Miss Lonigan ....."
- Lonigan: Well, I can give you six programs. I don't know what your program is with respect to budget. If you can't spend any money ....
- H.M.Jr: Well, you'll have to - again, as I say, Haas has got his group, and while I want to get what you think, at the same time I don't want to get upset emotionally, because my responsibility is too great. I mean Mr. Haas might have a report of what is happening today in Germany, and he might give me a description of it;

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I don't know whether he might or mightn't. Might be terribly upsetting. Then when I get through - "All right, what can I do as Secretary of the Treasury?"

Lonigan: The things that need to be done ....

H.M.Jr: I mean I can send for Dr. Parran and he can tell me how many people are on the county in Alabama or Georgia, who have no medical care, and how many babies are born blind, and all sorts of things. "All right, what can I do about it?"

Lonigan: The first thing is to put Federal money in a relief program, to pick it up where it was dropped.

H.M.Jr: I made the statement to Corry Gill that what they're going to do is put two million families on a shute and let them go. I said, "You sold them down the river."

Lonigan: Well then, that's got to be revived. That's the emergency program.

H.M.Jr: It was nine hundred thousand people that they said they weeded out that couldn't work.

Lonigan: Nine hundred thousand... - pardon me?

H.M.Jr: At that time that they laid off.

Lonigan: You see, I get all these people - everybody in the program has tried to reach the President; they can't do it. All these people - they believe that you have to revive direct relief. Now, I don't know whether you want to be .....

H.M.Jr: Well, that's a very simple thing to say, but base it on some facts.

Lonigan: Well, Mr. Secretary, again, Mr. Haas said he was quite sure that he could understand this, that it was properly presented. I said, "How would you present the people that have dropped off relief rolls and dropped out of account?"

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- White: Miss Lonigan, dealing as we have to in large numbers and in the total situation, I wonder if it wouldn't be helpful - because I know I myself have difficulty in coming to a conclusion with respect to your report; it is probably in the back of your mind, doubtless is - but I wonder if it wouldn't be helpful if you could give the total - your evaluation of the situation in terms of data, whether it's getting worse, better, where it's getting worse, where it's getting better, and what you have to support it in terms of mass data; and relegate the description of the individual items, which don't always help, but will help only if the total is there. I feel myself, really, after you get through, at a loss to know just what the situation is, and I think you doubtless have it in your mind.
- Lonigan: Well, I'm very grateful for that kind of comment, Mr. Secretary, because I can't judge the effect of what I say.
- You've got 2300 ....
- H.M.Jr: No, not today. That's getting down ....
- White: Excuse me. I'm sorry.
- Lonigan: The point is, there isn't evidence; that's the point.
- H.M.Jr: Look, now, you've got - if there isn't in Mr. Haas's group a sympathetic listener... Try to put it out on them; don't use me as the first guinea pig to make a lot of statements. Try it out on them and then get the thing down in an orderly manner. I mean these people were all searching to help. But try it out on them first.
- Lonigan: That's all right with me.
- H.M.Jr: Do you (Upham) want to say ....
- Upham: Mr. Secretary, this reminds me that a couple weeks ago Persons over at the United States Employment Service called me and asked me if you were still



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interested in reports from him on what they were doing.

- H.M.Jr: Yes. But let's get it down. And you fellows all week will assimilate those things, ask for additions, throw out stuff that doesn't make sense, and then bring them in here, thoroughly assimilated but not butchered. I mean if anybody has got an idea, let the person stand up, but let them go up against you. I mean no one person can present this foreign situation without having a tremendous amount of statistical backing. And I want information, but I don't want it tried out on me.
- Opham: I'll let him try it out on me.
- H.M.Jr: Let Persons try it out on you.
- Opham: If it's worth it.
- Lonigan: You know the reporting system broke down when the relief thing broke. I told you that over ....
- H.M.Jr: What reporting?
- Lonigan: The reporting system on relief broke down.
- H.M.Jr: Well, no, you haven't told me.
- Lonigan: Yes, I did.
- H.M.Jr: I mean find it in writing; where is it?
- Lonigan: I'll look for it in my memoranda.
- H.M.Jr: And again, if it did, so what?
- Lonigan: Well then, I can't give you data on the system. I can give you a picture of the reporting system.
- H.M.Jr: What?
- Haas: We'll try it.
- Lonigan: This is serious. It's awfully serious. I'm very much discouraged. I may do it in not the ....

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- White: No, no, Miss Lonigan, I'm sure that ...
- Lonigan: I can not give you data on the fact that we stopped getting reports. I mean I'm not that good. I think that's terribly serious, that we stopped getting reports.
- H.M.Jr: Well, I won't take second place to you or to anybody as to my realization of the seriousness. But a person has to eliminate one's emotions from this thing, and also one's prejudices, and let's get down to facts. You have - if you don't mind my saying, you've got a way - you've been opposed to the Hopkins organization ever since you've done this work.
- Lonigan: (Nods affirmatively)
- H.M.Jr: I mean I think you have to eliminate your prejudices against Hopkins and his people.
- Lonigan: I'm afraid they're not prejudices, Mr. Secretary.
- H.M.Jr: Well, all right, your dislikes or distrusts, or whatever word you want to use. I think the men ought to know that, that you have consistently been opposed to it.
- Now, on the other hand, neither you nor I - if I wished to, which I don't - can eliminate Mr. Hopkins and his people. So they're there. Now, what you going to do about it?
- Lonigan: I have the answers, Mr. Secretary, and my mind is not confused. It is absolutely definite. If my reports are confused ...
- White: I didn't mean to imply that wholly, but I think next ....
- H.M.Jr: I'll say your reports are confused.
- Lonigan: Yes. Well, I don't know that until somebody says so. My mind is not confused. I'm glad you told me.
- H.M.Jr: Because I don't get it. I get the terrible thing, the "Hole of Calcutta" - I get that picture, but I don't get the answer.

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Lonigan: Well, I have the answer.

H.M.Jr: If you have, God bless you, and the sooner you can get ....

Lonigan: Are you willing to spend money?

H.M.Jr: I'm willing to do anything.

Lonigan: That's all I want to know; that's all I need.

H.M.Jr: I mean I made the statement last week, for Mr. Bell and myself, publicly, that if they needed additional money Mr. Bell and I will be the first to say so; that wasn't an idle gesture. I don't know whether the papers in Illinois carried it or not, but I made a public statement that if money was necessary, we'd get it.

Haas: I guess that's all.

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February 7, 1938.LIST OF SUBJECTS YOU WISHED TO DISCUSS WITH THE PRESIDENT TODAY

1. Cable from Cochran No. 160 in regard to his meeting with Minister Marchandean. ✓
2. ↓ Report on the investigation of charges against William H. Kelly, Collector of Internal Revenue at Newark, N. J. ✓
3. ✓ Two alternative letters to William H. Kelly for the President's signature. ✓
4. A comparison of estimated and actual receipts for January, 1938 and for the first seven months of the fiscal year 1938, prepared by Dr. Haas. ✓
5. Report prepared by Dr. Haas on the business situation. ✓
6. Memorandum from Dr. Magill respecting the tax bill situation. (Congressman McCormack) ✓

February 8, 1938.  
10:21 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

Sen. McAdoo: Hello.

H.M.Jr: Morgenthau talking.

M: Hello, Mr. Secretary, how are you?

H.M.Jr: Fine, Senator, I thought you'd be interested to know that I sent Mr. Anglim's name over to the White House this morning.

M: Well, thanks very much.

H.M.Jr: The delay was this. We had some anonymous letters.

M: Yes.

H.M.Jr: And in fairness to the man I wanted to investigate them.

M: Well, that's all right. I don't object to that, except for delay.

H.M.Jr: Well -

M: You know these damned things, Mr. Secretary, always running sores the minute a vacancy occurs.

H.M.Jr: I understand. But there were these letters. Now if anybody asks me, I can say Anglim is a damned good fellow and ready to stand by you.

M: Sure.

H.M.Jr: Now -

M: I thought you had made an investigation -

H.M.Jr: We did.

M: Yes.

H.M.Jr: And this stuff, as I understand it, came in subsequently.

M: Well, I never pay any attention to -

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H.M.Jr: Well, I know, but -  
Because a crook that won't give his name and being willing to stand up, be examined on any charges, he isn't worth the consideration, so far as I'm concerned.

H.M.Jr: Well -  
But I don't- well I'll

H.M.Jr: Well I wanted to explain just what it was and - but now if anybody asks me I can say fine fellow, we'd be delighted to have him.  
Surely.

H.M.Jr: In the Treasury.  
Well thank you very much.

H.M.Jr: Thank you.  
Goodbye.

February 8, 1938

11 am

Present:

- Mr. Aubrey Williams
- Mr. Emerson Ross
- Mr. Bell

HM, Jr: All right, gentlemen, what's the picture?

Mr. Williams: Well, we have a lot of material here. You want to read it or want us to talk?

HM, Jr: Much rather have you talk.

Mr. Williams: Well, then, I think we ought to have Mr. Ross talk on this whole thing and outline it. The thing I got from the President was he wanted to get down to community cases. (Handed the Secretary the attachments.)

Mr. Ross: That's relief increase, which I think may be a good starting point, as far as the President is concerned as to what has taken place out in the communities, from the standpoint of number of increases in relief.

HM, Jr: Is this direct relief?

Mr. Ross: Yes, that's all direct relief.

HM, Jr: Explain. Take Alabama. What does this mean? Just explain it.

Mr. Ross: That is the December picture and the figure for Birmingham is not particularly significant.

HM, Jr: This is December, you say?

Mr. Ross: Yes.

HM, Jr: Well, take anything. You pick the city.

Mr. Ross: In San Francisco -- well, for the United States as a whole, or at least these 54 cities, there was an increase of 15.9% in direct relief during the month of December. That top figure up there. And this estimate which was

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employment figure for January, but factory employment was down 1.8%.

HM, Jr: They mentioned it in Cabinet, although I was not there.

Mr. Ross: The largest decline since 1921.

Now we tested, in addition to asking our field people, both regional and State representatives who are right down on the ground, and made studies on our own hook directly from Washington by the Research organization.

HM, Jr: Your research organization?

Mr. Ross: Yes. In about ten large cities and a large number of smaller towns. On the basis of what the field people tell us, which checks in general with what we found ourselves, we have come to the net conclusion that there are about 750,000 employable people in the United States who are either on relief or desperately in need of relief.

HM, Jr: That's 750,000 out of the 1,650,000, or in addition?

Mr. Bell: Some of them would be, but some would be piled on top.

Mr. Ross: About 250,000 more in places where there is no direct relief, so they can't get in the figures or else that's substantially the story.

HM, Jr: I have in mind about the first of February 1,650,000 cases, direct relief. Now you come out and make a study and you come back and say there is 750,000 people who want to work if the work was furnished them?

Mr. Ross: It's a little narrower than that. It's those who are actually eligible and assignable to projects.

Mr. Williams: Out of the whole group of those a million of those who are not employable, people either too old, crippled.

HM, Jr: You mean of the 1,650,000.

Mr. Williams: Yes.



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made by relief organizations indicates 51.7% -- that next figure -- of that total, theoretically eligible for WPA. Our experience is we discount that considerably and we would discount that, perhaps to 30% or 35% in our figuring.

Mr. Bell: How many people would be involved in those percentages?

Mr. Ross: This only covers 54 cities. The National picture is something like this. The low point for direct relief was this fall when it got down to slightly less than 1,300,000 with a monthly cost of a little over \$30,000,000, State and city money.

Mr. Bell: Would you say of those 1,300,000, 30% would be employable?

Mr. Ross: I would say, 300,000 or 350,000 or 400,000. It went up slightly in November, rapidly in December and very rapidly again in January. The figures for January -- we are getting weekly figures in from the bigger cities and it went up in January to 1,800,000, families.

HM, Jr.: You mean 1,800,000 cases. It might be a family or an individual?

Mr. Ross: That's correct. If a single person is living by himself. During January we took in somewhere in the neighborhood of 150,000 of those, so the net figure at the end of the month is around 1,650,000.

HM, Jr.: You mean you put them on direct relief?

Mr. Ross: No. We took them off direct relief, which leaves, at the end of January or about the present time, about 1,650,000.

HM, Jr.: Of cases of people on direct relief? This was nothing to do with agricultural relief in cities?

Mr. Ross: Does not include Resettlement.

As we were afraid when we were over here last month, this pressure really hit in the latter part of January and is hitting now all over the country. A large number of people lost their jobs in November and December and early January. Incidentally, I don't know whether you saw the preliminary

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Mr. Bell: I think what the Secretary wants, 500,000 employable in addition to the 1,650,000 on direct relief. There are about 250,000 not employed anywhere or getting relief who are eligible for WPA employment.

HM, Jr: I still haven't got it. When you get through you estimate 750,000 eligible for work.

Mr. Ross: That's right.

HM, Jr: Let's put it this way: supposing we took those 750,000 and gave them work. How many people would that still leave on direct relief?

Mr. Bell: 1,650,000.

Mr. Williams: No. About 1,000,000. No, 1,650,000. That's right. It would be 500,000 off of relief rolls of the 750,000 and 250,000 that were not given direct relief right now, so that would leave you 1,150,000 still on direct relief.

HM, Jr: 1,150,000 or 1,250,000?

Mr. Bell: 500,000 from the 1,650,000.

Mr. Ross: That is if the situation remains static.

HM, Jr: All right. I get it.

Mr. Ross: On that basis, we have set up a scale of what that will cost.

HM, Jr: You mean to take care of 750,000?

Mr. Ross: Yes. I should probably point out at this time that we cannot continue to enforce <sup>the</sup> very stringent sponsors' funds regulations on any substantial increase, the reason being that although we increased from 12% to 20% in the last year, in large part that was caused by the fact the program was contracted and we selected the program where they had just sponsors' funds. The second point is that direct relief cost, which was \$32,000,000 a month to the cities, has gone to \$45,000,000, approximately, in January.

HM, Jr: That is what the cities are putting up?

Mr. Ross: Yes. Cities and States. About 50/50. Therefore, for the additional people in a particular group

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we have estimated on the basis of \$65.00 to \$67.00 per man per month in place of \$60.00.

HM,Jr: Was it \$60.00?

Mr. Bell: \$61.00 is the figure we used.

HM,Jr: How near are you to the 2,000,000 figure?

Mr. Williams: We are within 35,000, aren't we?

Mr. Rose: The last figure we had was 1,900,000.

Mr. Williams: I think for all practical purposes we are practically there.

HM,Jr: You will be within two weeks.

Mr. Williams: Yes.

HM,Jr: By the middle of the month.

Mr. Williams: Yes.

HM Jr: What I am getting at, this 750,000 will it be up to \$2,250,000?

Mr. Williams: Yes. And it's more than 750,000 you have to talk about because if you add 750,000 that means you are going to hold 150,000 in that otherwise we are scheduled to drop, so that's 900,000 that you have to figure on for the month of March.

Mr. Ross: 900,000 above what was previously estimated.

Mr. Williams: Above what you previously scheduled.

HM,Jr: Let's see the worst.

Mr. Ross: The worst is 900,000 for March.

HM,Jr: Miss Lonigan just came back from Illinois. She got me all upset, which doesn't help.

Mr. Williams: What did she find?

HM,Jr: She's all upset about -- I didn't get it all;

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she didn't have it written down; got so emotional about it she got me that way. Kept saying, 'What shall we do?'. So she's going out and try to write it. But they took her into some room in South Chicago, a room about three times this size, 300 people, everybody was eligible. They call out the names and right there and then the person publicly has to tell the case before they do or don't give them a ticket for either food or relief or work and the girls have gotten so they are even afraid to go out and face these people.

Mr. Williams: I haven't heard that.

HM, Jr: On the other hand, I asked her the question, 'Do you think they need more money for work relief?' and she said no; from what she gathered they were taking care of the work relief situation. So the two things did not seem to fit.

How bad is the direct relief thing in Chicago? Is it so terrible?

Mr. Williams: Yes. They have had a situation out there where the applicants have been so numerous that they found it necessary to have a three weeks' waiting period before a person could get anything.

HM, Jr: Even for direct relief?

Mr. Williams: Yes. Their funds were so limited. They were overboard. And Chicago was only putting up \$3,200,000 and that was not meeting the situation. They claim to have 90,000 employable people and that's what Miss Lonigan was pointing out, on direct relief. Our man, who is a very conservative fellow, says there are not more than 30,000 people who can do definite work and he won't have them, and we are supporting him in that position.

Mr. Ross: Incidentally, this research study came in between the two. They found 50,000.

HM, Jr: Will you give us that?

Mr. Ross: Very glad to.

HM, Jr: With an explanation?

Mr. Ross: Yes.

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H.H. Jr.: Boil it right down. And get it to me tonight so I can read it. Boil the conclusions down and then if I need additional information I can call on the phone for it.

Mr. Williams: Because of this lack of money out there the people got to the point of being reluctant to putting able-bodied people on the rolls, because they have so many people who are half sick, in such a state of destitution, that they would not take an able-bodied person who could still stand on his feet, so, as a result, very few people were getting through to us. So I asked Mrs. Page -- I went out to Chicago myself on my way to see Harry -- and I asked her to establish her list and have her best case workers interview these able-bodied people and see what happened.

Immediately the whole thing broke open and they began to get the types of people that we said we thought existed there and who were good workers and who were really unemployable people.

As a result, during the last three weeks, with some effectiveness in Cleveland, Detroit, St. Louis -- ten big Western cities -- we have now gotten to a point where we have had to tell them to stop doing that because so many people were coming and such an enormous percentage found to be eligible that the relief people were saying, 'What are you going to do?'. We fill up all quotas and still they come and we have no relief for them.

There's your situation. And, understand, they applied the same rigid tests for these able-bodied people on the basis of need as they apply to their own, but they limit their monies like in Cleveland or Chicago or St. Louis to folks that are practically at the point of family going to pieces or mother sick or two or three children in bed with some kind of disease. That's what it is getting down to. No use minimizing it or denying really able-bodied people have more and more found it difficult to make application for relief. And this was shown by the fact that when we got them to open up a regular line for them to come and get an interview, they would qualify under the most rigid tests. And that's what Ross is talking about when he says in addition to the 500,000 that are on relief rolls we know by careful kind of testing that there are 250,000 other people without relief, people won't give anything to, whether on their rolls or otherwise, that are out there destitute and .....

HM,Jr: You don't do any more direct relief? Or a little?

Mr. Williams: We don't do any. Only direct relief by the Government is through Farm Security.

HM,Jr: You are taking on about 60,000?

Mr. Bell: A week.

Mr. Williams: Running about that.

Mr. Bell: I understood you to say, last week, that you were not taking on any more.

Mr. Williams: We have not given out any more quota. We have put the top on everything, but they haven't all gotten on.

HM,Jr: But wasn't it running about 60,000 a week?

Mr. Williams: Yes.

HM,Jr: Are you proposing to make it faster than that?

Mr. Williams: Yes. We could make it very much faster than that for another 350,000 people. They have got all set to do a bigger job than the 250,000, therefore they are in position to lend swiftly for another 250,000 jobs, from everything I can gather, but once we get beyond that, then, Dan, there is going to be trouble on the matter of sponsors' contributions.

HM,Jr: Is that what Kelly is here for this afternoon to see the President?

Mr. Williams: Yes; to see about getting more money.

HM,Jr: You could take on another 250,000 with the same rules and regulations and that would bring you to a top of what?

Mr. Williams: 2, 250,000.

HM,Jr: I am just thinking. This thing, the way I feel, it is a day to day situation. I am trying awfully hard to keep my feet on the ground and not allow my sympathies or

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human interest -- I won't take second place to anybody in that, but I also have a job which I am hired to do. I am trying to make the two compatible to each other.

I am seeing the President at lunch today and suppose Bell and I said, for argument's sake, we recommended going to \$2,250,000 for March. Today is Tuesday. And that those orders went out. What does the thing call for for March? How many people?

Mr. Williams: 1,850,000.

HM, Jr: (referring to letter of February 1) This says 1,800,000. All right. We can do this very easily. This says 1,800,000. We are talking about putting on 450,000 people.

Mr. Williams: That's what it would amount to.

Mr. Bell: It means 450,000 over and above that schedule because that schedule contemplated dropping off.

Mr. Williams: That's right.

HM, Jr: \$50,000. You say you can do it for \$61.00?

Mr. Williams: I don't think so, Mr. Secretary.

Mr. Ross: Be about \$64.00 with that city increase.

HM, Jr: Do you think you can do it for \$64.00?

Mr. Williams: I would feel safe at \$64.00.

Mr. Ross: Yes.

HM, Jr: That amounts to \$28,000,000?

Mr. Ross: \$28,800,000.

HM, Jr: Call it \$29,000,000, for the month of March on top of the \$107,000,000. That would be \$136,000,000. You are down for \$107,000,000 and this is \$29,000,000 on top of that so it would come to \$136,000,000.

Mr. Williams: Yes, that's right. Of course, I don't think that will do the job.

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HM, Jr: I am just saying. In the first place, if we agree that you are to have \$30,000,000 more for March, as of today that means 450,000 more people for March, and that would be good for one week and then we would check it again.

Mr. Williams: Yes.

HM, Jr: You could not prepare yourself any quicker than -- here it is the 8th of February; we are talking about adding 450,000 people.

Mr. Williams: We are only going to add 250,000. You have the others already on.

HM, Jr: Well, all right. But I am figuring dollars. You had \$107,000,000. We are talking now about giving you \$30,000,000 more or \$137,000,000 for March, which would give you 450,000 people over and above what you have counted on as of February 1.

Mr. Williams: Yes, I understand.

HM, Jr: I am not saying it is meeting the problem, but if we could get clearance as of today, say this afternoon, and the word could go out to your organization that as of this afternoon we are planning on two and a quarter million people for March, I am willing to say that I will meet with you twice a week.

Mr. Williams: You would rather do it that way than try to get the benefit from a larger figure at this time? That's one thing I think you might well consider.

HM, Jr: I don't know.

Mr. Williams: I think the benefits of the larger number would be so marked ....

HM, Jr: I don't know. We are doing this thing two ways. Dan, any time that I am going faster than ....

Mr. Williams: Would it be better to put this thing up at a figure that really takes up this thing?

HM, Jr: All right. What would that be?

Mr. Williams: 750,000.



HM, Jr: That means 2,500,000 people.

Mr. Williams: That means 2,750,000 people.

Mr. Bell: It means 2,650,000.

Mr. Williams: I keep figuring we have the 2,000,000 on.

HM, Jr: This is the one you give me now -- 2,650,000 for March.

Mr. Bell: That is 750,000 over the previous schedule.

HM, Jr: 750,000 on top of the 1,900,000?

Mr. Ross: Yes.

HM, Jr: This is to take care of another 750,000?

Mr. Ross: Of which we probably have 100,000 now.

Mr. Williams: Which would mean 650,000 new jobs.

The thing is this: you put on these 250,000. The pressure don't let up at all. These delegations continue to come down here. You put your money in the pot. You pay it out, so to speak, in dribblets and where do you get? Do you want to get all the benefit of it you could, or would it be better to meet this thing head on.

I am willing to do this, Mr. Secretary, willing to say to you that we will accept your 450,000 and move on that basis with the understanding that by the first of March we will be in position to come back and tell you what we think this thing really is getting to be.

HM, Jr: This is what I am thinking about. I am being just as honest as I know how. I think I am correct that we can say to you, spend another \$30,000,000, which means another 450,000 increase over February 1 letter, without having the President send a message to Congress.

Mr. Bell: That's true, up to the end of March, but what I am afraid of, when you get to the end of March you can't meet that.

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HM, Jr.: My recommendation is he can't overdraw his account.

Mr. Bell: He has to take pretty drastic action on March 1.

HM, Jr.: If he is going to overdraw his account, then he might as well do it in a big way and with one bite swallow the whole cherry, hook, line and sinker. And I try to think that I have got as good business information as anybody has in Washington and it's not very good. I am not kidding myself a minute.

Mr. Williams: Your problem is whether we could drop 450,000 people March 31.

Mr. Ross: Plus 200,000 scheduled.

Mr. Williams: Which would be 650,000. I don't think it is within the cards.

HM, Jr.: Aubrey, let me ask you this. We are dealing with human beings. In your experience with me I have never traded with you. When you ask for 750,000, have you trimmed that down to what you think is the irreducible low or is that on the basis that I will ask for 750,000 and hope to get 500,000?

Mr. Williams: I will be perfectly frank. That represents the figure which has come to me from State Administrators and their people as their minimum. I have gone over the States where we have laid out what that will be and I will say this to you: that I would be willing to try to meet this situation with 500,000 jobs and the 150,000 that we are now supposed to drop, which would mean 650,000 instead of 450,000. I am willing to try to do that on the understanding that they may be right and I am selling them down the river, but frankly I don't think, and this is in utmost confidence, I don't think we can put 500,000 people to work in March. I don't think we can do it.

HM, Jr.: I don't either.

Mr. Bell: It will slush over into April.

Mr. Williams: Slush over into April. We could tell the President that the new figure runs up to 750,000, but I

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don't think I can put that money to work in March. I still think there will be great destitution in this country with that 500,000 new jobs. I think you will take most the most pressing part of the need.

Mr. Bell: That's closer probably than you have been to taking care of the needy.

Mr. Williams: We won't be as near when we put these people to work as we were last year. All figures show we are in a worse condition by 300,000 people than we were last year by number of people in need. This time last year how many people did we have employed?

Mr. Bell: Last year, about 2,100,000.

Mr. Williams: More than that.

Mr. Ross: Last year's program, 2,700,000.

Mr. Bell: Including C.C.C.?

Mr. Ross: 2,500,000.

HM, Jr: We have got to take care of Wallace too., How much do you think Wallace needs?

Mr. Bell: I don't know.

Mr. Williams: I don't know. I was amazed when you told me what Baldwin said, so I don't know what ....

Mr. Bell: They haven't come back at us.

HM, Jr: Wallace says he is delighted the people are making a check in the field. They were in here a week ago.

(HM, Jr gave Mr. Bell the letter from Wallace dated February 5 suggesting next conference be devoted exclusively to rehabilitation loans.)

Mr. Bell: They talk about loans here.

HM, Jr: I kept off of that, as you remember. I am not interested particularly in the loan thing, but Alexander has not been back.

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We are talking about 650,000. You see, we are using this letter of February 1 as a base, which is \$107,000,000 for March.

You have stopped taking new people?

Mr. Ross: Yes, stopped last week getting the assignments. It would cost \$250,000,000 to \$280,000,000 for the rest of the fiscal year.

Mr. Williams: What is the overall this would come to for the rest of the year?

Mr. Bell: Depends upon how fast you put them on.

Mr. Ross: Depends on how fast you can drop. That would still involve some drop. You see, I figure around \$250,000,000 if we drop seasonally, assuming that industry revives.

Mr. Williams: If we had \$250,000,000 we could practically guarantee to meet this situation and taper it off beginning the middle of April.

HM, Jr: If you had \$250,000,000 you could meet this situation and meet it, with me, enthusiastically?

Mr. Williams: Meet it on the basis the President would want us to meet it on and not get so high that dropping off would amount to .....

HM, Jr: In this office, if you say to me \$250,000,000 I can meet the situation -- I am arguing with you -- but what will you tell the President?

Mr. Williams: I am going to tell him the same.

HM, Jr: \$250,000,000 or \$340,000,000?

Mr. Williams: I am saying \$250,000,000, but I want to qualify this -- that if this thing continues to drop then you have to take that into consideration.

HM, Jr: My dearman, my door has been open to you.

Mr. Williams: If you will let me say it this way, that based on the present situation ....

HM, Jr: .. all right.

Mr. Williams: ... I will.

HM, Jr: All right. I will go you one better. On the present situation, I am willing to recommend \$250,000,000.

Mr. Williams: Grand!

HM, Jr: And I will recommend it in an hour and ten minutes. Bell and I sat here Thursday and we said if the situation needed it we would be the first to say so.

Mr. Williams: Yes. But I am glad you brought this up. Let's understand each other.

HM, Jr: You took my breath away when the President sent for me.

Mr. Williams: He told you. I went over there. He sent for me on the Detroit thing and then he says, 'Is Henry outside?' and he said, 'Tell him to come in' and then he starts asking me those questions. I could not answer otherwise, but I had not brought it up and did not intend to, but when the President asked me those questions I had to answer.

HM, Jr: But the President did not know about the letter you had given us an hour before.

Mr. Williams: None of it had been discussed. Of course he did not know about it. He was full of that Detroit situation. By the way, he put \$1,000,000 down a week to be given them. Going on what they told him. He was aroused by people starving.

Mr. Bell: How is this Unemployment Compensation working in its effect on people you have to take on?

Mr. Williams: It's undoubtedly easing up the burden, but most of the people getting that help would not get certified to us so ....

Mr. Bell: They are not in the 250,000 you are taking back?

Mr. Ross: Unfortunately it is not in effect in some of the Western states.

Mr. Bell: Ohio does not have it.

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Mr. Ross: No.

Mr. Williams: I want you to understand. I thought you thought I had gone over there to start negotiations with the President, which was farthest from my mind. I called you the next day, on Friday, because I wanted to come over ...

HM, Jr.: I was terribly upset, because I can't trade with anybody. All I ask for, and Bell asks for, is to get the whole picture and we thought we had it and then to go over and have the President crack down on me, it did ....

Mr. Williams: I can see that, but you ought to have taken a good deal from what he said.

HM, Jr.: I thought he was covering up for you.

Mr. Williams: I was answering him. I did not bring it up.

HM, Jr.: He didn't want any more argument. He said, 'Let's eat lunch.' He wouldn't talk about it and wouldn't let me talk about it. I am glad to have it out because we must stick together here and I am leaning over backwards, with Harry sick, because I am so devoted to him, and I will do better by you with Harry away than I would if Harry were here.

Mr. Williams: If we could put this on \$250,000,000 and then we could look at the thing again the middle of March and see where we are. I don't think we will be in a position, frankly, to talk much before that to know where we are.

But, Dan, you have to let up a little in some places on these sponsors' contributions. That's another point to put in to talk to the President about, because you can't meet this situation in Ohio unless we are willing to let up on the 20% ratio because they haven't and won't get it. And Biggers and all those fellows will tell you the same story that I am telling. We can try to maintain our National 20%.

HM, Jr.: This is a thing I am not familiar with.

Mr. Bell: Last year they had about an average of 13% contributions from communities, localities. The President said he wanted that, this year, considerably raised, to 25%. It's a little above 20%, around 22% is the average

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that we have been insisting on and some places have made it and some haven't. We call it to the attention of the President where they haven't made it and he sends them back.

Mr. Williams: He put us under this moral agreement, which we are very anxious to keep until he is ready to release us. He told us if you will get a National 20% I will put through anything you send over on sponsors' contributions. What I am telling you is I don't think we can keep on meeting that 20%.

HM, Jr: This is something I am not familiar with.

This is \$250,000,000. Now, if the President says how much do these farm fellows need, we might stick something in there.

Now, let's leave it this way. I am going over -- are you and I together, Dan?

Mr. Bell: Yes.

HM, Jr: I am going to say that this situation is such, as we see it as of today, I think these people need another \$250,000,000. Now he had better have us over there and lay the thing on the table. If he is going to do it, I suggest he do it in a message to Congress.

Mr. Bell: I think he has got to do that. I think think you people had better be getting a message ready.

Mr. Williams: That day over there -- that's why he asked you to come in -- he said, 'I want to tell Congress that' and he told me at that time to send something over. I sent a suggested draft which went to McIntyre. The President called me back and said, 'The way I want you to do is meet with Secretary Morgenthau and get an understanding and I will see you all together,' but there is something over there now in the way of a draft.

HM, Jr: But he can't do this without consulting Congress, can he?

Mr. Bell: No. Unless he wants to take the responsibility of drastically curtailing his program into March.

HM, Jr: If we are going to do this thing, I want to

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do it with a big publicity blast.

Mr. Williams: I think you are 100% right.

HM, Jr: If \$250,000,000 will stop this downward spiral, it's cheap. The thing that bothers me here is that this is going on all over the world and the United States is dragging the world down and every time you pull this down (referring to chart) you are that much nearer to a world war because if the dictators get to a point where they are licked, Mussolini or Hitler, the only thing left for them to do is fight. If this thing keeps on, gentlemen, and we keep pulling this downward spiral down for the whole world, and it's the United States, we are just going to have a world war because the dictators when they come up against it rather than give up their glory they are going to fight.

Mr. Williams: Em, is there anything else we ought to say to the Secretary here so as to speedily put these people to work. Sponsors' contributions are as important as the devil.

HM, Jr: If we are going to do this, and I will be just as enthusiastic, what we are interested in I want to have the benefit of the whole economic effect for the whole country. We might just as well shoot the works, whether it costs \$63. or \$64. or \$65. If we do this thing, we will do it with our eyes open.

Mr. Williams: Those are welcome words. You are right, too.

HM, Jr: If we are going to do it, I want to shoot the works and get the maximum amount of effect and, just the way I said the other day, I don't want to do it any phoney way. I want to borrow another \$250,000,000 cash. I want to do this with one broad sweep, if we are going to do it. Sell and I are available. I am going to ask the President to see us in the next 24 hours, today if possible.

Mr. Williams: Grand! It won't be any too soon for us to get this thing moving.

HM, Jr: He ought to see us, if possible, this afternoon and the sooner, the better, from my standpoint. If we are going to do it, I want to do it this afternoon.



Mr. Williams: One other thing I want you to do in the next week, if you would be willing to sit down with Harrington and one or two others to talk over some self-liquidating projects. Like to talk to you and Dan. See if we can get a program of that character to dovetail in with this.

HM, Jr: We will talk to you.

Mr. Bell: You mean low cost housing?

Mr. Williams: One. Another is underground passages.

HM, Jr: Three years ago I worked here on that trans-continental highway. We had Henry Lutz down, from the New York State Conservation Commission. We worked out this whole thing, with Stewart MacDonald -- gas stations, by-passes, villages, what it would cost.

Mr. Williams: Wasn't that spoiled because somebody talked out of turn?

Mr. Ross: That's the story.

Mr. Bell: Too expensive. It would have taken the 4 billion \$ and then you wouldn't have had anything.

HM, Jr: This is interesting. Lehman called me and said, 'How much of this highway is going to go through New York State?' I said '28 miles'. He said, 'What? You are going to spend so many billions and only 28 miles through New York?' I said, 'That's all.' We were going to route it away from the big cities and it will be 28 miles and it will go through where you have \$28 or \$30 acre land, and we were going to route it through Port Jervis. 'Well,' he said, 'we are not interested. This is not going to do New York State any good.' It just went through the place where it would naturally be the cheapest land and the roughest land.

Mr. Williams: I wish we could do something where we can get our money back.

HM, Jr: Let's clear this. If you have something on housing, I am terribly pessimistic on housing. I don't think Straus is going to do much, if anything, this spring and I haven't talked to Stewart MacDonald in the last month. He wouldn't get any benefit until next Fall. Do you want to wait until Harrison comes back on self-liquidating?

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Mr. Williams: Yes. He will be back Thursday.

HM, Jr: Give me something in writing because I will be here Saturday and Sunday. If we are going to do this thing, as far as Bell and I are concerned, we will do it with everybody.

Mr. Williams: That's the way to do it.

C. W. Williams

February 1, 1938

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

My dear Mr. Secretary:

On December 18, 1937, we submitted to you a schedule indicating that with total obligation of \$1,300,000,000 during fiscal year 1938, WPA employment would increase to an average of 1,900,000 during the month of February and decline thereafter to 1,800,000 in March, 1,650,000 in April, 1,550,000 in May, and 1,500,000 in June.

During the past six weeks we have found that the need for employment has increased rapidly and in order to meet as much of the need as possible at the seasonal peak, WPA State Administrators have been authorized to increase employment and we now estimate an average of 1,950,000 workers in February.

This will necessitate a more rapid reduction in employment during the last four months of the fiscal year in order to limit obligations to \$1,300,000,000 for the year. As indicated in the enclosed schedule, if employment reaches an average of 1,950,000 in February, it will be necessary to reduce to 1,800,000 in March, 1,600,000 in April, 1,550,000 in May, and 1,500,000 in June.

You will note that actual obligations incurred during December exceeded our former estimate chiefly as a result of the President's request that advance purchases of materials for later use be made in that month. These advance purchases will result in a decrease in total obligations per worker during the last half of the year.

The savings made by assigning a larger proportion of WPA workers at the unskilled rate has enabled us to increase employment more than we would have otherwise been able to finance.

Sincerely yours,

Aubrey Williams  
Deputy Administrator

Laureen BonaciJP

REVISED ESTIMATES OF  
WPA EMPLOYMENT AND OBLIGATIONS

	Employment (000)	Obligations (in millions) Work Projects
July	1,662	\$115.7
August	1,514	92.1
September	1,458	89.0
October	1,464	89.9
November	1,505	88.6
December	1,578	104.9
	<u>Estimated</u>	
January	1,775	104.8
February	1,950	115.0
March	1,600	107.0
April	1,600	96.0
May	1,580	92.0
June	1,500	90.0
Total work projects		1,185.0
National Youth Administration		50.0
Administrative expense		<u>65.0</u>
<b>TOTAL</b>		<b>\$1,300.0</b>

This estimate is exclusive of the need for working capital in the latter part of June.

February 1, 1936

## ESTIMATED FUNDS REQUIRED FOR INCREASE OF 750,000 IN WPA EMPLOYMENT

Month	Employment (000)	Estimated Obligations (000,000)
January 31st	1,900	
February	2,300	\$154
March	2,650	178
April	2,550	171
May	2,550	187
June	2,300	154
Total Work Projects		614
Deduct Estimated Balance, Feb. 1		490
Additional Project Requirements		324
Additional Administrative Requirements		16
Total Additional Requirements		\$540

February 6, 1938

GENERAL RELIEF IN SELECTED URBAN AREAS WITH POPULATION OF 100,000 OR MORE  
 DECEMBER 1937 (DATA SECURED ON JANUARY 7 AND 8 BY THE SOCIAL SECURITY BOARD  
 AT THE REQUEST OF THE SENATE COMMITTEE TO INVESTIGATE UNEMPLOYMENT AND  
 RELIEF) 1/

State and City	Number of cases receiving general relief during December	Percentage increase (+) or decrease (-) from November	Percentage of cases having an employable person
Total for 54 cities	376,786	+15.9	2/ 51.7
Alabama			
Birmingham.....	499	+3.1	42.6
California			
San Diego.....	2,474	-2.0	9.1
San Francisco.....	12,700	+14.4	74.8
Colorado			
Denver.....	3,874	+3.1	NA
Connecticut			
Hartford.....	1,910	+16.2	25.6
District of Columbia			
Washington.....	2,661	-2.6	NA
Florida			
Jacksonville.....	279	-3.5	15.0
Georgia			
Atlanta.....	2,365	+6.3	NA
Illinois			
Chicago.....	91,754	+3.7	41.4
Peoria.....	2,121	+23.2	73.2
Indiana			
Fort Wayne.....	1,320	+67.7	26.1
Gary.....	7,700	+71.1	74.0
South Bend.....	2,460	+56.0	20.3
Iowa			
Des Moines.....	4,752	+11.8	76.6
Kansas			
Kansas City.....	2,561	+10.2	62.5
Wichita.....	2,180	+12.1	23.7
Louisiana			
New Orleans.....	2,748	+1.5	12.6
Maryland			
Baltimore.....	3,502	+16.7	24.5

State and City	Number of cases receiving general relief during December	Percentage increase (+) or decrease (-) from November	Percentage of cases having an employable person
<b>Massachusetts</b>			
Boston.....	18,447	+ 9.6	57.7
Cambridge.....	1,670	+17.8	83.8
Fall River.....	3,600	+21.6	96.1
Lowell.....	2,650	+14.2	92.4
New Bedford.....	2,912	+16.2	70.5
Somerville.....	1,813	+ 6.5	55.2
Springfield.....	2,747	+18.0	81.9
Worcester.....	4,117	+19.8	40.1
<b>Michigan</b>			
Detroit.....	22,930	+65.4	25.4
Grand Rapids.....	3,080	+53.9	37.0
<b>Minnesota</b>			
Duluth.....	4,845	+29.2	62.4
St. Paul.....	8,500	+17.2	40.0
<b>Missouri</b>			
Kansas City.....	6,493	+13.4	78.9
St. Louis.....	8,735	+ 9.3	NA
<b>Nebraska</b>			
Omaha.....	982	+19.0	16.1
<b>New Jersey</b>			
Camden.....	3,871	+19.5	92.5
Elizabeth.....	712	+20.7	65.0
Paterson.....	2,618	+22.4	NA
Trenton.....	2,335	+23.5	79.2
<b>New York</b>			
Albany.....	1,408	+ 8.0	32.0
Yonkers.....	2,979	+12.2	19.9
<b>Ohio</b>			
Canton.....	2,977	+32.5	53.9
Cuyton.....	2,831	+28.4	39.6
Toledo.....	6,246	+69.9	77.3
Youngstown.....	2,836	+22.9	20.6
<b>Oklahoma</b>			
Oklahoma City.....	1,456	+ 2.1	NA
<b>Oregon</b>			
Portland.....	6,429	+35.0	42.0
<b>Pennsylvania</b>			
Philadelphia.....	62,899	+ 4.5	73.1
<b>Rhode Island</b>			
Providence.....	5,100	+23.7	83.5
<b>Tennessee</b>			
Memphis.....	146	- 5.2	NA
<b>Texas</b>			
Fort Worth.....	1,914	+35.3	78.0
Houston.....	2,028	+ 7.1	NA

State and City	Number of cases receiving general relief during December	Percentage increase (+) or decrease (-) from November	Percentage of cases having an employable person
Virginia			
Norfolk.....	457	-0.7	98.5
Richmond.....	2,185	+12.3	34.3
Washington			
Spokane.....	5,131	+34.3	72.8
Wisconsin			
Milwaukee.....	18,257	+18.3	41.1

1. Figures are partly estimated by local departments of public welfare and are subject to revision.
2. Comparison made for 46 cities.

SOCIAL SECURITY BOARD  
 Bureau of Research and Statistics  
 Division of Public Assistance Research  
 January 8, 1938



## WORKS PROGRESS ADMINISTRATION

WALKER-JOHNSON BUILDING  
1734 NEW YORK AVENUE NW.  
WASHINGTON, D. C.

HARRY L. HOPKINS  
ADMINISTRATOR

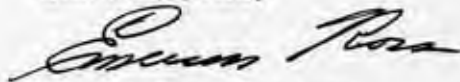
February 8, 1938

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

My dear Mr. Secretary:

In accordance with your request, I am forwarding a brief summary concerning the quick survey made by our Research Section in a few cities and rural counties.

Sincerely yours,



Emerson Ross, Director  
Division of Research,  
Statistics and Records

MEMORANDUM

Estimated Number of Employable Cases in Need and Assignable to the WPA

In January investigators from the Research Section made field studies in 9 large cities and in 16 rural counties. On the bases of these studies it is estimated that there are from 750,000 to 800,000 destitute employable eligible for assignment to the WPA. Approximately 500,000 are currently receiving direct relief; the remainder are either receiving no aid or assistance is limited to small amounts of surplus commodities.

The results of this sample field study confirm the field reports received by the WPA from its Regional and State representatives, and likewise check roughly with estimates made on the basis of the direct relief rolls.

On the basis of weekly reports from a large number of cities, it is estimated that a total of 1,800,000 cases received direct relief during the month of January. Of this number at least 150,000 were transferred to WPA during the month, leaving a net of 1,650,000 on direct relief. Relief officials estimated in reports to the Social Security Board that approximately 50 percent of direct relief cases were employable. Through past experience we have found that the estimates made by relief officials overstate the number who are actually assignable to the WPA at a given time. Discounting for this known bias, we arrive at a figure of approximately 500,000 employables on direct relief who are available for assignment to the WPA. To this number must be added the employable families in need in areas not served by direct relief agencies and those in areas where direct relief funds are inadequate. This number is estimated at 250,000, making a total of 750,000 employables who are in need and eligible for assignment to the WPA.

Attached are the summary figures for the sample areas, together with a more extended discussion of the situation in several of the cities.

ESTIMATED EMPLOYMENT INCREASES  
REQUIRED TO PROVIDE FOR ASSIGNABLE DESTITUTE  
WORKERS IN NINE CITIES, JANUARY 1938

Area	Population	Assignable Destitute Families
Atlanta (Fulton County)	318,587	3,400
Boston	781,188	8,700-10,500
Chicago	3,376,438	50,000
Cleveland (Cuyahoga County)	1,201,455	23,100
New Orleans	458,762	4,300
New York	6,930,446	64,000
Pittsburgh (Allegheny County)	1,374,410	17,500
St. Louis	821,960	7,200-8,200
San Francisco	634,394	6,700-7,300

ESTIMATED NUMBER OF DESTITUTE FAMILIES  
NOT RECEIVING AID, 16 COUNTIES, JANUARY 1938

<u>State and County</u>	<u>Population</u>	<u>Destitute Families Not Receiving Aid</u>
<u>Cotton Counties</u>		
Arkansas		
Craighead	44,740	1,200-1,500
Phillips	40,683	1,000-1,200
Texas		
Collin	46,180	1,075
Upshur	22,297	500
Oklahoma		
Hughes	30,334	600
Pushmataha	14,744	1,200
Mississippi		
Washington	54,310	1,600
Louisiana		
Natchitoches	38,477	600
Georgia		
Paulding	12,327	450
Putnam	8,367	500
Alabama		
Shelby	27,576	500
South Carolina		
Union	30,920	300
Williamsburg	34,914	300
<u>Mountain Counties</u>		
North Carolina		
Jackson	17,519	200
Tennessee		
Hawkins	24,117	160
<u>Drought Counties</u>		
Colorado		
Kit Carson	9,725	200

**Unemployment and Relief Needs in Cleveland  
January, 1933**

Cleveland, a center of heavy industries, is suffering most severely from the current business recession. The pressure on relief facilities resulting from an increase of 46 percent in unemployment since the middle of November has become a great concern to all who witness the mounting demands for aid. Between November 15 and January 15, WPA employment rose about 25 percent to 27,000 and general relief rolls increased 14 percent to reach 27,700.

Over a thousand new applications a week were made each week during this period, swamping relief offices. Because most of these were former WPA employees, and because relief officials recognized that known standards of eligibility for relief were keeping needy families from applying, six new offices were opened to receive only requests for certification to the WPA, where the less rigid budgetary standard of the U. S. Children's Bureau would determine eligibility.

In spite of this rapid expansion in the organization to care for unemployment relief, many needy families still remained unaided by the middle of January. Approximately 26,000 were considered in need of public assistance at that time, and further additions appeared certain.

The present WPA quota will provide jobs for only a fraction of this needy group of 26,000. Under the present laws and ordinances, municipalities and county officials in the Cleveland area will be able to continue direct relief for about 30,000 families for several months but only on a low standard (10 percent below the level set by the U. S. Children's Bureau in the case of its food allowance). Only 10 cents a month per case can be allowed for clothing.

Relief agencies cannot, because of new State legislation, continue to give direct relief to families who will not sign a pauper's oath nor to any where the head is not a United States citizen. Cleveland has a very high percentage of aliens among the lower economic level of its population.

It is estimated that there were approximately 27,000 persons assignable to the Works Program among the employable families that were on direct relief and those in need but not receiving assistance in the middle of January. The Works Program load at that date would have had to be almost doubled to employ all assignables on direct relief and in the group needing aid if projects were available and there were no other difficulties preventing expansion.

UNEMPLOYMENT AND RELIEF NEEDS IN ST. LOUIS:  
JANUARY, 1938

The relief situation in St. Louis is extremely serious as the result of rapidly increasing unemployment and drastically curtailed funds for public assistance. In November, St. Louis had the second highest unemployment rate in the country, and by the middle of January the collapse of employment in steel, electrical equipment and garment manufacturing had increased the number out of work by at least 20,000 to a total of 80,000. During the same period the combined Works Program and general relief load rose only by about 3,600 families. The latest available figures show a combined Works Program and relief load of approximately 30,000 families, two-thirds of which are on WPA.

Only families in direct need are receiving direct relief. Their income may not exceed a relief budget which is so small that it covers only 60 percent of what was formerly considered the "minimum possible" budget. The present budget provides ~~no~~ money for rents, no clothing, almost no gas or electricity and only half the amount of fuel needed. Approximately 8,000-10,000 families, a group equal in size to that now receiving this meagre direct relief, are estimated to be in need but unable to get assistance. At least half of the cases now being rejected would be granted relief if funds were available.

In addition to needy families forced to subsist on their inadequate resources, there are other types who cannot qualify for public aid regardless of the extent of their poverty. These include families resident in St. Louis for less than a year and single persons without dependents who together constitute more than one-fifth of the rejected applicants. These two groups are ineligible for WPA certification as well. The rapid increase in demand for aid at private agencies -- from one hundred to three hundred percent -- confirms all other evidence that direct relief rolls would have to be doubled to take care of all those in need.

The resources of many of the unemployed are almost exhausted. Nearly half of the persons assigned to fill the new WPA quotas had previously been employed on WPA, had left to take private jobs and had to seek relief once more when they lost those jobs. Unless a marked revival of business develops in the near future it is certain that many more of the 80,000 unemployed will drop into the destitute class. The number who, under such circumstances, will be seriously in need of relief may reach 25,000 within the next two or three months.

Present indications are that the burden of caring for the employable needy will rest on WPA. State funds will not be sufficient. The city of St. Louis has contributed no funds for direct relief since November first. Since the city has a large deficit, the possibility of obtaining further city funds is remote. If an immediate expansion of WPA rolls were possible, there are 3,200 employable cases on general relief and at least 4,000 employable persons of the group receiving no aid who could be assigned. Such additions to the pay rolls would mean an increase of about 50 percent over present WPA employment. Even if this were done there would still remain thousands of families in extreme need who cannot qualify for the works program.

UNEMPLOYMENT AND RELIEF NEEDS IN PITTSBURGH  
January, 1938

Public assistance in the Pittsburgh district (Allegheny County) is moving toward a crisis as unemployment mounts. Normally there are 100,000 employees in steel. On January 15, 28 percent of them were idle; 66 percent on part-time schedules averaging 2.9 days per week. Only 8 percent were at work on full-time jobs.

With the severe decline in steel production, all activity in the area has become paralyzed. In November, public assistance authorities estimated the number of totally unemployed to be 97,000. (The Biggers' Registration showed 113,000.) By December the local estimate was 118,000; by January 15 it had risen to 120,000. Because of chronic part-time work in steel the unemployed figure of 120,000 greatly underestimates the amount of unemployment. One-third of the relief load of the area receives aid to supplement earnings from part-time jobs.

The recession has already added 15,000 cases to direct relief, an increase of 70 percent since November 1. Over 35,000 cases (113,000 persons) were receiving relief in mid-January. New cases were being added at a rate of about 2,500 each week. A further increase of 18,000 cases is anticipated by April 1. WPA, which accepts workers only after they have received relief, expanded less rapidly and had added only a few hundred cases by the middle of January. Employment at that time was 27,000. Plans were being made to transfer 5,000 family heads from relief to WPA. Some approved projects were being put into operation and more were waiting approval.

Relief authorities are meeting the increased needs by over-spending the relief budget. They plan to meet the relief needs "as long as the money lasts." The State deficit due to relief expenditures had mounted to 23 million dollars by January and was increasing day by day. A special session of the legislature is being considered "to meet the relief needs."

Relief increases, however, have not by any means met the actual needs of all those in distress. Since September, 6,242 applicants for relief have been refused aid on the basis of agency rules. The refusals numbered from 294 to 416 a week. In addition a large number of others are rejected for similar reasons before investigation and therefore are not listed in the relief records. This group of needy persons ineligible for relief constitute a pathetic group. They are those workers who have lived in the State for less than a year, who are unwilling to fill out the formal bond required from all applicants, who carry too much insurance, operate an automobile or who have employable members in their family, etc. That most of them are in need is not doubted in the community or in the relief office, but an overflow of eligible applicants does not tend to lower legal barriers to aid. The public press of Pittsburgh has been publicizing their plight, calling their case "the most tragic angle of the relief situation."

- 2 -

It is significant that the newly unemployed who are now coming onto relief rolls differ in age and labor characteristics from the "old lead." Having come directly from heavy employment they are a younger and a "better type" of worker than those who have been unable to find private employment and who have been left on relief or WPA rolls.

Representatives of the steel industry and all other authorities in Pittsburgh would not predict an increase in employment before next June. The consensus is that until then unemployment and relief needs will increase.



UNEMPLOYMENT AND RELIEF NEEDS IN CRAIGHHEAD  
COUNTY, ARKANSAS: JANUARY, 1938

The unemployment situation in the Delta is more critical at the present than it has been at any time within the last three years. Many industrial workers are only partially employed and great numbers of timber workers are unemployed. The farm laborers, who usually get some work clearing land during the winter months, cannot get work this winter because farm owners are not having any land cleared. Also, many transient cotton pickers have been left stranded after the cotton picking season.

In Craighead, a representative Delta County, it is estimated that there are between 1,000 and 1,500 needy unemployed families at present, of which 300 are in critical need, according to information from the County Judge, County Assessor, County Agricultural Agent, County Welfare Director, F.S.A. Supervisor, and local WPA officials. It is estimated that approximately 50 percent of the needy families are industrial unemployed, 25 percent farm tenants, and 25 percent farm laborers.

The seriousness of the present situation is further indicated by the fact that many cases are applying for relief for the first time. During the last 30 days, 563 applications have been taken on persons who have never been on relief. Four hundred and seventeen have been certified as eligible for WPA, 49 rejected, and 87 applications are now pending investigations. The intake office reports also that many persons who have worked on WPA before, and who had been dropped from projects, are again in need and asking for work.

WPA employment will have to be expanded sharply from the present level of 350 in order to provide assistance to the needy unemployed. In the Eastern part of Craighead County, where the majority of needy cases are located, about two-thirds of those requiring aid will be employed on flood control projects by February 1, 1938. In the Western part of the county, where there are estimated to be 500 cases in need, not more than a third can be taken care of under the present quota.

The Farm Security Administration of Craighead County has received 40 applications for 1938 Rural Rehabilitation loans. There are at present 79 active Standard Rehabilitation Clients.

In addition to the employable load there are about 300 to 500 unemployables in need and eligible for categorical relief. If all of these cases were given aid it would be necessary approximately to double the present public assistance rolls in Craighead County.

In some of the counties near Craighead, flood control projects will make it possible to take care of the majority of families needing assistance during the next few months. In other counties, however, there is little prospect for meeting existing and prospective needs unless quotas are substantially increased.

(12701)

EMPLOYMENT OF WPA PROJECTS, BY STATE

75

UNITED STATES AND TERRITORIES

Weeks Ending February 5 and January 29, 1938

(Partly Estimated - Subject to Revision)

State	Number of Persons Employed		Increase (+) or De- crease (-)
	Week Ending February 5	Week Ending January 29	
<b>GRAND TOTAL</b>	<b>1,945,317</b>	<b>1,900,625 A/</b>	<b>+ 44,692</b>
<b>CONTINENTAL UNITED STATES</b>	<b>1,942,810</b>	<b>1,898,162 A/</b>	<b>+ 44,648</b>
Alabama	28,730	29,317	- 587
Arizona	7,888	7,911	- 23
Arkansas	27,631	27,162	+ 469
California	79,952	79,991 A/	- 39
Northern	42,369	40,528 A/	+ 1,843
Southern	37,583	39,465	- 1,882
Colorado	24,442	23,484	+ 658
Connecticut	20,545	20,247	+ 298
Delaware	2,529	2,457	+ 72
District of Columbia	6,791	6,354	- 63
Florida	23,363	23,038	+ 325
Georgia	32,130	32,518	- 388
Idebo	10,560	10,488	+ 72
Illinois	135,934	132,424	+ 3,510
Indiana	57,420	56,488	+ 932
Iowa	21,519	21,288	+ 231
Kansas	31,022	30,461	+ 561
Kentucky	42,043	41,612	+ 431
Louisiana	28,295	27,966	+ 309
Maine	7,971	7,670	+ 301
Maryland	11,060	11,085	- 25
Massachusetts	81,021	80,930	+ 91
Michigan	69,747	64,749	+ 4,998
Minnesota	45,559	42,938	+ 2,621
Mississippi	24,275	23,809	+ 466
Missouri	61,362	60,888	+ 474
Montana	16,313	16,265	+ 48
Nebraska	24,192	23,247	+ 945
Nevada	2,426	2,268	+ 158
New Hampshire	7,431	7,323	+ 108
New Jersey	71,769	70,946	+ 823
New Mexico	7,407	7,231	+ 176
New York City	139,834	138,750	+ 1,084
New York (Excl. N.Y.C.)	53,154	52,307	+ 847
North Carolina	26,961	26,101	+ 860
North Dakota	14,302	14,167	+ 135
Ohio	121,729	114,705	+ 7,024
Oklahoma	53,923	53,291	+ 632
Oregon	15,327	15,176	+ 151
Pennsylvania	192,035	183,962	+ 8,073
Rhode Island	13,023	13,072	- 49
South Carolina	27,382	27,176	+ 206
South Dakota	16,893	16,457	+ 436
Tennessee	27,921	26,155	+ 1,366
Texas	66,665	64,923	+ 1,742
Utah	8,476	8,407	+ 69
Vermont	4,825	4,603	+ 222
Virginia	20,596	20,137	+ 459
Washington	39,885	39,153	+ 732
West Virginia	34,969	33,825	+ 1,144
Wisconsin	45,765	44,233	+ 1,527
Wyoming	3,518	3,482	+ 36
Hawaii	2,507	2,463	+ 44

A/ Revised.

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~~MM~~

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 8, 1938

TO Secretary Morgenthau  
FROM Herman Oliphant

For your information.

In continuation of a consideration of the technical aspects of the Genesee project, Oppen, Foley, Hill, and Crossley of my shop had a conference at S.E.C. this morning with Smith and Nehemkis.

Oppen and Foley had reported to me last Thursday some sign of declining enthusiasm in S.E.C., but this morning the indications were that their interest is genuine and adequate.

Malby's attitude, when Smith saw him last Friday in New York, was cordial and cooperative.

A tentative plan of reorganization was discussed in the conference this morning, and it is to serve as the basis of a discussion with a representative of the debtor and of the trustee of the first-lien bondholders which is the Bank of Manhattan Trust Company. Smith, after clearing with Commissioners Frank and Haley, is going to get these two men down, presumably, for a meeting Thursday or Friday.

I shall send you later a copy of the tentative plan under discussion.

NO

February 8, 1938

Lunched with the President; told him about my ideas of the downward spiral of business in this country and the world and that I felt that we had to do something now.

I had two suggestions to make - (1) that we do something about gold sterilization - either stop sterilizing of gold or simply stop sterilizing newly mined domestic gold. He said, "Fine". He said, "I didn't know that you could do the newly mined gold separately".

I then got on the employment question. I said, "Do you want me to give you my reasons or my conclusions that if ~~you are going to~~ do anything you will have to do it fairly promptly." I said, "I am ready to do it now. I recommend that you ask for an additional 250 million dollars so that we can take on another 650,000 people and give them work". The President said, "That's fine". I said, "I think we ought to do it with considerable flourish and emphasis so that it will have the maximum effect on the country".

I said, "I am not sure whether the discontinuance of the sterilization of gold will increase the prices of commodities or not, I said, it is certainly worth trying". I said, "People are sitting back holding off buying because they think each day they will be able to buy cheaper". I said, "We have go to turn this psychology around". The President was most enthusiastic about my suggestions and arranged for a meeting at 3:30 to conclude the arrangements in regard to relief".

I told the President we would try to sell it to Eccles but I didn't know how he would react. The President said, "I just don't understand Eccles' theory on wages". I told him that last week at my office Eccles had completely turned about on his attitude towards housing. He wishes you to say that we need housing in order to stimulate employment. Last week in my office he said, "We can't get a revival in housing until we get a pick-up in employment". The President said, "That doesn't make sense".

I feel that at last I have made a move towards releasing the deflationary brakes and I am hopeful that this and possibly other steps that we may have to take can stop the falling off in business.



## TREASURY DEPARTMENT

WASHINGTON

FEB 3 1938

CONFERENCE WITH THE PRESIDENT ON THE  
QUESTION OF ADDITIONAL FUNDS FOR  
RELIEF PURPOSES FOR THE BALANCE OF  
THIS FISCAL YEAR

Those present besides the President were the Secretary of the Treasury, Mr. Aubrey Williams, Mr. Baldwin, and Mr. Bell.

The President said he would like to discuss first the requirements of the Farm Security Administration. He asked Mr. Baldwin to explain that organization's needs for the next five months.

Mr. Baldwin said that the Farm Security Administration is now giving direct relief only in the drought areas. Their load has increased from about sixty thousand families to about one hundred and fifty thousand families, but he feels that \$1,000,000 in this direct relief program goes a long way. He thought they would be able to fairly well care for the situation with an additional \$5,000,000 for direct relief. As to the loans for rehabilitation purposes, that was a different matter. They are now running out of funds and Mr. Baldwin feels that if additional money is not made available for these loans, eventually those people to whom they could loan money will be on WPA work. He estimated that it will require an additional \$25,000,000 to take care of these loans.

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The President asked me about the money. I told him that we have at the present time a free balance of about \$42,000,000; that if it was not necessary to give WPA any of these funds we could take care of the Farm Security Administration program. I told him, however, that the Secretary and I had promised Mr. Hopkins earlier in the year that before any of the free balance was allocated to any other organization, we would go over the WPA needs. I said that that was what we had been doing today with Mr. Williams and he has a picture that he should present which involves a question of policy for the President to determine.

Mr. Williams told the President that his organization had made a check on the relief needs of the country and the best estimate he can submit at this time is that there are now about 1,650,000 people on the relief rolls of the local communities, of whom 500,000 are employables; that in addition there are 250,000 people who are not on any relief rolls for one reason or another and who are able and willing to work. This makes a total of 750,000 employables throughout the country who should, in his opinion, be on WPA rolls. He advised the President that he had talked the matter over with the Secretary earlier in the day and was quite willing to undertake to care for the entire employable relief load with an additional \$250,000,000. He does not feel that he could do it for any less.

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The President said that he thought there was a great need for additional funds and asked what the next step should be. The Secretary said he thought the President should confer with leaders in Congress before submitting any estimate to Congress. The President said he would see the leaders tomorrow and asked Mr. McIntyre to make an appointment to see Senator Barkley, Senator Glass, or Senator Byrnes, Congressman Raeburn, Congressman Taylor and whatever sub-chairmen he cared to bring with him, and possibly the Vice President and the Speaker.

awb

February 8, 1938.  
2:41 p.m.

H.M.Jr: Hello.

Operator: Mr. Douglas.

H.M.Jr: Hello.

Wm. O.  
Douglas: Hello.

H.M.Jr: Morgenthau.

D: Good afternoon, Mr. Secretary.

H.M.Jr: How are you?

D: Fine.

H.M.Jr: How are you getting along with our Genesee Valley?

D: With Genesee Valley?

H.M.Jr: Yes.

D: I was out of town most of last week, in Chicago.  
Uh - the - uh. I asked Jerry Frank to follow it.  
I haven't checked up with him today. I'll do so  
and call you back this afternoon.

H.M.Jr: Will you do that?

D: Yes.

H.M.Jr: I thank you.

D: O.K.

H.M.Jr: Thank you.

D: Right.



February 8, 1938.  
3:09 p.m.

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H.M.Jr: Hello.

Wm. O.  
Douglas: Mr. Secretary?

H.M.Jr: Talking.

D: This is Douglas.

H.M.Jr: Yes.

D: I have checked up and I find out that this is the present status of the Genesee matter.

H.M.Jr: Please.

D: Our staff - our utilities division staff - just completed this morning discussion with staff of Treasury on a plan.

H.M.Jr: The staff of who?

D: Uh - Treasury. Uh - what department - out of what division, I don't know, whether Oliphant's boys are in. On a plan which they think is a sound plan - a thorough-going plan. They're planning to put that in shape and get it before the Commission the earliest possible date for decision on such matters as this. Should the Commission propose a plan - should the Treasury and the Commission propose a plan - should the debtor be consulted to see if he'd propose a plan - and so on. But some of the staff is of the opinion that probably the debtor could be persuaded to propose a plan. Now, it's a plan which calls for the collapse of that very involved holding company system, the setting up of a new company freed from all holding company tangles, with a simple capital structure. It's a sort of a hard-boiled plan, but it'd clean the thing up, and from what the staff tells me, would put the company into a very good conservative financial position, with no participation to the common stock, and so on.

H.M.Jr: But when the various staffs have consulted everybody, let's you and I take a look at it together.

D: Yes.

H.M.Jr: See?

D: I'd like very much to do that. As soon as they get the thing ready to present, I'll get in touch with your office to see if we can't take a look at it ourselves.

H.M.Jr: Will you do that?

D: Swell.

H.M.Jr: In the meantime I'll find out who's working on it here and I'll tell them the same thing.

D: Yes.

H.M.Jr: Thank you very much.

D: O.K.

## GROUP MEETING

February 8, 1938.  
4:25 p.m.

Present: Mr. Oliphant  
Mr. Bell  
Mrs Klotz  
Mr. McReynolds  
Mr. Haas  
Mr. Gibbons  
Mr. Gaston

H.M.Jr: I spoke to the President today about this Kelly matter, see, and he said, "Who have you got who could handle it along the following ways?" He said, "I want somebody that you can trust who will go up and see Governor Moore of New Jersey; not ask for somebody - go and see him and say, 'The President of the United States has asked me to come and see you. Now, there is this man Kelly who has done the following things.' And let him see the report and say that the President says, 'Now, we'll give Mr. Kelly the chance to resign.' But if he won't, the President is going to fire him and there's no fooling about it."

So I said, well, I thought that Steve Gibbons could do it as well as anybody. He said, "He is just the fellow to do it." And he says, "As a matter of courtesy, tell the new Senator, the one that's just been appointed ....

Gibbons: Yes, Milton.

H.M.Jr: .... that you're going to see Moore because he's the titular head of the State Democratic Party in New Jersey." He says not to go near Hague.

Now, the President says, "You can tell him either he will resign or if he won't, definitely I'll fire him, and there won't be any use arguing."

Gibbons: Giving him a chance to resign, save his face.

H.M.Jr: And if he doesn't, he says he'll fire him. But he said he'd like very much for you personally to handle it. O.K.?

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Gibbons: And I'll see Milton ....

H.M.Jr: No, I'd go to Moore first.

Gibbons: I'll call him on the phone tonight or tomorrow morning and go up there immediately. I'll familiarize myself with it tonight. Haven't read the thing, just discussed it.

H.M.Jr: (On phone) Is Mr. Taylor out? - Oh. All right.

Well, Taylor isn't here, he's at the Federal Reserve; so we can't clear that matter.

Let me make a record of it. The President said to me at lunch, "Has Jesse Jones seen you?" He said, "He came over here with a letter that he wanted me to sign. Had to do with setting up a new mortgage corporation." He says, "I asked Jesse, 'Does the Treasury approve of this? Does the Secretary approve of this?' And Jesse says, 'The Treasury does.'" So the President asked him again if the Secretary of the Treasury approves of this and Jesse said he hadn't talked to me. And the President said that until Jesse clears it with me, he won't do anything. So I told him that Jones was to come to see me this morning but he postponed it, he's coming to see me Thursday. So we'll find out. Taylor said something to me about it, and I don't know what happened.

Oliphant: Has the document been in the shop?

Bell: I haven't seen it.

H.M.Jr: No. No, it's the usual - I don't - no, it had not.

The only other thing that you people - I know you'd be interested in - Bell and I had a long session this morning with Aubrey Williams on the relief situation, and after that session we agreed amongst ourselves that he needed now enough money to put on, over and above the last schedule, about 650,000 people - about \$250,000,000. Discussed it at lunch and the President said, "Fine." And we've just come back and we had another meeting, and they've agreed

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on it. The President is calling a meeting of the leaders tomorrow, putting it up to them. And, personally, I'm - I think it's a move in the right direction. There's no sense of fooling around with it and doing it a little bit; do enough so we get the benefit out of it - I mean the whole country.

And that means there would be two and a half million people, wouldn't there, Dan, in March?

Bell: Uh-huh. Two and a half million is the top.

H.M.Jr: Yes. And I don't know - I think - as I say, I think it's right; can't let people .... They say they've made a survey, that there are 1,750,000 people in the country who are ready and fit to go to work. And their orders last week were, they stopped taking any more people. No, 1,750,000 on relief.

Bell: 1,650,000 people on direct relief, of which five hundred thousand are able-bodied and willing to go to work.

H.M.Jr: And there are another 250,000 ....

Bell: ... that aren't on relief of any kind who want work.

H.M.Jr: Who want work. 750,000 who want and need work.

Bell: That's right.

H.M.Jr: So I personally ....

Bell: That has to be added to 1,900,000 now on the rolls. Makes a total of 2,650,000, of which they're going to take care of 2,500,000 with this money.

H.M.Jr: It's all very confidential, and the President is going to see the leaders tomorrow; but I think that he'll announce it some time this week, once he sees the leaders. And that's my good deed for today.

Gibbons: Some good deed.

Oliphant: A lot of people would rise up and call you blessed.

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H.M.Jr: Well, I don't know, but we'll see - got one or two other things which we've got in the shop that - maybe we could stop this downward spiral; it's getting pretty sick - the whole world. I feel a little better.

Gibbons: How's the sciatic?

H.M.Jr: How's what?

Gibbons: The sciatic.

H.M.Jr: Oh, I haven't had time to think of it. I haven't got time. It's all - it's better. The doctor's diagnosis is lumbago; I still think I got sciatic. Well, that's that.

Mac, is the - whatever you call it - I may not be here when Taylor gets back; find out what there is about this R.F.C. bill.

McR: R.F.C. mortgage corporation.

H.M.Jr: What is there to it, where is it, where's the letter and all that. Bell and I haven't seen it.

Bell: We'll read it in the papers some day. That's where we find out.

H.M.Jr: Will you?

McR: Yes, sir, I will.

H.M.Jr: Oh, the other thing which you people - Dan seems to have lots of time and - the other thing is this. A couple of you get this. I had Mr. Griswold in today, of Baltimore - Brown ...

Olyphant: Alexander Brown & Son.

H.M.Jr: Alexander Brown.

And I asked him, as an investment banker and as a friend, whether he wouldn't get me some examples, either in Baltimore or any other place in the United States, where people wanted new working capital, who were good risks that he'd pass on, and bring them in here. And never mind why they couldn't get it, the

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fact - I mean just disregard any reasons, as far as the Federal Government, why they can't - but I wanted to hear, and if he'd get me a half dozen companies, not too big, that I want to sit down as though I was this man's partner; I'll go through the operations with this fellow step by step, as he has to go through the Federal Government, and find out what is the matter. Never mind whose shoe it pinches or whose toe we step on, I would go through the operation with him step by step. And he's going to - he says he's got some now and he's going to get some more. But he's got to examine them personally. "Never mind what committees are working on them, who's done it, or what the reasons are why they can't - say they can't get the money. But if they say they can't get new additional working capital and the company is a good risk, you bring the head of that company to me and I'll go through the jumps with him."

- Oliphant: As if you were the investment banker taking a look at the picture?
- H.M.Jr: No, as if I were the business man's partner.
- Oliphant: The business man's partner. You want to see it through his eyes.
- H.M.Jr: I'm going to see it through his eyes, go through all the hurdles we've set up.
- Gibbons: You're doing the right thing, putting yourself in the other fellow's place.
- H.M.Jr: I'm the business man's partner.
- Oliphant: He said he had some?
- H.M.Jr: He said he had some, but he had to look at them. I want a break in the sense that I want solvent companies and I want small companies. I don't want a busted concern. I want a break.
- McR: You want to look at any Texas companies?
- H.M.Jr: Excuse me?

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- McR: You want to look at any of those Texas companies? You know, Scofield is here in town today.
- H.M.Jr: Let him go home. This is a better way. I had an idea of sending out letters to fifty to a hundred companies, but this is a more intimate way. And this fellow is going to - I've put Griswold on his mettle and he's got to pass first on the company himself, that it is liquid. In other words, he can't bring me a busted concern. He says they had a scheme some years ago in Baltimore and they were going to finance big industry; they examined 47 industrial companies. Only four were liquid. He says he doesn't want me to go through that experience. In other words, I don't want to find that I'm working on a company I find is busted. I want a company that is absolutely liquid. What I am trying to find out is, what's the matter in Washington? So we'll see.
- McR: Yes. I'll tell Irey.
- H.M.Jr: O.K.
- Oliphant: Suppose the companies are solvent but the assets are frozen. You want a solvent company, is that it?
- H.M.Jr: Well, I mean - in other words, I'm going to think as though this was my own money, and would I put my own money in it? And it isn't a question - the fellow's got to be solvent. But I'm trying to find out what is the matter down here in Washington. Now, they say it's us. Let me find out by being with this fellow as his partner and going through it.
- Now, maybe it's Washington and maybe it isn't. By the time I get through - I mean if I believe the newspapers, the main reason you can't get it is on account of surplus tax. Well, maybe it is and maybe it isn't. Maybe the S.E.C. is slow, maybe they hold a man up too long; maybe it's too expensive; maybe it's the Federal Reserve. I don't know, but I want - the thing I'm trying to find out, is there something wrong in Washington?
- Oliphant: That's right.
- H.M.Jr: See?



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Oliphant: Might be the bar.

H.M.Jr: Pardon me?

Oliphant: Might be the lawyers.

H.M.Jr: Well, I'm suspicious.

Oliphant: You have a right to be, in that connection.

Klotz: Oh, I never heard him say that before.

H.M.Jr: You know what Mrs. Klotz said? She never heard you admit that before. Are you kidding?

Oliphant: Never like to admit anything.

Do you want a report on the New York Post Office?

H.M.Jr: What?

Oliphant: New York Post Office.

H.M.Jr: Now?

Oliphant: Too late in the day?

H.M.Jr: A little bit.

Klotz: It's too early in the day.

Oliphant: Tomorrow.

H.M.Jr: All right.

Ribbon copies of the attached memo of 2/8/38 were sent to the President, the Secretary of State and the Secretary of War, Attention: Col. Strong (G-2) - letters of transmittal dated 2/8/38, signed by the Secretary.

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## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 8, 1938

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 four weeks of  
 January 1938.

(1) United States exports to Japan during the first four weeks of January 1938 were about 15 percent greater than during the first four weeks of December 1937, and at about the same level as during the first four weeks of November 1937.

United States exports to Japan

	<u>1st week</u>	<u>2nd week</u>	<u>3rd week</u>	<u>4th week</u>	<u>Total 4 weeks</u>
Jan. 1938	\$2,726,000	\$3,759,000	\$4,013,000	\$3,721,000	\$14,219,000
Dec. 1937	1,694,000	5,218,000	2,394,000	3,033,000	12,339,000
Nov. 1937	1,180,000	4,813,000	4,745,000	3,730,000	14,468,000
Oct. 1937	1,727,000	5,746,000	4,492,000	6,763,000	18,728,000

(2) United States imports from Japan during the first four weeks of January 1938 were about \$1,000,000 larger than during the first four weeks of December 1937, although more than 25 percent under comparable periods for October and November 1937.

United States imports from Japan

	<u>1st week</u>	<u>2nd week</u>	<u>3rd week</u>	<u>4th week</u>	<u>Total 4 weeks</u>
Jan. 1938	\$2,033,000	\$4,185,000	\$2,020,000	\$2,343,000	\$10,581,000
Dec. 1937	2,159,000	3,406,000	2,672,000	1,318,000	9,555,000
Nov. 1937	3,239,000	3,654,000	4,333,000	3,714,000	14,940,000
Oct. 1937	3,328,000	3,984,000	3,419,000	4,060,000	14,791,000

(3) The following items show large increases in our exports to Japan during the first four weeks of January 1938 as compared with the first four weeks of December 1937:

Secretary Morgenthau - 2

	First four weeks of		
	<u>January 1938</u>	<u>December 1937</u>	<u>November 1937</u>
Petroleum products	\$4,095,000	\$3,333,000	\$4,451,000
Cotton	2,753,000	1,650,000	673,000
Industrial machinery	2,078,000	982,000	1,383,000
Vehicles, parts and accessories	1,124,000	710,000	840,000
Copper	1,007,000	681,000	1,570,000
Pig iron	242,000	nil	201,000
Ferro-alloys	192,000	51,000	356,000
Aluminum	79,000	1,000	10,000
Electrical machinery and apparatus	65,000	27,000	28,000

The following items show large decreases in our exports to Japan during the first four weeks of January 1938 as compared with our exports of these items during the first four weeks of December 1937:

	First four weeks of		
	<u>January 1938</u>	<u>December 1937</u>	<u>November 1937</u>
Iron and steel	\$765,000	\$ 899,000	\$1,172,000
semi-manufactures			
Paper base stocks	492,000	1,389,000	940,000
Scrap iron and steel	334,000	479,000	564,000
Chemicals and related products	251,000	341,000	685,000
Hides and skins, raw	21,000	270,000	372,000
Edible vegetable products	19,000	59,000	19,000
Wood, unmanufactured	16,000	118,000	94,000
Naval stores, gums and rosins	7,000	57,000	92,000
Brass, including scrap	1,000	304,000	550,000
Tobacco and manufactures	nil	257,000	nil

(4) The imports of raw silk increased somewhat in the first four weeks of January compared with the first four weeks of December 1937, but were still well under the 1936-37 average of \$2,000,000 per week.

Secretary Morgenthau - 3

	Imports during the first four weeks of			
	<u>Jan. 1938</u>	<u>Dec. 1937</u>	<u>Nov. 1937</u>	<u>Oct. 1937</u>
Raw silk	\$ 5,653,000	\$ 4,925,000	\$ 8,094,000	\$ 8,021,000
Imports other than raw silk	<u>4,928,000</u>	<u>4,630,000</u>	<u>6,846,000</u>	<u>6,770,000</u>
Total	\$10,581,000	\$ 9,555,000	\$14,940,000	\$14,791,000

(5) Of the total of \$14,219,000 of our exports to Japan during the first four weeks of January 1938, the following items account for almost all:

	<u>First four weeks of January 1938</u>
Petroleum products	\$4,095,000
Cotton	2,753,000
Industrial machinery	2,078,000
Vehicles, parts and accessories	1,124,000
Copper	1,007,000
Iron and steel semi-manufactures	765,000
Paper base stocks	492,000
Scrap iron and steel	334,000
Chemicals and related products	251,000
Pig iron	242,000
Ferro-alloys	192,000
Pig lead	117,000
Aluminum	79,000
Electrical machinery and apparatus	65,000
Nickel	50,000
All other	<u>575,000</u>
Total	\$14,219,000

(6) Of the total of \$10,581,000 of our imports from Japan during the first four weeks of January 1938, the following items account for almost all:

## Secretary Morgenthau - 4

	<u>First four weeks of January 1938</u>
Raw silk	\$5,653,000
Cotton manufactures	683,000
Silk manufactures	309,000
Pyrethrum flowers	288,000
Edible vegetable products, except tea	282,000
China and porcelain ware	244,000
Flax, hemp, ramie and manufactures	184,000
Tea	179,000
Fish and fish products	161,000
Perilla oil	142,000
Wood and manufactures	132,000
Toys	128,000
Paper and manufactures	127,000
Dead (creosote) oil	114,000
Menthol	109,000
Earthen ware and stoneware	104,000
Hats and hat materials	103,000
Rayon and manufactures	88,000
Rapeseed oil	83,000
Fish scrap and fish meal	80,000
Glass and glass products	70,000
Bristles	68,000
Camphor	60,000
Wool and manufactures	51,000
All other	<u>1,139,000</u>
Total	\$10,581,000

United States trade with China during the first four weeks of  
January 1938.

(1) United States exports to China and Manchuria during the first four weeks of January 1938 declined sharply from the exports during the first four weeks of December 1937.

	<u>First four weeks of</u>		
	<u>January 1938</u>	<u>December 1937</u>	<u>November 1937</u>
United States exports to:			
North China & Manchuria	\$1,786,000	\$2,417,000	\$2,656,000
Shanghai, South China and Hong Kong	<u>3,840,000</u>	<u>4,453,000</u>	<u>3,067,000</u>
Total	\$5,626,000	\$6,870,000	\$5,723,000
Whole month of January 1937			\$6,623,000

Secretary Morgenthau - 5

(2) United States imports from China and Manchuria during the first four weeks of January 1938 were about \$1 million less than the imports during the first four weeks of December 1937 and almost \$2 million less than imports for a comparable period in November 1937.

	First four weeks of		
	January 1938	December 1937	November 1937
United States imports from:			
North China & Manchuria	\$1,024,000	\$1,053,000	\$1,845,000
Shanghai, South China and Hong Kong	<u>2,844,000</u>	<u>3,683,000</u>	<u>3,917,000</u>
Total	\$3,868,000	\$4,736,000	\$5,762,000
Whole month of January 1937			\$6,882,000

(3) Leading export items to China:

(a) To North China and Manchuria:

	First four weeks of	
	January 1938	December 1937
Iron and steel semi-manufactures	\$ 997,000	\$1,429,000
Petroleum products	263,000	198,000
Vehicles, parts and accessories	195,000	439,000
Industrial machinery	99,000	83,000
Raw cotton	72,000	38,000
Copper	68,000	nil
Inedible animal products	38,000	26,000
All other	<u>54,000</u>	<u>204,000</u>
Total	\$1,786,000	\$2,417,000

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

	First four weeks of	
	January 1938	December 1937
Vehicles, parts and accessories	\$1,465,000	\$ 971,000
Firearms and ammunition	541,000	99,000
Petroleum products	413,000	1,055,000
Iron and steel semi-manufactures	208,000	606,000
Dynamite and TNT	150,000	nil
Edible vegetable products	150,000	271,000
Industrial machinery	135,000	94,000
Paper and manufactures	113,000	96,000
Wood unmanufactured	59,000	84,000
Tobacco and manufactures	55,000	596,000
All other	<u>551,000</u>	<u>581,000</u>
Total	\$3,840,000	\$4,453,000

Secretary Morgenthau - 6

(4) Leading import items during the first four weeks of January 1938:

(a) From North China and Manchuria:

	First four weeks of	
	<u>January 1938</u>	<u>December 1937</u>
Bristles	\$ 221,000	\$ 398,000
Edible vegetable products	118,000	2,000
Non-metallic mineral products	95,000	11,000
Perilla oil	80,000	57,000
Wool and manufactures	54,000	179,000
Flax, hemp and ramie	53,000	48,000
All other	<u>403,000</u>	<u>358,000</u>
Total	\$1,024,000	\$1,053,000

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

	First four weeks of	
	<u>January 1938</u>	<u>December 1937</u>
Tung (Wood) Oil	\$ 576,000	\$ 745,000
Flax, hemp and ramie	446,000	523,000
Bristles	269,000	262,000
Tungsten ore and concentrates	245,000	84,000
Tin	176,000	567,000
Vegetable food, except tea	161,000	190,000
Cotton manufactures	118,000	106,000
Tea	97,000	74,000
Edible animal products	89,000	146,000
Chemicals and related products	73,000	40,000
Raw silk	59,000	141,000
Wood manufactures	50,000	30,000
Wool and manufactures	42,000	175,000
All other	<u>443,000</u>	<u>600,000</u>
Total	\$2,844,000	\$3,683,000



## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 8, 1938, 3 p.m.

NO.: 209

FROM COCHRAN.

Today in Paris President Beyen of the BIS came to visit me. During the past week he had been in London and the Netherlands. Tonight he leaves for Stuttgart.

As to the developments in Germany, Beyen sees no cause for immediate international concern. He said that he wondered whether it would now be possible for Schacht ~~xxx~~ to continue as Reichsbank President after his term expires in March - previously Beyen had been of the opinion that Schacht would continue in this capacity. The BIS President was in agreement with me that the man who has been recently mentioned as the most likely successor to Schacht - Kurt von Schroeder, the Cologne banker (also BIS director) - is not at all comparable with Schacht in financial and monetary technique and wisdom.

In London banking circles, Beyen found observers are beginning to realize that economic prosperity is not merely a state of mind, and that they are again facing a downward swing after the upward swing from 1932 to 1938 in spite of the optimistic statements of their leaders.

END SECTION ONE.

BULLITT.

EA:LWN

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 209 OF  
FEBRUARY 8, 1938, FROM PARIS.

I asked Beyen whether the BIS management had prepared a statement for the directors meeting on February 14 with regard to the Van Zeeland report. He said that it had not, and will not prepare a statement unless requested to do so. Beyen's personal opinion is that the report is weak and futile, particularly the section on finance. Diplomacy is the keynote, he believes, and he does not think there is much hope for new structural plans in world economics until diplomacy is placed in order. In Beyen's opinion, progress must be made slowly through such media as the tripartite monetary arrangements, the very modest clearing and credit transactions which are already passing through the BIS, and so on. Beyen said he could not even see that much more headway could be made by the tripartite until France, by drastic internal surgery, might be cured of chronic financial ailments and the elements which have contributed to these ailments. The low state of French finances is evidenced, he said, by the recent costly Algerian and Credit National loans.

BULLITT.

END SECTION TWO.

EA:LWW

EG

GRAY

Paris

Dated February 8, 1938

Rec'd 2:25 p.m.

Secretary of State,  
Washington.

209, February 8, 3 p.m. (SECTION THREE)

French foreign trade January, 1938, totaled 6343 million francs which is 1243 million francs more than for January, 1937. Imports were 646 million francs less than for the preceding month but 560 millions more than for January, 1937. Exports were 106 millions more than for the preceding month and 683 millions more than for January, 1937. The unfavorable trade balance for January 1938 was 1441 million francs compared with 1564 millions for January, 1937.

Slight improvement indicated in January trade returns had little effect on today's market. French control appears to have been giving sterling steadily at around 152.90 with fair but not disorderly pressure. Rentes lower. With doubt arising as to whether new labor code can be passed this month, it appears probable that government will prolong by decree for one month the agreement between employers and labor which expires in February. Labor leader Jouhaux

renewed

-2- #209, February 8, 3 p.m. SECTION THREE from Paris

...  
renewed his plea for exchange control in a speech yesterday.  
JOURNEE INDUSTRIALLE feels that recent effort of Italy to  
attract foreign funds, economic difficulties arising in  
Japan, and internal problems evidenced in Germany should  
go far toward convincing any doubting Frenchmen that  
France's wise course is to continue to move toward free  
rather than closed economy.

(END OF MESSAGE)

BULLITT

KLP:WVC

EDA

GRAY

PARIS

Dated February 8, 1938

Received 3:40 p.m.

Secretary of State

Washington

212, February 8, 6 p.m.

FROM COCHRAN.

In late trading rentes as well as French industrial securities rose on variety of rumors in regard to French monetary plans, such as further depreciating franc, re-valuing gold reserves, raising of official discount rate on Thursday, et cetera.

Evening papers carried interview given today by Minister of Finance Marchandreau in which he is reported to have said:

One. That he has been working for some time on proposals which, while preserving monetary freedom and budgetary balance will contribute to recovery of public finances and economy.

Two. That certain steps toward easing taxes and thus helping production are planned.

Three. That with a view to strengthening currency Government has not hesitated to restore to stabilization fund

EDA - 2 - #212, February 8, 6 p.m. from Paris

fund certain resources which have recently been ceded  
to the Bank of France. (This disclosure evidently made  
to prepare public for Thursday's bank statement.)

BULLITT

HPD

EG

PLAIN

London

Dated February 8, 1938

Rec'd 3:57 p.m.

Secretary of State,  
Washington.

113, February 8, 8 p.m.

FOR TREASURY FROM BUTTERWORTH

The Chancellor of the Exchequer, in answer to a question in the House of Commons this afternoon, stated that the recent rise in the exchange value of sterling was not the result of the policy controlling the equalization account. He also gave a negative reply to the second part of the question which was whether, in view of the more intense competition which the British producer would have to meet in the home and overseas markets as a result of the over-valuation of sterling, the future policy of the account would be directed towards preventing the sterling rate rising above the level at which it stood when the tripartite agreement was concluded. Simon said it was not the function of the exchange equalization account to determine the exchange value of sterling but to check undue fluctuation therein.

The Chancellor of the Exchequer was also asked whether in carrying out the new rules as to the investment of

British

-2- #113, February 8, 8 p.m. from London

British money in foreign ventures he would attempt to secure the cooperation of the American Government so that any action might be taken together and not in competition and so that for the transfer of interest, dividends, or profits from either country the investors might have such joint support as the two powers ~~might be~~ able to give. Simon replied that foreign investments whether by nationals of this country or of the United States were undertaken on private initiative and not by either government so that the question of cooperation between the governments in making such investments did not arise. He added that in cases where British investors needed support of the kind indicated in the question, it was the existing practice of the British Government to cooperate with the other governments concerned and there was also cooperation between the Council of Foreign Bondholders and similar bodies including the American Bondholders' Protective Council. Referring again to paragraph of my 763 of December 9, 9 p.m., and to first paragraph of my 17 of January 6, 5 p.m., today's announcement of a further increase in unemployment in January of 162,200 brings the total on the registers to 1,827,607. January's was the fifth successive increase, the aggregate growth in the total since August being 518,000; one third of the decrease between the "low" of  
the



-3- #113, February 8, 8 p.m. from London

the boom and the "high" of the last slump has now been wiped out.

Though the actual seasonal trend in January often manifests an even higher increase than the recorded 162,200 of last month the figures nevertheless indicate continued downward trend in activity because this year they follow a very large anti-seasonal increase in unemployment recorded in December which was accounted for by the abnormally large numbers of workers "temporarily stopped" in outdoor trades because of exceptionally bad weather on the day of the December count. It was semi-officially predicted a month ago that half of these would find their way back into employment by the time the January count should occur but in fact only one quarter of these have returned to work. The marked increases in unemployment in the distributive trades and hotel, etc., services are largely seasonal but the continued heavy increases not only in consumption goods trades such as textiles, furniture and automobiles, but also in such capital goods trades as metal manufacture, engineering and even in steel melting and rolling, indicate that recession is spreading to industries hitherto regarded as proof against depression by reason of the demands of rearmament. Coal mining alone of  
all

-4- #113, February 8, 8 p.m. from London

all the more important industries showed a lower figure of unemployment than a year ago but indications are not lacking that a forthcoming curtailment in exports will tend to reverse the trend in that industry in a month or two. (Paragraph 3 of my 763, December 9, 9 p.m.)

Foreign exchange market continues idle with future francs showing signs sporadically of widening out.

JOHNSON

KLP

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 9, 1938, 11 a.m.

NO.: FROM COCHRAN, No. 213.

RUSH.

At half past ten this morning I called at the Bank of France. At that time I found there was considerable pressure against the franc. At a quotation of 152.92 1/2 and 95 the control had already yielded 300,000 pounds. I was told by my contact that yesterday the trend was on balance favorable to the franc until the market learned of the statement of the Minister of Finance, summarized in my 212 of February 8, 6 p.m. There was a turn in the market then and for the day the control lost 650,000 pounds.

At the time of my visit I took occasion to recheck certain information which I had reported in my telegram of February 4, No. 189. I learned that the amount of 900,000,000 francs mentioned as having been borrowed in gold from the Bank of France by the control was in "current" francs - and not francs on a 43 milligrams basis. Because of this the 900,000,000 should be subtracted from 4,000,000,000 francs to give the fund's total gold and foreign exchange assets in "current" francs as of the night of February third, Thursday. At the end of last week the control gained a little foreign exchange, and on Monday the seventh it gained a fair amount; there-

- 2 -

fore as of last night, February 8, the fund contained after deducting the loss for the day of 650,000 pounds, between three billion one hundred and two hundred million "current" francs of foreign exchange and gold.

BULLITT.

EA: LWW

*Mr. L. W. Knoks*

FEDERAL RESERVE BANK  
OF NEW YORK

DATE February 9, 1936.

OFFICE CORRESPONDENCE

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knoks

WITH BANK OF FRANCE.

Mr. Cariguel called me at 11:15 today. He asked whether I thought it would be possible for us, in executing his daily franc orders, to keep a little closer to his limits. I assured him that we could readily do that and explained that in the recent past, particularly ~~on the buying side~~, we had felt that the fewer francs we bought for him, the better pleased he would be, and that as a result we had usually fixed our bid price 1/8 to 1/4 below his buying limit. I explained that all we could do was, of course, to use our best judgment and to hope that he would not hesitate to tell us frankly if at any time our action did not meet with his approval. Cariguel replied that personally he was entirely satisfied with our action but that he had to take into account the reaction of some of his people there who had of late been anxious to see to it that the closing price in New York was not below the Bank of France's buying limit. Cariguel also mentioned that he had found that some banks in Paris were sending orders to New York and were getting them executed at less cost than the Bank of France did through us. I replied that firstly, as a matter of policy, we were passing all orders through other banks in this market for which service we paid 1/8, which seemed to us to be a reasonable and fair compensation; secondly, we had to pay a brokerage in this market of 1/8, and thirdly, we never charged a cent for our own services. I continued that, quite possibly, at times, other banks might be able to execute to greater advantage in cases where they had offsetting orders on their books, thus avoiding

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 9, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knocks

WITH BANK OF FRANCE.

- 2 -

the payment of a brokerage. Nevertheless, I felt that over a period of executions through us must compare fairly favorably with executions through other banks. I requested Cariguel again to confirm to me that his limits were always net, and this, he did.

There was nothing very special that he could report to me as regards the situation in France and the French currency. Marchandeu's statement that the Fund was taking back from the Bank of France some of the gold which the bank had previously given the Fund to pay off the £40,000,000 British credit, had not made a good impression and the Fund was still losing gold. However, Cariguel continued, King's statement in the Financial News that the Fund had already spent all of the gold it was now taking from the bank was absolutely untrue; only a part of it had been spent. One might almost think that King, who was an infernal nuisance, might be acting for speculators who were bearing the franc. Most of the letter, he thought, were in Zurich, Amsterdam or London. American banks in Paris were quite fair and playing the game. I suggested that all our data indicated that New York banks had no speculative positions of any consequence in any currency: the total of all banks reporting to us was only a few million dollars on the short side, and those for the French franc only about a million dollars, with the biggest short position for an individual bank of \$338,000. Positions carried by banks for their customers were likewise insignificant. Cariguel replied that he had always felt that there was practically no short position in New York in francs worth speaking of. It was all concentrated in Zurich, Amsterdam and London.

LWK:KMC

Regraded Unclassified

LMS

GRAY

Paris

Dated February 9, 1938

Rec'd 3 p. m.

Secretary of State,  
Washington.

215, February 9, 6 p. m.

FROM COCHRAN.

Reference my 213, February 9, 11 a. m.

By intervention at London during noon hour French control brought down franc sterling rate and market turned a seller of sterling. In late trading control apparently acquired a small amount around 114.65. Rentes and French industrials better. Belgian banks reported as selling dollars against belgas.

Press reports speech by Trip at Amsterdam wherein he said that: "Before being able to obtain a definite stability of foreign exchange, the basic causes of uneasiness and lack of confidence must be eliminated. In the first place the strengthening and extension of the tripartite monetary agreement is recommended. The six countries which have adhered thereto should renounce their right to denounce it within twenty-four hours and should pledge themselves to maintain the present level of their currencies within certain limits."

BULLITT

WVC:CSB

BERN

Dated February 9, 1938

Rec'd 5:35 p.m.

Secretary of State  
Washington, D.C.

10, February 9, 5 p.m.

Reference despatch No. 87 of November 9, 1937, also  
Department's telegram No. 3, February 4, 11 a.m.

Gentlemen's agreement now recognized as ineffective.  
Legation learns confidentially that Swiss authorities  
are considering following further measures to deal with  
problem of over-abundant foreign capital:

One. Immediate census of foreign investments in  
Switzerland, total now roughly estimated at 3,000,000,000  
Swiss francs.

Two. 4% federal stamp tax on coupons to be increased  
in case of foreigners possibly as high as 20%

Three. Restriction on issuance to foreigners of  
coming 3% railway conversion loan (Legation's telegram No.  
9, February 9, 4 p.m.).

Four. Adoption of legislation under which Switzerland  
would reserve the right to reimburse foreign credits in  
Switzerland (bank deposits in Swiss francs, Swiss secur-  
ities and real estate) in actual gold of a weight corres-  
ponding to existing Swiss monetary unit.

Point one already decided upon; others still in  
discussion and study stage. Further details in despatch  
No. 220 of February 7, mailed AQUITANIA 9th.

SMS NFL

BIGELOW



February 9, 1938.  
9:17 a.m.

114

Operator: Go ahead.

Dr. Parran: Hello.

H.M.Jr: Good morning, sir. How are you?

Dr. Parran: Fine, thank you, sir.

H.M.Jr: Tom, two things.

P: All right.

H.M.Jr: I had a talk with the President on this bill that you had to get this money to fight syphilis with.

P: Yes.

H.M.Jr: And the President has entirely different ideas evidently than you have. His idea on this is that it should be handled the way tuberculosis and cancer were handled in the State of New York. Mainly, he is very much in favor of having state and county contributions.

P: Yes.

H.M.Jr: And he said that he's perfectly willing to have the national government get behind in the publicity drive, but he is not willing to have them pay the actual expenses of the state and county. Now I think that you and I had better see him to give you a chance to talk to him, but he -

P: I would love to do that because -

H.M.Jr: He is quite definite in his ideas and he's going back to - has experience as Governor. And I don't know whether you have ever had a chance to explain your views or not.

P: I really haven't, Henry. I would be delighted to have the opportunity.

H.M.Jr: It's unfortunate because I'm afraid his ideas and yours are quite divergent.

P: I know that he has been conservative about expanding public health matters or public health activities.

H.M.Jr: They're quite divergent. You know the way he talked in New York State, and the way cancer is handled, on a reasonable county basis and all that. You know what he means.

- 2 -

- P: I do. But the facts are the State is paying half - most - is paying all of the cancer work in the State Institute and is paying half of all the local health work including syphilitic.
- H.M.Jr: But what about the county health department?
- P: We're distributing a total of eight million dollars for general - for all public health purposes under the Social Security Act.
- H.M.Jr: Well, I'm going to ask him, the next time I see him, to give us a chance, so that you can expound your theory.
- P: I'd be delighted to if you -
- H.M.Jr: I'll ask about it. Now the other thing is this: very confidential. It's most likely you're going to get extra money for the Hopkins organization and for Resettlement.
- P: Yes.
- H.M.Jr: And I don't know - that is, between now and the first of July.
- P: Yes.
- H.M.Jr: And I don't know whether you need any additional money for the health work among the unemployed or not. Now if you do you've got to talk awful fast.
- P: Yes. That's so. Of course, there is no - the Federal Government is doing nothing for help among the unemployed at all with the exception of the small amount going to Hot Springs Transient Center.
- H.M.Jr: How about North and South Dakota?
- P: The Resettlement is - the one exception was that I mentioned - Resettlement. They are making grants and loans for health and that's working out quite satisfactorily but I should like to check with Dr. Williams to see what, if any, additional money he needs.
- H.M.Jr: Well, if you need anything, check with him on that today.
- P: All right. I shall call you back within - oh, right away. Well, as soon as I can make a check on it. If I may.
- H.M.Jr: That's all right. If you will.
- P: All right, sir.
- H.M.Jr: Thank you.
- P: Thanks very much.

## GROUP MEETING

February 9, 1938.  
9:30 p.m.

Present: Mr. Magill  
Mr. Taylor  
Mr. Oliphant  
Mrs Klotz  
Mr. Gaston  
Mr. Heas  
Mr. McReynolds  
Mr. Gibbons  
Mr. Lochhead  
Mr. Upham

H.M.Jr: What's the price of gold?

Lochhead: Still over thirty-five in London, but not much activity in it. England was still on the selling side yesterday. May be a little trend there. Francs are a little bit steadier.

H.M.Jr: Mac, got anything?

Mac: There is that letter to Byrnes.

H.M.Jr: Yes. What is this stuff in here, Mac? I'll sign it; I don't know what it means.

Mac: In addition to answering his letter, I'm telling him that if they go to authorize the President to make Presidential appointments out of non-presidential appointments, which is what the bill would do, they ought also to authorize him to make non-presidential appointments out of Presidential appointments.

H.M.Jr: Now listen, in language that Mrs. Klotz and I can understand, what does that mean?

Mac: That means that the Director of the Mint ....

Gaston: Commissioner of Customs.

Mac: ... Register of the Treasury, and things - places of that kind - if you decided and the President decided they ought not to be Presidential appointments, they would be appointed by you instead of the President.

H.M.Jr: Is that important?

-2-

McR: Beg pardon?

H.M.Jr: Is that important?

McR: I consider it ....

H.M.Jr: You got reasons for it?

McR: Lot of reasons. Of course, that merely follows the committee report.

H.M.Jr: Well, it doesn't make sense to me, but if you got reasons ....

McR: Jimmy Byrnes knows it.  
There is that report.

H.M.Jr: All right. O.K. So ...

McR: That's all I have.

H.M.Jr: What?

McR: That's all I have.

H.M.Jr: For you (Gibbons), another job. The President said to talk to Dr. Alexander of Resettlement about Collector Cone of Georgia.

Gibbons: Un-huh.

H.M.Jr: I don't know what he means - to see what Alexander thinks about him, if he has any better suggestion. But he said talk to Will Alexander.

Gibbons: Of Resettlement.

H.M.Jr: Yes, he's the head of it - of Farm Security. But evidently he's advising the President on Georgia appointments. Cone - C-o-n-e.  
  
And there's some Collector wanted to see me. Going to be fired. Mrs. Klotz sent him in to you.

Gibbons: That's the Comptroller of Customs from Camden - Westcott. Said he knew you. Was in to see me - in

-3-

fact, when Mrs. Klotz called me he was sitting at my desk. Said he was with you in the 1920 campaign when you were with Professor Irving Fisher on some committee.

H.M.Jr: Yes.

Gibbons: And he's a terrible bore. He let the thing go, you know, and the new Senator from up there has recommended somebody else. I didn't tell him that, but ...

H.M.Jr: Well, listen, old man, it's your cross; you bear it, will you?

Gibbons: Yes. You'd be just foolish to talk to him. Bore you to death.

H.M.Jr: Now, Mac, I haven't got the time to sit down with four people in my organization and decide about the Lee bill, see? I just haven't got the time. I'm trying to put people to work. And I haven't got the time to read it and I'm not going to read it. And you can get the various people together and decide between you. I mean I just haven't got time. I mean the difference is in the shop, and you fellows can do it, and take a vote; whichever way you vote, I'll sign it. I'm not going to study it.

Bell: Navy Department, I might add, has reported against the bill, and Budget has told them there is no objection to the report. I think that's what the Treasury ought to do.

H.M.Jr: All right, there's Mac and Bell and Taylor and Oliphant, and Herbert Gaston on public relations - is one, two, three, four, five. You can take a vote and I'll sign whichever way you vote, whichever way the majority goes. I'll take a three to two decision.

Oliphant: And Mac's the chairman.

H.M.Jr: Mac's the chairman. But I'll be goldarned if I'll take the time to learn it.

Bell: Personally, I can't get what's so much trouble about it.

-4-

H.M.Jr: Well - I mean I get this memorandum from Taylor that I'll have to decide it. Well, I'm not going to decide it. I just haven't got time.

McR: O.K.

H.M.Jr: The day ain't long enough. Okey-doke?

McR: O.K.

H.M.Jr: Mac?

McR: I have nothing else.

H.M.Jr: What's that?

McR: I've got nothing else. Doesn't make any difference which way we decide it.

H.M.Jr: all right. You're willing to have it out with ...

Bell: Yes, I don't think the Treasury ought to report any wishy-washy report on a bill like that at this time. I think it's crazy. For the Treasury even to intimate it is in favor of any provision of it, I think, is terrible.

H.M.Jr: Is the Committee favorable?

Bell: Well, I'll have to find out.

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

McR: Dan wants to know how the Committee thinks about it, before he says....

Bell: Anyhow, I get two whacks at it. Hard time getting through the Budget.

McR: If he didn't like the way we decide, he can reverse it when it gets to the Budget.

H.M.Jr: All right. Anyway, you get two whacks at it. That's something.

(To Upham) On this question of legislation on banks going into the underwriting business, which your

-5-

friend Mr. O'Connor gave out, evidently the President threw him down at his press conference, see? I keep sending that stuff to you as secretary of the committee. But I just want you to know here that I'm not going to study it at this time, but I'm approaching it from the angle of the borrower, and as I approach it from the angle of the borrower, if we run into the situation that the bank is the trouble and then they say - I go to the banks - "Why don't you lend?" - and the bank says, "Well, this and that regulation" - then I'll hit it from that direction.

Upham: I see.

H.S.Jr: But I don't want to hit it from the top down. So we'll put that off till I come at it from the bottom. If I find - and I send you out to such and such a place to see this bank and why they don't lend the fellow, then the banks begin to tell you about the regulations, then we get it that way, see?

Oliphant: We've been studying that report on that, if you want it.

H.S.Jr: I don't want it. If you've got a report, give it to him (Upham). I've got lots of reports. Will you?

Oliphant: (Nods yes)

H.S.Jr: The answer is "Yes, sir."

Oliphant: Yes. Well, I think you ought to know that what we had in mind can be done without legislation.

H.S.Jr: Well, that's all right. He's gathering all the things together for me, Herman.

Oliphant: Yes.

H.S.Jr: I mean I want them all in one place, you see, so that when these stories begin to leak out - well, Cy can say, "Mr. Morgenthau, that story came from so and so. He wrote you a letter about it a week ago." See?

Upham: Well, you can trace some of them that way.

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H.A.Jr: Yes.

(To Lockheed) How is the - stand up and let's see how your figure looks.

Lockheed: Well, very well. I still can walk all right.

The Government bond market is getting a little bit more active on the strong side. Yesterday there was the inquiry from Fed, New York, whether or not we wanted to do anything on those Civil Service bonds. Said we'd take that up today. But in the meantime we have another thing. We have an order from Government Life to buy, which is more immediate than selling the other ones. I was wondering when we're putting through the Government Life order whether we want to match it off with sale of the Civil Service.

H.A.Jr: Well, we're pretty strong. What I would do - I wouldn't sell anything this week, and I would tell them if there's a little softening fill the order for a million dollars.

Lockheed: I just wanted to make sure you didn't want ...

H.A.Jr: What?

Lockheed: All right. The market - as I say, it's worked up two or three thirty-seconds; not a runaway market by any means yet.

H.A.Jr: Now at this point would you (Taylor) please tell Dan and me just what all this is about Jesse Jones and this new corporation - mortgage corporation. Both Dan and I would like to be educated. How does it stand?

Taylor: Well, it stands like this. When the National Housing Act, or whatever the name of it - the amendments were originally under discussion, and the President's message was being prepared, why, they wanted to get 50 million dollars with which to start it off, and the President took the position that - no new money, you see, and we remembered that there was this R.F.C. mortgage corporation, which



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already had quite a lot of money in there; and the message was readjusted so that the R.F.C. could do that without any new money and take mortgages from the R.F.C. mortgage corporation and thus furnish whatever junior capital was needed for the national mortgage association. That was all decided at that time and was mentioned in the message when it went down, with all the data that went along.

This letter that they're talking about I don't think was necessary at all, but it was a letter that Jesse had written for the President's signature with the idea of publishing it, with a lot of selling talk in it.

H.M.Jr: Have you got a copy of that letter?

Taylor: No. As I say, in my opinion it was an unnecessary letter, and the last paragraph of the letter was something that I didn't think should be published over the President's signature, because it pointed out that these would be fully tax-exempt, et cetera, et cetera, - and a fine investment, very safe and fine investment for anybody; and I couldn't see any point in having that published.

Well, Jesse showed me this letter and asked me what I thought of it. This was after it had been signed.

H.M.Jr: By the President?

Taylor: By the President. Not to be released until after he had talked to the Treasury about it, see?

H.M.Jr: Yes.

Taylor: I said, "Well, I don't think I'd put that out for the following reasons: You don't need it, and I don't think the President ought to have said that." And he said, "All right, why, we'll handle that by a press release." And he is preparing a press release which he will submit to you on Thursday.

H.M.Jr: Who?

Taylor: Jesse.

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H.M.Jr: Now, what's the thing that the President told him not to do?

Taylor: He told him not to release the letter without talking to the Treasury.

H.M.Jr: Is this the same thing?

Taylor: Same letter.

H.M.Jr: Because, as I told you last night, the thing that bothered me - I thought there were two propositions, because the President said that Jones came in and said he cleared it with the Treasury and then the President said, "Have you cleared it with the Secretary of the Treasury?" and Jones said, "No." President said, "You can't let it go until you clear it with the Secretary of the Treasury."

Taylor: Well, that's the step which - inasmuch as it had been cleared originally when the message was drafted, etc., and where they got the money and so on, I thought it was unnecessary.

H.M.Jr: Do you suppose we could get a draft of it and have a look at it before he comes over?

Taylor: I think so.

H.M.Jr: Fine.

Taylor: He's gone to New York today.

H.M.Jr: Oh well, all right. Well, anyway, he's coming.

Taylor: But that particular letter shouldn't - I don't think should have been written, and certainly shouldn't be released.

H.M.Jr: Well, he's coming in at 11, Dan, tomorrow, and I'd like you to hear the position of Taylor.

Bell: Thursday morning.

H.M.Jr: Thursday. I mean we can wait until it comes.

Taylor: I mean I don't think there's any problem there at all.

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H.M.Jr: Well, let's take a look at it.

Oliphant: I've got a question on the legal side before you see him.

H.M.Jr: I won't clear it until I get a chance with you.

Bell: Are these the national mortgage associations under the Housing Act?

Taylor: Yes.

Bell: Already authorized, but broadened under the amendments?

Taylor: Yes.

Bell: Jesse's going to furnish the original capital.

Taylor: (Nous yes)

H.M.Jr: I mean I'll - if you want to take a look at it, I'll give you a chance.

Oliphant: I think General Counsel's office hasn't read the whole section.

H.M.Jr: The whole section? Perfectly possible. All right. I mean that's the purpose of these meetings - to let you people know where I'm at and let me know where you fellows are at.

Dan, you got anything?

Bell: No, I haven't.

H.M.Jr: I wanted you to hear this. You don't want to get ready for the other meeting? If you do ...

Bell: No, that's all right. I've got somebody working on the figures.

Taylor: The way it sounded to me, the only purpose of the letter was some extra unnecessary selling talk that they wanted to use in connection with the sale of the obligations of the national mortgage association.

H.M.Jr: What is this? Is this a discount corporation? Is

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that what it is - discount the mortgages? Jesse has a mortgage corporation now.

- Taylor: No, this is a national mortgage association, which is what they have never been able - they have never formed.
- H.A.Jr: I thought they had one.
- Bell: No. This was in the original Housing Act, and the capital not less than five million dollars in each one.
- H.A.Jr: What will they do, buy mortgages?
- Bell: Well, it was an association which would lend money on mortgages. But private capital wouldn't come forward. Now what they have done is to take off some of the restrictions and Jesse is going to put in the initial capital, and that is sort of a start.
- Haas: Buying them from the banks, I understand, too.
- Bell: Oh yes, they've got them now so they can do most anything.
- H.A.Jr: O.K. Well, we can nit it at it.  
George?
- Haas: I have nothing. Mitchell is back from Nassau. Dr. Burns told me. When he was down here last time, I asked him to let me know.
- H.A.Jr: O.K. Those figures on Japanese balances were February 2. When did the latest ones come in?
- Lochhead: They'll come in Thursday.
- H.A.Jr: All right, can I have them when they come in?
- Lochhead: As soon as they do.
- H.A.Jr: You (Haas) all right?
- Haas: Yes.
- Gibbons: I have nothing. Called the Governor last night; he had gone. I'll call him again this morning.

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H.M.Jr: Wayne?

Taylor: (Nods nothing)

Gaston: I haven't anything.

H.M.Jr: Mr. Oliphant?

Oliphant: You asked me to mention Genesee. That plan didn't come over as they had promised. I'll try to get it the moment ...

H.M.Jr: Let's push a little, Herman. I mean, my golly, half a million dollar company - I mean this is what? - the third week I've been on this thing.

Oliphant: May I push it?

H.M.Jr: You can push just as hard as you like.

Oliphant: All right, the pressure is going on right away.

H.M.Jr: What?

Oliphant: As soon as I get out. I know both Bill and Frank, and I can work with them.

H.M.Jr: It's ridiculous, I mean, that - I mean I don't know what's the matter with those people over there.

Oliphant: Well, I'll have something to report to you tomorrow.

H.M.Jr: What?

Oliphant: I'll have something to report to you tomorrow.

H.M.Jr: Let's get the plan fixed up. Are we waiting on the Public Service Commission in New York?

Oliphant: No, ne's ready to cooperate.

H.M.Jr: God - just put the pressure on all you can, will you?

Oliphant: Yes.

H.M.Jr: You fellows - gentlemen at 10:30 are off. I had Magill, Oliphant and somebody else down at 10:30.

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Magill: McReynolds.

H.W.Jr: Because I'm going to the White House. That was on that hundred thousand dollar thing.

Will you (McR) tell the Commissioner it's off?

Klotz: White House?

H.W.Jr: At 10:30. And we'll see how we get along.

Magill: You mean you might do it some time today?

H.W.Jr: No. White House called last night. How long will that take?

Magill: I don't know.

H.W.Jr: 15 minutes?

Magill: 15 minutes ought to do it.

H.W.Jr: 10 o'clock tomorrow morning.

Magill: Have I got a Ways and Means meeting?

Upham: I understood they were meeting this morning.

Magill: I thought it was tomorrow.

Upham: Thursday. That's right. Thursday.

H.W.Jr: No likee tomorrow, huh? All right.

Magill: In the afternoon. It wouldn't be all day, would it?

Upham: I wouldn't think so.

H.W.Jr: 3:45 tomorrow afternoon. How would that be?

Magill: That'd be all right. I'm sorry about the other.

H.W.Jr: That's all right.

Now, the President told me to tell you (Magill) that he had seen Congressman Fuller; that Congressman Fuller thinks that your so-called French Revolution third basket plan is nuts; that it would be very easy to

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evade it; that they could just - I don't know - various methods of evasion; that it won't accomplish what the object is and he's "agin" it. And the President said to tell it to you. So I said that I couldn't argue, I didn't know enough about it, but I'd pass it along to you. But he wanted me very much to do that.

Magill: Fine.

H.M.Jr: What?

Magill: Congressman Fuller's expertness on that subject is very great, and I am glad to get his views.

H.M.Jr: I knew he was an expert on barrels.

Magill: He knows a lot about barrels, and ....

H.M.Jr: See, we've got lots of experts.

Oliphant: He said he knows more about barrels than baskets.

H.M.Jr: Yes.

Magill: If this basket is so full of holes, why are they making such a holler about it?

H.M.Jr: Don't ask me. I don't know. I'm just the man in the street. But I'm passing it along to you.

Magill: I think he is probably licked, although I haven't kept track of them.

H.M.Jr: I read the headlines about your speech, and it read very well.

Magill: It was a very, very agreeable occasion. Of course, one thing you get when you have a meeting packed with your old students - they still are under the spell of your influence.

H.M.Jr: Your old stooges, you say?

Magill: Stooges and students. It was very pleasant.

H.M.Jr: I read three times - there must be something the matter with me, Herbert; you take any paper there -

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the statement of the A.F. of L. The headlines were in the Times: "A.F. of L. comes out against the surplus and capital gains tax." And I read the statement three times and I couldn't find it. Now, just take the Times. Headline says they're opposed to it.

Upham: It was in one story.

H.M.Jr: What?

Upham: It was in one of the three stories.

H.M.Jr: Well, in the official statement of Mr. Green - I read it and I can't find it.

(McReynolds brings in whiskey samples and labels)

Taylor: Oak staves!

Gibbons: What's this, Mac's rake-off of the liquor?

Magill: Boy-oh-boy!

H.M.Jr: You know what Mac wanted to do - and he was very serious. This was the best story of the year. Really, if I ever want to get even with him, I'm going to tell this story to Drew Pearson and Bob Allen. Mac was told to fix these up, and what he wanted to do to the Senator was to have the labels right but mix the whiskey.

McR: I wanted to see whether he qualified as an expert on telling this stuff. Wanted to find out whether he was or not. Boss wouldn't let me do it.

Now, you see, we get all the different kinds of labels .... (demonstrating).

H.M.Jr: I think whoever did the labelling let their artistic temperament go. Didn't hold a national competition under Ned Bruce.

McR: Didn't have anybody who was qualified to do it. What happened was that I let the Alcohol Administration



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make the labels. They've got the necessary wording on them.

Gaston: Here it is: "As a step toward the restoration of public confidence, it is suggested that Congress repeal or modify the undivided profits tax."

H.A.Jr: Is that in the statement?

Gaston: That's in the statement.

H.A.Jr: O.K.

O.K., Mac. That's all right. Thank you.

Mac: Sorry I can't taste it.

H.M.Jr: Anything else? Anybody got anything else?

Oh, Taylor, who's coming for the lunch today besides you and Upden?

Taylor: Eccles, Ransom, Davis.

H.M.Jr: Eccles.

Upden: Ransom and Davis.

H.M.Jr: That's five - plus myself, is six.

Magill: What's the point in this business?

H.M.Jr: This is to re-elect Barkley Senator over "Happy" Chandler. That's what this is.

February 9, 1938

12 o'clock

Following is transcript of the conversation between Dr. Chang Peng-Chun, Professor at Nankai University, Tientsin, with the Secretary today.

Dr. Chang: Very kind of you to receive me, Sir.

HM, Jr: You have just come to this country?

Dr. Chang: I have just come to this country. During the last four months I have visited London, Paris, Brussels, Berlin, Rome, Moscow and Geneva, on an official tour to survey what we might call the background for to understand the attitude of the various Governments concerning the Far Eastern conflict and had the opportunity of meeting certain men in those countries and have now come to Washington.

HM, Jr: I see.

Dr. Chang: I will just mention, very shortly, one or two points, if I may.

HM, Jr: Please.

Dr. Chang: One point is this: in the general evaluation of the position of Japan in the Pacific, the real high peak of Japanese power in the Pacific was at the end of 1935 and not today. Certain facts may help to support, substantiate that view, especially from two sides. One is the gradual strengthening of the Government in China. The new currency reform came at the end of 1935. General Chiang Kai Shek came to be Premier in 1935 with a group of new men, usually called the Brain Trust of China. Of course, that's the wrong term, but I mean a group of business men. The foreign policy in 1936 really turned stronger. In September 1936 China, for the first time in diplomatic history, presented counterdemands to Japan, almost an ultimatum. Also, the matter of reconstruction, attempts were made and attention given to the building of roads.

So did China, as a positive factor, became to be felt from 1936 against Japan. Before that time China was a nation, but nevertheless not a positive factor in the general balance of forces. On the other side, it was at the end of 1935 that a conference in London was called and then Japan dared to defy Britain and this country by demanding parity. Not granted, then she withdrew. Then Britain began a large

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program of rearmament in the early part of 1936 and also other countries.

So you might say that in the general balance of power in the Pacific, the peak of Japan's power was at the end of 1935, and not today. Her own fighting today in China was really not at all the chief aim for her general preparation. The general preparation really should be for against Russia and also Britain and American naval forces. That's the general calculation of forces on the Pacific and the more she consumes in that respect, the less she will be ready in the general balance.

Leading from this general thesis, may we come to this point: What is to be done with the present situation? How long the Chinese resistance will continue? That's one most important factor. And the second factor: What action may there be internationally considered, either in the form of simultaneous action or in the form of a conference within the next six months or so, from six months to a year or so?

Now concerning the first, the Chinese resistance: the greatest danger were the two weeks after the fall of Nanking. Now we are getting more definite news. There was at that time a slight difference of opinion. But as soon as Hankow became settled, General Chiang Kai Shek immediately strengthened an important plan for the counter-offensive. That is still going on. In the central part, in Shanghai as well as the north, in the so-called Soochow area, and also the two routes which are important have been completed, one completed, the other will be completed in about two months' time. The southwestern route is all completed.

HM, Jr: That's from where?

Dr. Chang: From the Turkestan road to Kansu Province and that is already completed. That is a motor road, usually three weeks from the railhead to the central assembling place in Kansu, the Province. Another road that will be finished in two months' time is through Burma to Yunnan Province and that will be finished in two months' time, which means both of those roads, especially Burma, is the backbone of the Singapore base.

And then supposing the sea routes should be discontinued in Canton, these land routes would still serve as the backbone. Therefore, the southwestern part of China can stand without any danger of direct attack from the seaboard

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by Japan. Japan will at most within the next six months go as far as, for instance, the line practically drawn diagonally through China from the northwest to the southeast, practically through the center of the country, a line of hills where six years ago there were the Communists, that would be the natural line for the demarkation. Beyond that line the Japanese would not find it so very easy to go in. So the southwestern part of the country, which still contains more than 200,000,000 population, will be forever the basis for Chinese nationalistic attempts.

So from the point of view of resistance on the part of China, it becomes clearer it cannot be snapped, broken off suddenly by destruction of any one single army unit in the field.

So, if that is the case, looking at it from the larger thing, may there not be a chance for cooperative action -- we should not call it cooperative action; we should call it simultaneous action on the part of the different powers, made possible by a conference for new settlement of the balance of power on the Pacific.

People, of course, criticize the effectiveness of collective action. They mention things that happened since 1931. But they forget to mention that one time cooperative action was very successful. That was the Washington conference in 1921 and 1922. It was after the Washington conference that the Japanese were made to withdraw from Shandoo and, of course, no international agreements can be expected to last forever but the effect of the Washington conference did last for more than two years.

HM, Jr: Of course, when you get on this subject of conferences, that's the State Department.

Dr. Chang: Yes, I understand, Sir.

HM, Jr: I have really nothing to do with that. But I am very glad to get this background and to listen to you. I appreciate the situation. It is most difficult. I am watching it with great sympathy -- the struggle which you are making.

And I take it you are returning soon now?

Dr. Chang: I am going back to Europe in about a month's time and after that time, return home.

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And then, concerning a side you may be interested in, I did not expect to come with any definite proposals, but concerning the financial situation, I did have an opportunity of seeing Mr. Norman in London and also Sir Frederic Leith Ross and of again surveying the general situation. There, I think, we have found at the present time, surely, to put it mildly, no encouragement for the lending to Japan of any further credits. We think the Japanese felt it. Consequently, at this present moment, they seem to be more active in New York than in London.

I understand that they have got, so far, just slight encouragement along the line of a loan in cotton. I mean a little credit. But, so far, not very successful.

And naturally, from the point of view of the general situation, we should like to see that both New York and London will take a more definite stand concerning the lending of credits to the aggressors.

And then another possibility would be the consideration of the furthering of credits to the Chinese, conceding, of course, that's a very delicate problem which I am not going into.

HM, Jr: You see, we get through Dr. Kung constant information as to the financial situation and he gives us any information that we ask for. I think we are really very well informed as to what the financial situation is, because we never have had any difficulty, through Dr. Kung, to get whatever we were entitled to.

As I said, we are watching this thing, but the information has to be current; it has to be from week to week, because the thing changes so rapidly.

Dr. Chang: Quite so. Quite so.

Thank you, Sir. It is very kind of you to receive me.

I had the pleasure of meeting Ambassador Morgenthau some seven years ago in Bar Harbor, Maine.

HM, Jr: Oh, that's nice.

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**CHINESE EMBASSY**  
WASHINGTON, D. C.

February 8, 1938

My dear Mr. Secretary:

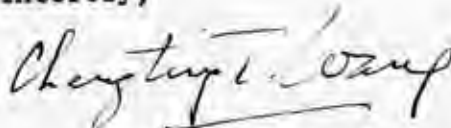
It gives me much pleasure to write this letter of introduction for Dr. Chang Peng-Chun, Professor at Nankai University, Tientsin, one of the universities which the Japanese have destroyed by bombing.

Dr. Chang left China in September by air for Europe on a tour of observation to the chief European capitals. He has visited London, Paris, Brussels, Berlin, Rome, Moscow and Geneva. He arrived in Washington on Sunday, February 6th, and expresses the desire to have the pleasure of meeting you during the few days of his sojourn in the Capital.

Both Dr. Chang and I will be very grateful if you can see your way to grant his request.

With kindest regards,

Yours sincerely,



Chengting T. Wang.

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

February 9, 1938

Mr. Morgenthau had as luncheon guests Mr. Eccles, Mr. Ransom, Mr. Davis, Mr. Taylor and Mr. Upham.

Mr. Morgenthau informed the group that a request is going from the White House to Congress for an appropriation of an additional \$250 million for WPA for relief. He stated that he will appear at a hearing tomorrow morning at 10:30 and that he thinks the bill can be passed promptly. Mr. Eccles seemed pleased with this development, saying that the expenditure of that additional money would be helpful, although he doubted that the WPA would be able to spend it all before the end of the fiscal year.

Mr. Eccles began a discussion of a proposal which he said is being considered under which persons who are building homes for themselves or to sell may secure through the WPA relief labor up to an amount equivalent to 10 per cent of the appraised value of the improvement contemplated. He compared this to the English practice of giving a 5 per cent subsidy to persons who bought or built homes.

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Mr. Morgenthau asked if Messrs. Eccles, Ransom, and Davis had had time to consider and/or had reached a conclusion with respect to the matter discussed by Mr. Taylor and Mr. Eccles yesterday afternoon--the cessation of sterilization of newly-mined domestic gold. Mr. Eccles said that they had had very little discussion of it together as yet but that all three of them seemed to see no objection to it. It appeared that there had been no discussion between them and Mr. Goldenweiser and the other members of the staff, some of whom had conferred yesterday with George Haas and Harry White on the same subject, Mr. Ransom saying only that Mr. Goldenweiser had mentioned it very casually to him but that he had gathered from Mr. Goldenweiser's comment that he saw no objection to it.

Mr. Ransom asked Mr. Morgenthau what the purpose of the move might be.

Mr. Morgenthau said that he frequently asks himself with respect to many of the things which the Treasury is doing whether we are warranted in continuing them or whether we should make a change to get out of a possible rut. We customarily re-examine policies and practices from time to time. Without definite determination of the validity of the belief that action in sterilizing or desterilizing gold is reflected in a change



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in commodity prices, Mr. Morgenthau nevertheless recognizes that there are those who hold that belief not only in the United States but throughout the world.

Mr. Morgenthau spoke of the spiral of deflation which is steadily gathering speed in its descent and which may lead to undesirable developments here and abroad, perhaps even emphasizing the factors which lead to war. Mr. Morgenthau stated very frankly that his whole faith and the whole faith of many others is bound up in President Roosevelt, that the President is hard pressed on every side and desperately needs a breathing spell and time to turn around.

Mr. Morgenthau said that he is not over-emphasizing in his own mind the importance of the small step which he is proposing, that he recognizes that there are many other things which need to be done and many of them of greater importance, and that he would not want to predict results which might flow from it; but that he feels it might have some beneficial influence and could certainly do no harm. It is possible that it would tend to stop the downward drift of commodity prices.

Mr. Morgenthau said that as he reviewed the actions of the Government in the monetary field since the middle of 1936, it appeared to him that with the exception of the release of \$300 million of sterilized gold, all our actions had been in

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the nature of "putting on the brakes," and that a little loosening of the brakes might now be timely.

Mr. Davis stated that he shared the Secretary's view, emphasizing, however, that we could not be sure that such action would have any effect at all. Moreover, he stated his agreement with the Secretary that there are other things of importance and that we must not take our eye "off the ball" or be diverted from the main chance by this action. He said that, of course, many other things might happen to counteract whatever influence this action might have.

Mr. Morgenthau stated that he wanted Mr. Davis in on the conference, particularly, because of his interest in commodities. He said that our own group of commodity researchers report to him that commodities have held steady, considering the shocks to which they have been subjected recently. Mr. Davis said that that was true so far as those commodities with which he is familiar are concerned.

Mr. Eccles interposed to comment that the dairy industry had suffered pretty much since the beginning of the year; to which Mr. Davis countered that on the whole the dairy industry throughout 1937 had been pretty prosperous.

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Mr. Eccles said he regarded the additional expenditure of \$250 million as of much greater importance than the proposed gold action, and Mr. Morgenthau said they went together in his mind and that he had presented them to the President together, informing the President that he was having lunch with Mr. Eccles today. It was suggested that if this action were interpreted as being a floor on commodity prices and that if it were interpreted by the public as an indication that when the President talks about lower prices for steel and cement, he does not mean lower prices for corn and wheat and cotton, it might result in some buying of the raw material commodities by those who follow that situation.

Mr. Morgenthau said that he would not want to make any claims for this or predict any results, but let the markets and the public put their own interpretation on it. He suggested that since the original action of desterilizing had been a joint proposal of the Treasury and the Federal Reserve and since there had been a joint statement and a joint press conference, that procedure be followed in this case and that he and Mr. Eccles have a joint press conference on Saturday morning and make an announcement for Sunday morning papers. Following hard on the announcement of \$250 million additional relief, he thought it would be of greater effect than otherwise.

Mr. Morgenthau said, moreover, he was of the opinion that if he and Mr. Eccles had a joint press conference, it might set at rest some of this current gossip about there being differences of opinion about them. Mr. Eccles agreed that it might have that desirable result.

Mr. Morgenthau said that he was having a few people in on Friday to discuss this matter with, to get their opinion and to prepare the way for a favorable reception in New York. He said he had asked Walter Stewart and Robert Warren and Reiffler. All he had been able to get out of Dr. Viner over the phone was that he saw no objection to it but thought there were other things of greater importance. This, the Secretary said, he recognizes. He asked Mr. Eccles to bring Mr. Goldenweiser and sit in with him at the discussions beginning Friday morning at 9:30. He asked if Mr. Eccles thought he should invite John Williams, and Mr. Eccles was inclined to think that was not essential.

Mr. Eccles stated that he was inclined to think the mechanics of sterilization and desterilization should have greater freedom and that the Treasury should operate in that field much the same as the Federal Reserve engages in open market operations.

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Mr. Eccles, Mr. Ransom and Mr. Davis said that they thought they could have a Board meeting this afternoon and come to a decision on the proposal. Mr. Morgenthau asked them to phone Mr. Taylor the result of their meeting and, if agreeable, he would ask Mr. Gaston to write out something in the way of an announcement and he would have Mr. Gaston bring it over to show it to Mr. Eccles for his opinion.

Upm

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

February 9, 1938

TO Secretary Morgenthau  
FROM Herman Oliphant

For your information

I have talked to Frank. He says he will put on full steam. He and Douglas have seen and approved the plan outlined on the attached sheet as has everyone, so far as we know, both in SEC and the Treasury.

The next move is to lay this plan before the trustee for the bond owners and the attorney for the debtor. Frank says he will see that this is done immediately.



Attachments

## TENTATIVE PLAN OF REORGANIZATION

GENESEE VALLEY GAS COMPANY, INC.

The capitalization of the new Company will be \$865,530. This Company is to issue \$510,000 first mortgage 20 year term bonds bearing 4% or 4½% interest, convertible at the option of the holder into common stock and callable at the option of the Company. In addition 35,555 shares of \$10 par common stock are to be issued. These new securities are to be allocated as follows:

\$480,000 of bonds and 25,300 shares of stock are to be used to retire \$735,000 first mortgage bonds of the old Genesee Company; \$50,000 of the bonds are to be sold; \$20,000 of the proceeds to be used to retire \$30,000 of bonds of the Valley Company; and the remaining \$10,000 is to be used to pay in full the Federal tax claim of approximately \$6,400 and a secured note of \$2,600. Debentures of the old Genesee Company in the amount of \$259,500 are to be exchanged for 7,185 shares of common stock. Secured notes of the old Genesee Company in the amount of \$104,650 are to be exchanged for 2,900 share of common stock. The general unsecured claims of \$5,600 are to be satisfied by 168 shares of common stock.

The foregoing assumes that all present holding companies will disappear and that this new company will be an operating company owning all the properties.

Valley Gas Company, Inc.  
Rebative Plan of Reorganization

Providing for Merger of Pavilion Natural Gas Co., Churchillville Oil & Natural Gas Co., and Valley Gas Co.

<u>Present Outstanding Securities and Claims</u>	<u>Amount</u>	<u>Treatment Under Proposed Plan</u>			<u>Remarks</u>
		<u>Convertible</u> <u>Mort. Bonds(1)</u>	<u>Cash</u>	<u>Common(2)</u>	
Income Tax Claim- Treasury	\$ 6,400	\$ -	\$ 6,400	\$ -	To be held in escrow pending settlement of Claim.
First Lien, 6% Bonds due in 1956	733,000	480,000(3)	-	253,000	Claim to be paid in full.
Valley Gas Co. Mfg. (due Jan. 12, 1938)	30,000	-	20,000	-	Settle claim for 66 2/3%.
Debentures, 7%, due in 1938	239,900	-	-	71,800	Allowed 30% on Principal Amount.
Secured Notes	104,680	-	-	29,000	Allowed 30% on Deficiency Judgment (\$94,680) after reducing to possession Patent collateral valued at \$8,000.
Secured Note	2,800	-	2,800	-	To be paid in cash from proceeds of additional \$30,000 of bonds.
General Unsecured Claims	8,600	-	-	1,680	Allowed 30% on Principal Amount.
Prior Preference Stock shs.	334	-	-	-	Eliminated in reorganization.
Common Stock shs.	941	-	-	-	Eliminated in reorganization.
Additional Bonds to be Sold		<u>30,000</u>	<u>-</u>	<u>-</u>	
		<u>\$510,000</u>	<u>\$29,000</u>	<u>\$355,530</u>	

Distribution of Common Stock

	<u>Shares</u>	<u>% of Total</u>
First Lien Bondholders	25,300	71.2%
Debenture Holders	7,188	20.2%
Secured Notes	2,900	8.2%
General Unsecured Claims	188	.4%
<b>Total</b>	<b>35,583</b>	<b>100.0%</b>

Capitalization of New Company

Convertible Mortgage Bonds	\$510,000
Common Stock - \$10 par	355,530
	<u>\$865,530</u>

- and callable at option of company*
- (1) Bonds to be convertible into common stock at option of holder. Total issue of New Company to be \$510,000.
  - (2) Common Stock to have par value of \$10 per share.
  - (3) Of a total issue of \$510,000 - \$20,000 to be used to pay off Valley mortgage.
  - (4) After deducting inter-company holdings.



February 9, 1938

11:35 a m

Present:

Mr. Gaston  
Dr. Haas  
Dr. White  
Mrs. Klotz

HM, Jr.: We had this meeting with the President about the unemployment situation. Both Senator Glass and Mr. Rayburn and Chairman Taylor of the Appropriation Committee all agree that there would be no trouble about getting \$250,000,000 now to last us the rest of the year provided the President, at the same time, will say he is sticking to the \$1,000,000,000 for next year and he said if they did not tie his hands -- he could not say whether it would last but it would last until Congress met again in January, but he was willing to say, at this time, that he would only ask for \$1,000,000,000 next year.

Then the only other thing that came out of the meeting was they all said that the feeling on the Hill is local communities are not contributing enough.

The reason I am doing this is I am going on the Hill at ten tomorrow morning. They are having this hearing. Aubrey Williams opens it and he will make a statement on relief conditions, what they are. I have to follow, as Secretary of the Treasury, and say why I think he should have \$250,000,000.

In the few seconds I have had to think of it, it seems to me my position is to state what I think, what has happened to business since November that would make this thing so much worse that we now have to come and ask for \$250,000,000, what has happened not only inside but outside the United States. That's the way I see this thing. How rapidly this thing has happened since November. And I think if you will look up my statement of November 10th -- business only began to go dead in November. Since that time, gentlemen, this is what has happened on employment figures and the people I would send for -- this is only a suggestion, because you fellows have to work so fast -- I

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am suggesting you might get Lubin, call him up on the 'phone and tell him to shoot over a memorandum, and also Leon Henderson.

But that is my thought, my job, to tell them what has happened inside and outside of the United States.

Now, I go tomorrow morning. They only give me until tomorrow night to correct what I say, because they want it for the Committee publicly. Isn't that my job, in this picture?

Dr. Haas: The only thing that worries me a bit is I think you have to be a little careful in justifying the \$250,000,000 that the people on the outside might not read into it that conditions are worse than they thought they were. After all, you are Secretary of the Treasury making that statement.

HM, Jr.: I will tell them as they are. Just, for instance, when I said they only made 250,000 automobiles last week Sam Rayburn said, 'Is that all? I did not know that.' I don't want to scare anybody, but, on the other hand, I want people to know that I know what business conditions are and that the whole world thing will go down and, as I say, I don't think I will have time to have a finished statement, but I want facts. The way I feel is -- why I am doing this? Why have I changed since last week or the week before? Because I am frightened at the rate this spiral is gaining speed as it goes down. I have to back that up. What's happening? Lower conditions, employment off 8% or 8½, for January. Off so much for December. I have got to give them certain indices, not giving them too much because I haven't got time to assimilate, because we have a dinner tonight and I will be ready to see you people at 4:15 with a preliminary draft. You drop everything and go some place, Haas, and at 4:15 I will be ready to get the preliminary.

Mr. Gaston: I think it's all wrong. I think it's immensely frightening and no need for it. What I would talk about is the present unemployment situation. Employment conditions have continued bad and we have a certain relief situation which we have to meet and you always take into consideration that we should take adequate care of the unemployed and hungry, and I think that's all you have to say and I don't think you want to say world conditions are gloomy and paint a gloomy picture. I think it's unnecessary.

Dr. White: I agree with Herbert.

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Dr. Haas: That was my apprehension, Mr. Secretary. You said in your speech that nobody would starve and your record is perfectly clear.

Dr. White: I think we can draft two statements.

Dr. Haas: I think we ought to take Herbert's advice and not talk about business conditions. We have met each week with Aubrey Williams and you have heard what he said and based on the information he has given me and based on a spot check, we have to do it. Another thing, if you put this out .....

HM, Jr: I think I ought to give an intelligent interpretation of what I think business conditions are in the United States or our side, or I ought to say nothing.

Dr. White: I certainly don't approve of the first. I think you will have to give some justification -- I am not sure -- for the intensified relief situation.

HM, Jr: No. I could simply say when they ask, Why are you doing this? it is based on what these fellows have told me.

Incidentally, here is the information. (gave to the men the memorandum furnished by Mr. Ross giving a report of their investigation in the field, dated February 8.)

(The Secretary decided that the draft should be prepared in line with Mr. Gaston's suggestion.)

## GROUP MEETING

February 9, 1938.  
4:20 p.m.

Present: Mrs Klotz  
Mr. Gaston  
Mr. Lochhead  
Mr. Haas  
Mr. White

H.M.Jr: (After talking to Bell on phone) I don't have to go tomorrow morning.

Gaston: You don't have to go?

H.M.Jr: No, they're not ready; they won't be ready for the W.P.A. before Friday.

Did you (Gaston) call off the press conference?

Gaston: No, I did not. I didn't want to tip it off in advance. I wanted to wait and tell them tomorrow.

Klotz: How about Jesse Jones? We called off Jesse Jones.

H.M.Jr: (On phone) Tell Mr. Jones that I don't have to go on the Hill tomorrow, so I can put back the 11 o'clock appointment. If it's all right, don't call me back, and if it's not, call, see?

back at 11 o'clock tomorrow - Jones.

Klotz: It's on here.

Gaston: I thought even if it were settled that you were going to go up, it would be better not to tell them until the first thing tomorrow morning.

H.M.Jr: All right. What have you fellows got? Incidentally, Eccles, Ransom, Chester Davis all agreed that it was good to stop sterilizing newly-mined gold. They're having a meeting this afternoon. Call up here, let me know results of the Board meeting. Then, if it's favorable, you (White) tomorrow morning will get word - united statement, and I'll show it to Eccles. Joint

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conference Saturday, 12:30, meeting here.

Write: You don't want anything on that now.

H. J. Jrs Mr. Chairman, ladies and gentlemen:

"I appear before you to support the recommendation of the President that an additional appropriation of \$250,000,000 be made available for the relief of the needy unemployed during the current fiscal year, which ends on June 30 next.

"The Act of June 29, 1937, made available for allocation by the President \$1,500,000,000 for relief purposes during this fiscal year. This amount, together with balances remaining of prior appropriations, has been apportioned so as to carry forward the program of relief to the close of the fiscal year. These apportionments were made on the basis of the belief that the amount requested by the President and appropriated by the Congress in June of last year would be sufficient to provide a fully adequate program of work relief.

"At the time the estimates were made and the appropriation was requested by the President business activity had reached a higher level than had been attained at any time since 1929 and employment was steadily increasing. Conditions have changed markedly since then. Business activity, which continued at a relatively high level during the summer, slackened in the fall and is now at a level materially lower today than at this time last year. The number of unemployed is much greater than was anticipated when the President's estimate was sent to Congress last April.

"It was not expected that the Federal Work relief program would take care of all the needy unemployed. It was anticipated that there would be an overflow of relief demands to be cared for by States and localities, principally of those not employable on Federal work projects. Recent surveys, however, show that this overflow of persons urgently in need of relief is more than the local relief agencies can meet. It is apparent that the situation can be met only by a substantial expansion of the Federal program.

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"I say this with a full realization of my own responsibility with respect to the Government finances. But that is only a part of a greater responsibility which I share with all of you, in which the public welfare takes first place.

"Therefore I have joined in this request for an additional relief appropriation, believing it to be urgently necessary to meet a dire human need."

Swell, but it has no love interest. I mean where is the - where is - you fellows, my God .....

Hees: The appeal is there.

H.A.Jr: Honestly.

Winton: What do you mean by love interest?

White: Little bit - little.

H.A.Jr: No romance, I mean.

Hees: You're a great humanitarian as well as a big man of finance.

White: It was washed up purposely.

H.A.Jr: Herbert, this is like my favorite story. Fellow sends a ten word telegram, finally cuts it down - "Don't have to sign it; she knows good and well who it is. Don't have to say 'love,' don't have to ...." - word after word; takes it down to one word: "Here."

Hees: Well, that would do this properly.

H.A.Jr: That's the sort of thing you fellows did.

Hees: That's all that was left.

H.A.Jr: God, what a lot of - I'm just - I'm just ashamed of it.

Can you remember the day when we kind of worried about my going up to the Academy of Political Science, didn't know whether I should talk or not? Remember what Mr.

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Oliphant said: "Why don't you go up and make the kind of statement every other Secretary of the Treasury does, just one of those stuffed shirt statements?" You did.

Deas: I remember that.

H.M.Jr: Yes. But you did here.

White: Well, there's a time for that.

H.M.Jr: Oh, put it in the morgue. Anyway, chances are nine out of ten I won't have to make any statement.

White: Well, that was one of the choices too.

H.M.Jr: That's all.

Statement of Secretary Morgenthau before the Appropriations  
Committee of the House of Representatives in Executive  
Session, Thursday, February 10, 1938.

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Mr. Chairman:

I appear before you to support the recommendation of the President that an additional appropriation of \$250,000,000 be made available for the relief of the needy unemployed during the current fiscal year, which ends on June 30 next.

The Act of June 20, 1937, made available for allocation by the President \$1,600,000,000 for relief purposes during this fiscal year. This amount, together with balances remaining of prior appropriations, has been apportioned so as to carry forward the program of relief to the close of the fiscal year. These apportionments were made on the basis of the belief that the amount requested by the President and appropriated by the Congress in June of last year would be sufficient to provide a fully adequate program of work relief.

At the time the estimates were made and the appropriation was requested by the President business activity had reached a higher level than had been attained at any time since 1929 and employment was steadily increasing. Conditions have changed markedly since then. Business activity, which continued at a relatively high level during the summer, slackened in the fall



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and is now at a level materially lower today than at this time last year. The number of unemployed is much greater than was anticipated when the President's estimate was sent to Congress last April.

It was not expected that the Federal Work relief program would take care of all the needy unemployed. It was anticipated that there would be an overflow of relief demands to be cared for by States and localities, principally of those not employable on Federal work projects. Recent surveys, however, show that this overflow of persons urgently in need of relief is more than the local relief agencies can meet. It is apparent that the situation can be met only by a substantial expansion of the Federal program.

I say this with a full realization of my own responsibility with respect to the Government finances. But that is only a part of a greater responsibility which I share with all of you, in which the public welfare takes first place.

Therefore I have joined in this request for an additional relief appropriation, believing it to be urgently necessary to meet a dire human need.

Operator: Go ahead.

W.H.Jr: Hello.

Senator  
King: Mr. Secretary?

W.H.Jr: Talking.

K: This is William H. King.

W.H.Jr: Yes, sir.

K: I'm going to try and find some time tomorrow to get that out of the way. You needn't have any fear. I may call on you but I don't think so.

W.H.Jr: Well, I'm at your disposal.

K: Well, I know you are. Any suggestion, my dear friend?

W.H.Jr: No I leave it entirely in your very able hands.

K: (Laughs) Well that is nice of you. By the way, Hello. Can I bother -

W.H.Jr: You can bother me, about two matters.

K: When I was in Hawaii - last - two months ago, as chairman of a committee to make a complete investigation of conditions there, I made inquiries of - oh - the Governor - everybody there - the judges of the Supreme Court - everybody. There isn't a more popular man and there once hasn't been a man as efficient in that position as Doyle.

W.H.Jr: Is that right?

K: Yes, sir. And everybody was for him. He's a bachelor and the officers come to see him; he lives at the hotel and occasionally - very seldom - he'd take a little too much to drink. But his efficiency is remarkable. He's routed out those - the narcotic (of course, they're all after him, you know) all that gang, that underworld gang, because he's raised hell with them, and my opinion is - I talked to the Governor, I talked to the Mayor, I talked to the National Committeeman, Wilson, I talked with Judge Coke and all classes and they all think that he's a darn fine fellow.

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H.M.Jr: Coming from you, naturally I give it great weight.

K: And I've no interest at all, other I'd like to see a square deal for everybody, you know.

H.M.Jr: Naturally.

K: And I talked with Jim Farley and Jim's for him but he says of course it's up to you. And I'll see you again and let you know about it. But you just hold the matter in abeyance for a few days.

H.M.Jr: I'll do that.

K: Thank you very much.

H.M.Jr: Thank you.

CONFERENCE WITH THE PRESIDENT ON WEDNESDAY,  
FEBRUARY 9, 1938, REGARDING RELIEF ESTIMATE.

Those present besides the President were Senators Glass and  
Barkley, Congressmen Taylor and Rayburn, Secretary Morgenthau,  
Aubrey Williams, and Mr. Bell.

The President started the conference by giving a general picture  
of the unemployment situation; said that he thought it was spotty, and  
the real needs were probably confined to the large industrial sections, -  
particularly was this true of places like Detroit, Chicago and Cleveland,  
where the automobile concerns played such a large part in the local  
employment situation. He said that it had been necessary to increase  
the WPA rolls during the past two months rather drastically and by doing  
this and in order to live within the funds made available by Congress it  
would be necessary to drastically reduce these rolls within the very  
near future. He didn't see how this could be done at a time when unemploy-  
ment was increasing. The President then asked Aubrey Williams to give  
his views on the general unemployment situation.

Mr. Williams stated that his organization had recently made a  
check in several cities and on the basis of this check it was estimated  
that there were 250,000 people in the country who are now out of work and  
receiving no relief of any kind but who are in need. He said that reports  
that he has received from the various relief agencies throughout the  
country indicate that there are about 1,650,000 people on the local relief  
rolls, which rolls have been increased from 400,000 to 500,000 in the past  
two and one-half months. Of this total number he said that there were

-2-

approximately 500,000 who were employable and should be on WPA rolls. This he said would make a total of 750,000 people who should be cared for by the WPA but for which there is now no money. He pointed out that time is of the essence in this matter, for unless Congress makes more money available in the very near future it will be necessary to send out orders to reduce the WPA rolls during the month of March by 150,000, and to further reduce them in April and May so that the rolls at the end of the fiscal year will show not more than 1,500,000.

There was then a general discussion among those present as to just what should be done. The President said that as near as could be figured out it was estimated that \$250,000,000 additional money would be required to care for the situation. He said he had in mind submitting a deficiency estimate immediately and wanted to know from the leaders just how promptly action could be taken to get it through. Mr. Taylor, Chairman of the House Appropriations Committee, said that he would immediately call a hearing as soon as the message came to the Capitol and thought that it might be possible to report a bill the early part of next week. Mr. Rayburn thought that the House would give it prompt attention. Senator Glass said that he did not anticipate any trouble in the Senate, that there were, of course, a number of Senators, he was one of them, who thought that the local communities should share a larger burden of the relief load, but as long as the Federal Government continued to appropriate large sums of money such as it has done during the past four or five years, he did not think there was much chance for those communities to assume their proper share of this burden. He said, however, that if the estimate comes over from the House he was quite certain that it would receive prompt attention, although he could not speak for his colleagues on the Appropriations Committee.

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It was agreed, therefore, that the President should send to the Capitol immediately a deficiency estimate for \$250,000,000 as an additional sum under the Emergency Appropriation Act of 1937.

*swB*

MEMORANDUM OF THE DAY'S ACTIVITIES

February 9, 1938

~~AA~~

To: Secretary Morgenthau  
From: Mr. Magill

1. Tax Bill

Mr. Doughton has informed me that the Democratic members of the Ways and Means Committee are meeting again tomorrow regarding the proposed tax on closely held corporations. It is likely that some final action will be taken soon, since a draft of the proposed bill is now ready.

2. Exempt Corporations

The attached memorandum from the Commissioner supplies the information I gave you last week respecting returns from the questionnaires mailed to previously exempt organizations. You will note that the Commissioner concludes on page two that about 30 percent of the former exemption rulings will probably be overruled. Mr. Graves has advised me that the Head of the Rules and Regulations Division (which is in charge of the work) states that additional men will be required if the work is to be completed within six months; and that the Division otherwise will complete its examination of questionnaires and other facts relevant to the exemption during the course of a year. In view of the importance of the subject matter should I not tell the Commissioner to make the necessary arrangements to complete the work during the next six months?

Rm



OFFICE OF  
COMMISSIONER OF INTERNAL REVENUE

TREASURY DEPARTMENT  
WASHINGTON

February 5, 1938

Memorandum for Secretary Morgenthau:

In re: Reconsideration of the taxable status of  
organizations previously ruled exempt  
from Federal income tax.

There is presented for your information a statement indicating the progress made as to the work described above, which is being conducted in the Income Tax Unit.

Between September 20, 1937 and November 16, 1937, 29,597 questionnaires were mailed to organizations which had been previously ruled to be exempt from Federal income tax under provisions of the various revenue acts corresponding to section 101 of the Revenue Act of 1936.

In response to the request that these questionnaires be returned, 24,026 replies have been received up to January 28, 1938. Of these, 18,394 were questionnaires to which either a partial or complete response had been made while 2,082 were replies giving various reasons for failure to complete the questionnaires, some indicating that the organizations had been dissolved or merged with other organizations, others stating that information had been submitted previously as to their status. There were 3,550 of the questionnaires returned by postal authorities as "undelivered".

Of the 18,394 questionnaires received, 2,172 had been examined up to January 15, 1938. The proper action to be taken has been determined as to 2,011 of those cases examined, while the remaining 161 cases of the group cannot be disposed of pending receipt of additional data. The organizations have not yet been advised of the action to be taken as to their cases.



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Memorandum for Secretary Morgenthau

In re: Reconsideration of the taxable status of organizations previously ruled exempt from Federal income tax.

Of the cases (2,082) where for various reasons the questionnaires were returned without the required information, 891 have been examined and closed upon the basis of the available information.

It is proposed to make further efforts to obtain information in those cases where the questionnaires were returned "undelivered". It is probable that the collectors in the several collection districts will be of material assistance in this connection.

Exhibit A attached reflects the foregoing statistics in tabular form.

It was found that of the questionnaires examined up to January 15, 1938 (2,172 referred to in Exhibit A) the previous ruling should be affirmed as to 1,944 while it was indicated that as to 67 the previous ruling should be reversed. Additional data necessary to consideration of the remaining 161 cases of the group had not been received as of January 15, 1938. Assuming that the percentage of rulings to be reversed which will be found applicable to the cases in which additional information is necessary is the same as that indicated with respect to the other cases of the group, only about 33% of the entire group examined would be subject to reversal. The results as to such a large group of cases (2,172) should reflect fairly accurately the situation as to the entire group for which questionnaires have been received, but it should be observed that where it is proposed to reverse prior rulings such action will probably be vigorously protested with the possible result that in a number of cases the previous ruling may finally be affirmed.

Exhibit B indicates the results of examination of 2,172 questionnaires received.

Referring to the extent of contributions to the approximately 8,500 corporations, donations to which are permitted as deductions against taxable income, our statistics indicate that against 1934 returns \$272,822,000.00 was so used, distributed among income classes as shown below:

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## Memorandum for Secretary Morgenthau

In re: Reconsideration of the taxable status of  
organizations previously ruled exempt  
from Federal income tax.

Net income classes (1)	Contributions	
	Number of returns	Amount (1)
Under 5 (est)	(6)	\$143,172
5-6	83,623	12,910
6-7	54,055	9,784
7-8	36,808	7,519
8-9	25,184	5,968
9-10	19,213	5,313
10-11	14,488	4,277
11-12	11,586	3,744
12-13	9,521	3,300
13-14	7,754	2,958
14-15	6,898	2,869
15-20	20,846	10,450
20-25	11,070	7,208
25-30	6,555	5,545
30-40	7,105	8,094
40-50	3,725	5,844
50-60	2,107	4,189
60-70	1,318	3,501
70-80	806	2,421
80-90	597	1,798
90-100	408	1,593
100-150	882	4,791
150-200	324	2,630
200-250	180	2,038
250-300	112	1,715
300-400	70	1,337
400-500	33	909
500-750	51	1,824
750-1000	24	1,137
1000-1500	19	1,329
1500-2000	4	(8)
2000-3000	4	458
3000-4000	1	(8)
4000-5000	-	-
5000 and over	1	(8)
Classes grouped (8)	-	2,399
<b>Total</b>	<b>(9) 324,368</b>	<b>\$272,822</b>

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## Memorandum for Secretary Morgenthau

In re: Reconsideration of the taxable status of organizations previously ruled exempt from Federal income tax.

- (1) Money figures and net income classes in thousands of dollars  
 (6) Not available  
 (8) Classes grouped to conceal identity of taxpayer  
 (9) Excludes returns with net income of under \$5000

In income tax returns for 1956 the amount of contributions taken as deductions totalled \$388,142,000.00, distributed to income classes as indicated below:

Contributions		
Net income classes (1)	Number of Returns	Amount (1)
(Returns filed in period January through August, 1957)		
Under 5 (estimated)	4,795,573	\$188,698
5-10	417,724	53,058
10-25	175,164	47,193
25-50	40,782	28,991
50-100	13,505	24,739
100-150	2,588	10,864
150-300	1,535	13,127
300-500	330	6,257
500-1000	177	7,369
1000 and over	61	7,845
	5,447,439	\$388,142

(1) Net income classes and money figures in thousands of dollars

*Lucy P. Hovsing*  
 Commissioner.

## EXHIBIT A

Showing status of 29,597 questionnaires  
mailed to organizations previously  
ruled exempt

<u>Character of Response</u>	<u>Number</u>	<u>Number Examined</u>	<u>Proper Action Determined</u>
Questionnaires received	18,394	2,172	2,011
Letters received from organi- zations advising that they had been dissolved, that information had been furnished some time ago or that they had merged with other organizations, etc.	2,082	891	891
Letters with questionnaires returned by postal authorities "undelivered"	3,550	30	30
No response received	<u>5,571</u>	_____	_____
Total	29,597	3,093	2,932

## EXHIBIT B

Results as to questionnaires returned  
and examined up to January 15, 1938

Number examined		2,172
To be affirmed	1,944	
To be reversed	67	
Information requested, but not yet received	<u>161</u>	2,172



February 9, 1938

To: Secretary Morgenthau  
From: Mr. Magill

Attached is the Shoup memorandum relating to the Undistributed Profits Tax and the substitutes therefor in the present tax bill. You may recall that you asked me to send it to you when we talked over the telephone a few nights ago.

Rm

February 2, 1938.

To: Mr. Magill.

From: Mr. Shoup.

Comments on the 20-16 Plan and Title I-B.

The questions you put to me some time ago, and my tentative answers, follow:

1) Are the 20-16 plan and I-B a transition to a final logical form for the fairly immediate future?

Unless the entire matter is thrown open for discussion again (in that case, see Question 2 below), we must apparently assume that for the near future Congress will not allow a carry-over of losses for more than one or two years, even for the undistributed profits tax. In this case any substantial undistributed profits tax will work considerable hardship on the cyclical industries. It may, if heavy enough, tend to be passed on in price increases to consumers. This in turn may restrict the volume of trade. If these economic consequences do not eventuate, obvious injustice in distribution of the tax load will occur, since the cyclical businesses will be drained of their "profits", with no way to make up for losses, and the stockholders' equity will thus tend to shrink appreciably from one cycle to the next. It seems to me that with no, or very restricted, carry-over provisions, the undistributed profits tax is better repealed entirely. Thus

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I regard the 20-16 plan as a step in the right direction only because it is a step toward repeal - but let me reemphasize that my answer would be different if extensive carry-over of losses were permitted (five years at a minimum).

The same difficulty must be faced under Title I-B. Many of these closely held corporations are in highly cyclical industries. I hazard a guess (which might be checked by a fairly extensive statistical study) that many of these corporations should not distribute more than 30 or 40 per cent of their "net income" in their good years if they are to avoid distributing more than their net earnings over the cycle. Consequently, I think that I-B as it stands tends to be a cure that is worse than that part of the disease that it can cure.

The adverse economic effects would be largely obviated, and the injustices somewhat mitigated, if the corporations would pay dividends in taxable stock, or would exercise the coercive power of stock rights for privileged subscription at bargain prices to get back the cash they pay out. But there are substantial and, I am now coming to think, conclusive reasons against either of these policies, from the viewpoint of desirable corporation finance practice. Moreover, the limited experience thus far reveals no great tendency to use these devices.

Even if they were used, the injustice toward investors in cyclical industries would not be entirely eliminated. True,



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corporation stockholders in cyclical industries would be placed on substantially the same plane as owners of unincorporated concerns in such industries - but only by subjecting the former to the same discrimination imposed on the latter (i.e., taxing as "net income" something that over the cycle is seen not to be net income at all). A more reasonable procedure is to bring the cyclical-unincorporated-concern investor closer to the treatment that was accorded the cyclical-incorporated-concern investor before 1936. In effect, the latter was given a chance to get an indefinite carry-over of losses as concerns personal surtaxes since the corporate gains of one year could be kept undistributed to be washed out, in whole or in part, by later corporate losses, only the balance being declared in dividends.

To the consent-dividend proposition the same remarks as for the dividend-in-stock apply, with these important differences: the effects are not contrary to sound corporate finance practice, and the device may in fact be used by more corporations (see further remarks under second question).

So far as the rates under the 20-16 plan and Title I-B are light, all the objections above are lessened. But a light rate has this serious disadvantage - it induces controlling, high-income stockholders to sacrifice non-controlling, low-income stockholders to the interests of the former. A 20 per cent rate is a serious inroad on the stock equity of a small investor who

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would pay only a marginal rate of, say, 10 or 11 per cent (and a much smaller effective rate) if the profits were distributed - but it may be a bargain price for a wealthy stockholder for the privilege of retention. If the wealthy stockholder is the one who controls the dividend policy, he may, in effect, force the low-income stockholder to take a cut in his equity in order that the wealthy stockholder may avoid or postpone surtax.

Finally, I suppose we must assume that for the time being Congress will not give the individual any credit on account of normal corporation tax paid. This is still another reason for abandoning an undistributed profits tax.

To summarize this rather lengthy reply to the first question: With restricted allowance for carry-over, cyclical concerns would be so harshly treated under a substantial undistributed profits tax that the good effects of the tax would be largely, perhaps entirely, counterbalanced. Even if taxable stock dividends or consent dividends are employed, the result is a step in the wrong direction for cyclical industries. In view, also, of the refusal to allow the individual any credit at all for corporation normal tax paid, the best thing would probably be to work toward the complete repeal of the undistributed profits tax (including Title I-B), and rely instead on catching the net undistributed profits (after allowance, that is, for cyclical effect) in later dividends, in capital

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gains, and through gift taxes and death taxes. This is an unsatisfactory result, but not as unsatisfactory as a tax measure that tends to shrink stockholders' equities, raise prices to consumers, and sacrifice low-income minority interests to high-income controlling interests.

2) What approach should be taken if the entire matter is thrown open for discussion again?

I suggest that much more emphasis be given to finding ways of taxing the stockholder of the corporation instead of the corporation itself. The consent-dividend proposition, especially if it can be made available even when some stockholders refuse to join in the plan, is a step in this direction.

Another step of the same kind is to force the "consent" by an optional but very heavy tax on actual dividends and capital gains - perhaps somewhat as outlined on page 3 of my memorandum to you of November 19, and perhaps also with some delay granted for payment of the tax on the undistributed share in the profits (note that this plan also involves letting the individual take up his share of the corporate losses, just as a partner does).

Stoppage of loopholes in the taxation of capital gains<sup>1/</sup> is another step in the same general direction. Possibly some

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<sup>1/</sup> For an example of such a loophole see the Appendix at the end of this memorandum.

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other techniques will be found if further study is given to this approach. I think that only by working at the problem from the individual's side rather than the business' side can we avoid the disturbing economic effects and injustices that have generated the great pressure for repeal that now exists.

Along with this approach should of course go the efforts to get the carry-over for losses in computing the net income of the business, and to give the individual some credit for corporation normal tax paid.

If carry-over is not given, should an effort still be made to approach the problem as just suggested, or should the whole thing be dropped? This is a difficult question, which may be left for the moment, on the assumption that if the entire matter is indeed thrown open for discussion there will be at least a chance to get a liberal carry-over provision.

3) Would it be advisable to raise the 20 per cent rate to 21 or 22 per cent?

For reasons already given under Question 1 above, I think it would not be advisable. If added revenue is needed, let it be taken from taxpayers generally, through increases in personal surtax rates, rather than from stockholders, particularly minority, low-income stockholders in cyclical businesses.

APPENDIX  
Example of Loophole under Taxation  
of Capital Gains

Taxpayer A earns \$100,000 and invests it in corporation bonds. He saves the interest, and at his death the \$100,000 has thereby grown to \$150,000. If all of it is subject to the estate tax, his taxes as a result of this working and investing are:

- 1) Income tax on the \$100,000 when earned
- 2) Income tax on the \$50,000 as received
- 3) Estate tax on the \$150,000 (assuming he has paid the income tax from other resources).

Taxpayer B also earns \$100,000 but invests it in non-dividend paying stock. At his death the stock has appreciated 50 per cent. If all of it is subject to the estate tax, his taxes as a result of this working and investing are:

- 1) Income tax on the \$100,000 when earned
- 2) Estate tax on the \$150,000 (assuming he has paid the income tax from other resources).

Taxpayer B pays less total tax because he has received his investment income in the form of capital gain rather than interest or dividends.

Until, if ever, the \$50,000 appreciation in the stock is paid out in dividends, not even the heirs will pay tax on this accumulation - and even if they do, the dividend payments will in fact tend to decrease the market value of the stock so that they can recoup via capital loss (or smaller capital gain) what they pay in tax on

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dividends. Moreover, the heirs may have less total income than the testator, and thus pay less tax on the accumulation than he would have paid.

The result of this discrimination between A and B is almost surely to increase substantially the pressure to withhold earnings in closely-held corporations of the type covered by the proposed Title I-B. In general, the result is a pressure for wealthy persons to seek an increase in economic power through unrealized capital gains. As the example above shows, the estate tax does not remove this pressure. If this loophole for B is somehow plugged, the need for such a provision as Title I-B is substantially diminished.

cd

February  
January 9, 1938

Dear Eustace:

I thank you for your letter of January 26th, explaining the situation with respect to branch banking under the law in the State of New York and summarizing your views with respect to bank holding companies.

I have also noted the enclosure, taken from Professor Chapman's book.

Very truly yours,

The Secretary of the Treasury

Mr. Eustace Seligman,  
Sullivan & Crowell,  
48 Wall Street,  
New York, New York.

CBU:pm

SULLIVAN &amp; CROMWELL

*48 Wall Street, New York.*  
*39 rue Camben, Paris.**New York, January 26, 1938.*

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

Dear Henry:

Upon returning to New York and checking up the statute, I found that I was mistaken in the statement I made in answer to your question and therefore I am writing to correct it. Under the New York statute, banks may, if the Banking Superintendent approves, open branches within the banking district where the main office is situated. There are nine banking districts in New York, and Marine Midland Corporation has at least one bank in each district. Consequently, if it were forced to dissolve, it would have to distribute to its stockholders the stocks of at least nine banks. Many of these banks would be so small that the amount of stock going to each of the twenty-six odd thousand stockholders of Marine Midland Corporation would be so little as to be almost negligible. There would be no market for these shares with the exception of the New York and Buffalo banks, and the loss to the innocent stockholders would be tremendous.

As long as I am writing you, may I take this occasion to summarize briefly the views which I expressed this morning:

(1) All students of American banking agree that the defect in our system is too many small independent banks.

(2) Branch banking or group banking (i.e., ownership by a holding company) are both means of correcting the evil.



The Honorable Henry Morgenthau, Jr.

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(3) It is impossible to eliminate the evil of too many small banks without having fewer banks which will be greater in size and power.

(4) A group like Marine Midland Corporation with deposits of under \$500,000,000 has much less power than many New York banks with many times greater deposits. Both are equally subject to the possibility of control getting into bad hands.

(5) Bank holding companies should not be prohibited, just as large banks are not prohibited; on the contrary, they should be fostered. However, there should be the most complete Federal regulation in both cases. Canada and England believe in few powerful banks subject to proper regulation.

(6) If it is decided that bank holding companies may become so large that they cannot be properly regulated (which I do not believe), then the following suggestions could be adopted:

(a) Limit bank holding companies to one Federal Reserve district or to one state.

(b) Require Federal Reserve Board approval to any future acquisitions by existing holding companies.

(c) In addition, bank holding companies might be required within, say, five years to sell stocks of non-banking companies owned by them.

(7) Bank holding companies like Marine Midland Corporation have been of unquestioned service to New York State. No criticisms have been made of it by any public authority. There is therefore

The Honorable Henry Morgenthau, Jr.

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absolutely no reason why a company like Marine Midland Corporation should be compelled to dissolve just because it is feared that some other companies may become too powerful. Fairness to the twenty-six odd thousand stockholders of Marine Midland Corporation demands that it be allowed to continue to exist, in the absence of any possible argument that Marine Midland Corporation has done harm in New York and not good.

I also mentioned to you that I had with me at the meeting today a book by Professor Chapman, and I enclose herewith a short extract from the same which I think expresses the views of authorities in the field.

Faithfully yours,

*Frank Seligman*

(Enclosure)

## CONCENTRATION OF BANKING

BY

JOHN M. CHAPMAN

"Group banking as we know it today has developed in this country very largely since 1927. The data showing the extent of this movement are usually associated with chain banking. A statistical presentation was not possible of this system alone. During the years 1931-32, it has probably just about held its own numerically. With the growth of branch banking and a liberalization of the branch-banking laws, it seems likely that the extent of group banking will rapidly decline, since it is, or has been, so largely a substitute for branch banking.

Group banking, if properly managed, should strengthen the banking system in the states where branches are not permitted.

\* \* \* \* \*

The concentration movement when limited to the field of banking includes practically all the leading industrial and commercial countries of the world. The development in the United States have followed similar changes in England, Germany, France, and Canada, as well as some other countries. In England and Canada, for example, the number of banks remaining is small, while the number of branches operated is large. More specifically, the amalgamation movement in England has reduced the number of independent banks to a very small fraction of what it

was fifty or one hundred years ago. The tendencies in this country are the same as those in England, but far less advanced.

Study of the concentration movement of banking in this country thus leads to the general conclusion that the banking system is and has been for a number of years undergoing a gradual change which will, in the end, give us comparatively few banks with a large number of branches. The decline in the total number of banks will no doubt, in the long run, make necessary certain changes in the central banking system. \* \* \* These changes taken as a whole should, if properly directed, strengthen the banking system, rendering it safer and more efficient."

Page 372, 373.

THE WHITE HOUSE  
WASHINGTON

CONFIDENTIAL

February 10, 1938.

MEMORANDUM FOR  
THE SECRETARY OF THE TREASURY

Will you speak to me about  
this when you are ready?

F. D. R.

To the Congress:

A development has occurred in our banking system within the last few years that seems to me to hold elements of very serious danger to our economic life. This development is the extension of bank holding companies.

It is hardly necessary, I think, to point out to you the great economic power that might be wielded by a group which may succeed in acquiring domination over banking resources in any considerable area of the country. That power becomes particularly dangerous when it is exercised from a distance and notably so when effective control is maintained without the responsibilities of complete ownership.

We have seen the multiplied evils which have arisen from the holding company system in the case of public utilities, where a small minority ownership has been able to dominate a far-flung system.

We don't want those evils repeated in the banking field, and we should take steps now to see that they are not. I am not thinking so much of the

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present situation as of what the result may be if we permit the trend to continue. It is not a sufficient assurance against the future to say that no great evil has yet resulted from holding company operations in the banking field. The possibilities and even the probabilities of great harm are inherent in the situ- ation.

Both the Congress and the legislatures of a number of the states have deemed it wise to place limits on branch banking, but no limits have been placed on the holding company system, which accomplishes a similar result without a similar measure of responsibility, and permits, with equivalent capital investment, domination of a much broader field.

I therefore recommend that the Congress enact at this session legislation which will effectively regulate the control of banks by holding companies.

February 10, 1938

Sent for Magill this morning and told him I was getting very restless about the tax legislative program. Told him it seems to me that while Rome is burning, we are fiddling around with one provision of the tax program and possibly the price we are paying for reform is too great. That I am re-examining everything that the Treasury is doing that affects business. That next week I would like to follow up the action of furnishing \$250,000,000 for relief plus action on gold with some kind of an announcement that we have broken the log jam in the tax field.

I said I don't know what channel I want to take, but we have got to do something.

Magill was entirely receptive and I suggested that he and Shoup and Tarleau have luncheon and that we review the whole situation.

I said while we are spending all this time on the closely-held corporations, we are doing nothing to stop the avenue of escapes through tax-exempt securities. I thought our position was wholly inconsistent. I asked him to re-examine that field.

I said, People talk about gold sterilization. I said, It does not begin to compare with the sterilization of money that goes on through permitting investors to sterilize their money in tax-exempt securities. Magill said he would look at the various suggestions which had been made to close this avenue.



February 10, 1938.  
9:26 a.m.

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Operator: Go ahead.

H.M.Jr: Hello.

Jay E.  
Sound: Hello.

H.M.Jr: Hello, Crane.

Q: Good morning, Mr. Secretary.

H.M.Jr: How are you?

Q: Mr. Secretary, you remember I had Armstrong down there talking to you about Mexico?

H.M.Jr: Very distinctly.

Q: Well, he's been down there for a couple of weeks or more. He's gotten back -

H.M.Jr: Yes.

Q: And he's going down to Washington this morning. He has a date, I think, with Sumner Welles this afternoon at three o'clock.

H.M.Jr: Yes.

Q: And I wondered whether you would want him to stop in and tell you any of the story or not.

H.M.Jr: Well, unfortunately, you just - I do - but unfortunately I'm at a point where I've just driven myself to the limit today and tomorrow.

Q: Oh, I see.

H.M.Jr: But I wondered if he'd be - lacking my being able to see him - would he, would he stop - I'd love to do it but I just can't do it today.

Q: Yes, I see.

H.M.Jr: Now -

Q: Well, he'd be glad to come down some other time, I think. He's going to Venezuela in about a week but -

H.M.Jr: Would - would - would you - would he be willing to talk to Harry White?

C: Sure.

H.M.Jr: What?

C: Sure.

H.M.Jr: And then he would.

C: Oh, sure.

H.M.Jr: Well, I'll tell Harry White to be ready to get a call from him. How's that?

C: Well, here. I could have him come in, say about two o'clock.

H.M.Jr: I'll tell you what you do.

C: Shall I talk with White?

H.M.Jr: I'll tell you what you do. Have him come to my office at two o'clock and I'll say "hello."

C: Yes.

H.M.Jr: And then turn - turn him over to - to - I'll do it differently. Let him come in at two forty five, see?

C: Yes.

H.M.Jr: And I'll give him fifteen minutes and then turn him over to White.

C: Yes.

H.M.Jr: How's that?

C: That's fine.

H.M.Jr: Two forty five.

C: Yes. I'll tell him to stop in your office at two forty five.

H.M.Jr: Right.

C: Yes. All right, sir.

H.M.Jr: I'd like to see him.

C: Thank you. Goodbye.

## GROUP MEETING

February 10, 1938.  
9:30 a.m.

Present: Mr. Magill  
Mr. Taylor  
Mr. Gaston  
Mr. Bell  
Mr. Lochhead  
Mr. Haas  
Mr. Upham  
Mrs Klotz  
Mr. McReynolds  
Mr. Oliphant

H.S.Jr: See what George D. Riley has got to say about us this morning?

McR: Yes, I talked to Herbert about that. Wondered if there was anything I could do about that. Of course, he was talking about this meeting down here of personnel officers, which I did not attend. I wasn't here. Furthermore, Herbert says I wasn't there. So he gave me the headline.

H.S.Jr: "Mr. McReynolds Spits in the Eye of Senators," says George D. Riley.

Taylor: Which eye?

H.S.Jr: What?

Taylor: Which eye?

Magill: Just up to his old tricks, isn't he?

McR: I wasn't there; furthermore, never talked to George Riley in my life, not even over the telephone.

Klotz: Ryan says that he works four nights overtime and never gets any pay. I saw that in one of the articles.

H.S.Jr: All right.

I got a couple little things here for Professor Oliphant. Say, is Columbia moving down here en masse? Professor Burleigh ....

Magill: Mr. Butler is staying up there, according to my best information.

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Oliphant: You will now need no reference books in Washington.

H.M.Jr: What?

Oliphant: We will now need no reference books in Washington on any subject.

H.M.Jr: well, somebody told me - good friend, last night - that they'd seen Burleigh last week, and he said, "Gosh, if I could only get a month or two off, I could go over and settle that whole situation in China."

Oliphant: That's right. It wouldn't take ....

Magill: Wouldn't take him that long.

H.M.Jr: When Mr. Taylor, who is my liaison with the State Department, read Mr. Burleigh was coming up, the beads of perspiration came out on his forehead.

Magill: No, you won't have any more trouble over there at all, Wayne.

Taylor: What?

Magill: You won't have any more trouble over there at all.

Taylor: Didn't have any. That's what I was worried about.

H.M.Jr: Who knows the lowdown about Mr. Roper and Mr. Jones studying loans for R.F.C.? In today's paper. Anybody know about that? - Nobody knows about that. Well, we'll ask Mr. Jones.

"P.H.A. Completes Plans to Charter Mortgage Units. First May be Formed in Few Days. Will Get Ten Million Dollars of R.F.C. Funds." - All right, we'll ask Mr. Jones about that at 11 o'clock.

Bell: That's the same question you asked Wayne yesterday to explain. It's part of that picture.

H.M.Jr: I know, but I just wondered what had happened since yesterday, being on a 24-hour basis.

Taylor: Mr. Oliphant and Mr. Dougherty have been discussing a legal point, and I don't know what their conclusion is.

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- Oliphant: Got that one straightened out. The only point surviving was that it looked - I raise the question whether or not there ought to be some control of issuance of debentures, for fear they'd upset the money market. No control now on the amount or time of issuing debentures.
- Taylor: It isn't an obligation of the Government.
- Oliphant: No, I know that. But they are in the money market.
- H.A.Jr: Well, at 11 o'clock.
- And then who could tell me ~~what's in~~ the farm bill that's passed the House? Not at the moment - but who can give me something on that?
- Bell: Give you an analysis of it in a day or so.
- H.A.Jr: Could you, Dan?
- Bell: Yes.
- H.A.Jr: And then - this is kind of extra-confidential - I've got a letter here from Mr. Hull giving me a memorandum on Hungery's proposal for payment of its debt. Now, this is the first one that's come since I've been here. Now, how are we going to go about studying this thing? It's very well written. See, he makes a lot of comparisons and other things.
- Dan, how did that use to be handled in the days they were fooling around with debts of foreign countries?
- Bell: Well, the Assistant to the Secretary in charge of war debts would study it in connection with my office. If there were any economic problems to study in that country, that was done by Haas's section - Stark's then.
- H.A.Jr: Well, you see, they refer, for instance, to the situation - what we did on the British debt and what we did on the Austrian debt and all that sort of stuff; and I just don't know.
- Bell: Well, that's probably from my office.

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- H.S.Jr: Well, who is it up there?
- Bell: Mr. Heffelfinger has it now, largely.
- H.M.Jr: Well, I mean did somebody give me a memorandum that if we did the Hungarian debt this way, this is the way it would apply to the British and the French and the other thing?
- Taylor: Fred Livesey had a memorandum on that. I don't know whether he left it here or not.
- H.S.Jr: I think he did. Mrs. Klotz, look for that memorandum from Livesey.
- Klotz: From Livesey.
- H.S.Jr: Well, I'm still kind of groping around. I don't - I mean anybody that's got any ideas ....
- Oliphant: well, in my shop Jack Leland has been doing a lot of work on it. Oppen's been handling incidental problems.
- H.S.Jr: Got any ideas, Wayne?
- Taylor: why, I think it is very desirable to establish what principles you want to apply to this. I mean all the old ones were done on the basis of the ability to pay, and ...
- H.S.Jr: Well, here's - we'll go ahead.
- Taylor: And here's a proposal which may be a good proposal, but you have to establish, I think, or re-establish, whatever principles should be applied to all the other debt settlements right at this time.
- H.S.Jr: Well, the point I want to do - I want to take this over to the President, and in order to do it I want this thing backed up so that if he says, "Well, how would this be if it is applied to the English or the French?" - I mean I want something boiled down, that's what I want. Now, who can do this for me, because - I mean I'm going to handle it personally, but who can take this, so when the President says - for instance, here - well, just this sentence: "Thus the nominal unpaid principal of the Hungarian debt now stands at

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a substantially higher total than it would had Hungary enjoyed the terms later granted other Danubian countries."

Bell: Probably right.

H.M.Jr: All right. See what I mean?

Bell: Yes.

H.M.Jr: Then it goes on and says also something - I mean it refers to other things - I mean builds up the case: if they'd gotten this and gotten that.

I think the thing should be put - well now, say, Reference Number One - What happened? You see? Reference Number Two ...

Bell: Let me have it.

H.M.Jr: What?

Bell: Let me have it. I know the history of the other debt settlements and I have the record.

H.M.Jr: Now, I want this - I tell you, Mrs. Klotz, if you just would take this to Mr. Hull: "My dear Mr. Hull: I beg to acknowledge receipt of your letter of February 8, which was received at my office the morning of February 9." Paragraph.

"I am giving the Aide Memoire on Hungary's debt to the United States very careful study, and I am asking the President of the United States to see me at the earliest possible time, in order to find out whether or not the suggestions outlined in this memorandum by the Hungarian Government, in his opinion, are fair."

Huh?

Bell: That's all right.

H.M.Jr: I mean don't you think that's the - I mean Hull's making a record. Well, I want to make it, you see.

Now, what I would do is this, Mrs. Klotz. When you

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go out, I would have this thing - a copy made - and give one to Mr. Bell, one to Lochhead, Haas, and Taylor, see, so they can all be .. - and I'd get it as promptly as possible. You can all take a look at it and make anything you want.'

I hoped - I was going to ask - I have asked to see the President Saturday morning, and when I do, I'd like to have something on this, you see. I'd like it as simple as possible, you see. What?

Bell: Yes.

H.M.Jr: Dan?

Bell: Uh-huh.

H.M.Jr: I mean just as simple as possible, so that - I don't know if the build-up is important - "Well, we've done this to this country and that to that country" - or not. But, you see, here's what they've done; I can boil it all down in one sentence, maybe. They've simply said, "The interest that we paid for ...." - let's say, roughly, they owed us a million and a half dollars. "Well, we paid you five thousand dollars worth of interest; we want credit on that. So we want you to - you say we now owe you a million dollars, and we'll pay you the balance in twenty or thirty installments of \$39,000 each, but we won't pay you any interest on the balance."

Now, that boils the whole thing down the way - is that it? Are you (Taylor) familiar with it?

Taylor: That's what I understood it was to be.

H.M.Jr: well, that boils the whole thing down.

Bell: That \$39,000 is just about the amount of the payment of the debt settlements, as I recall, over 62 years.

H.M.Jr: Well, that boils the whole thing down. Oh - and a copy to Mr. Oliphant too.

Bell: I take it what they're trying to do is get a debt settlement somewhat along the lines of the Austrian.



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H.S.Jr: 30 years, \$39,000 a year. 30 years.

The question that I raised immediately, talking to Reis, was - when he told me that, I said, "Well, what will Mr. Frazier-Lemke say if we let a foreign country pay its debt with no interest and you don't permit the Frazier-Lemke bill to go through and give the farmers two percent interest on their indebtedness?"

Reis: I can give you the answer.

H.S.Jr: What?

Reis: I can give you the answer.

H.S.Jr: Go ahead.

Reis: That in his state most of the money - give both interest and principal back; and there is a record you can build up on that. I mean this is just settling for what you can get on the mass loan. Not going to establish any policy for future lending.

Van: But that isn't what he'll say to ....

Ball: It isn't an answer.

Opponent: What he'll say is that mortgages are renewals, and ...

H.S.Jr: That's no answer.

Ball: You've got the same proposition here that you had in 1923, when they settled the British debt. They wrangled for days over the interest rate of 3½ for ten years - 3 percent for ten years and 3½ percent for 52 years; and the reason they couldn't get it lower was because Senator Smoot couldn't face the Senate at a time when they were talking about four percent to the soldiers.

H.S.Jr: Well, I don't know - if I can absorb this over Saturday and Sunday and see you people - I mean absorb it over Saturday and Sunday and then be ready to present it to the President Monday at lunch, I think that's fast enough. That has been fooling around Washington

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since July, hasn't it?

Haylor: No, it isn't as bad as that. Since last fall.

H.M.Jr: Well, anyway, if I get it to the President so he can see it by Monday - but I'd have to have several meetings to absorb it first myself. See what you think of it. But I told Feis this. I said, "All right, whatever the figures - they want to pay a million dollars; why don't you divide it up into the payments of principal and interest? And it looks better but when you get through we've received the same amount. I mean, say, \$20,000 of principal and \$19,000 as interest. But at least - we don't get any more, but it looks better. And he didn't do what I suggested. I mean they've done it just the way they wanted to do it; and I told them a week ago that would not be acceptable, but it didn't make any impression.

Bell: This is in some way tied up with relief to other countries. Have they mentioned that in the other memorandum?

H.M.Jr: Pardon me?

Bell: This debt of Hungary's to the United States is in some way tied up with the relief debts of Hungary to other countries.

H.M.Jr: No, they do not mention it. No, they do not. But I told Feis and it made no impression.

Well, each of you fellows will have a copy and you can study it; then we can have a meeting over the week-end some time, see where we're at.

Dan?

Bell: We're getting daily reports on this Social Security matter. I think some day next week you should allot 20 or 25 minutes to go over the reports. Nothing serious, but just to see how they're going.

H.M.Jr: Make a note, Mrs. Klotz.

What else?

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Bell: That's all.

H.W.Jr: When we figured our financing, didn't you put in a hundred million dollars extra for relief over and above anything else? Did you?

Bell: (Nods yes)

H.W.Jr: That's what I thought. That's what I thought. Crystal-gazing. All right.

Now, when does the President's message go on the Hill?

Bell: It's going today. I've got it here. He signed it, wants you to look at it.

H.W.Jr: Did he sign it?

Bell: Yes, sir.

H.W.Jr: Will you stay after this meeting?

Bell: Yes, sir.

H.W.Jr: I'll get that before it goes up.

Upshaw: (Nods nothing)

Lochhead: (Nods nothing)

Gaston: (Nods nothing)

Dees: (Nods nothing)

H.W.Jr: Lot of "no-men."

Wayne?

Taylor: (Nods nothing)

H.W.Jr: For God's sake, give me something, Herman.

Oliphant: All right. Nothing important.

H.W.Jr: What?

Oliphant: Nothing important. (Hands Secretary some papers; words unintelligible).

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H.M.Jr: All right.

Oliphant: I'd like to say just a word to you about King.

H.M.Jr: All right; well, let me take care of Bell and I'll see you later. Oh, you want to do it on the fly?

Oliphant: Do it on the fly.

H.M.Jr: All right.

Orig. corres. is filed in offic. file Room  
285 - as per BSK's instructions to  
R. McHugh. 193

Photostatic copies of inc. corres. given  
to Bell, Taylor, Lochhead, Oliphant  
and Haas by R. McHugh 2/10/38

Complete photostatic set of this corres.  
is in diary.

February 10, 1938.

My dear Mr. Secretary:

I beg to acknowledge receipt of your letter of February 8th which was received at my office on the morning of February 9th.

I am giving the Aide Memoire, on Hungary's Relief Debt to the United States, most careful study and shall seek a conference with the President on the matter within the next few days in order to find out whether or not the suggestions outlined in this memorandum by the Hungarian Government meet with his approval.

I appreciate your offer of cooperation and will certainly avail myself of it.

Sincerely,

The Honorable,

The Secretary of State.

DEPARTMENT OF STATE  
WASHINGTON

February 8, 1938

Dear Mr. Secretary:


I enclose a copy of an Aide Mémoire dated February 7, 1938, which the Minister of Hungary has handed me, submitting for the consideration of the American Government a tentative formulation of a possible basis of a new debt arrangement to replace completely the Debt Agreement of 1924 and accruals thereunder. The proposal is submitted pursuant to the assurances repeatedly expressed to the Hungarian Government that such proposals would receive careful consideration with a view to eventual submission to the American Congress.

The Hungarian Minister expresses the hope that his communication may receive prompt consideration and that he may be given an indication of this Government's attitude at the earliest possible moment. I shall be glad to receive any comment or suggestions which you may wish to make on the proposal and to assist in its consideration either personally or through the competent officers of the Department who will be at your disposal.

Sincerely yours,

Enclosure:  
Aide Mémoire.

The Honorable  
Henry Morgenthau, Jr.,  
Secretary of the Treasury.



3

AIDE-MÉMOIRE ON HUNGARY'S RELIEF DEBT TO THE UNITED STATES.

Hungary, normally a wheat and flour exporting country, was faced in 1920 with a threatening famine. It became necessary therefore to purchase on credit from the United States Grain Corporation 13,890 tons of flour at a price of \$121.37 per ton and the Hungarian Government became indebted to the American Government for the cost of this purchase in the amount of \$1,685,835.

This debt was funded into interest-bearing bonds in 1924. The funded principal amount of these bonds was \$1,939,000 since there was included in the total an amount of \$253,000 which had accrued as interest between 1920 and 1924.

The Hungarian-American debt settlement was worked out on the same basis as the British-American debt funding settlement, containing none of the concessions which were later granted from those terms to other countries. The total principal to be repaid included, as has already been remarked, a large element of accrued interest. Furthermore the annual payments becoming due on the new principal from the very beginning of the agreement contained a large element of interest payment.

This is in contrast to the settlements reached with other Danubian countries which had likewise incurred relief debts to the American Government at about the same time and for similar purposes. In these other funding arrangements the annuities provided for the years between 1924 and 1931 were all on account of the principal amount of indebtedness.

On the other hand, as a result of this difference in terms, of the \$409,400.00 which the Hungarian Government paid during these years, only \$78,000.00 was applied to reduction of principal, the other \$331,400.00 being charged as interest. Thus the nominal unpaid principal of the Hungarian debt now stands at a substantially higher total than it would, had Hungary enjoyed the terms later granted to other Danubian countries.

The failure of Hungary to effect payments to the United States under the terms of its debt contract had no relation whatsoever with



the defaults of other debtors of the United States. In December, 1931, six months before the Hoover Moratorium expired, the sudden withdrawal of foreign short-term credits completely exhausted the gold and foreign exchange reserve of the National Bank of Hungary and forced the Government, in order to safeguard the financial stability of the country, to declare a transfer moratorium on all foreign debts.

The annuities due under the funding agreement of 1924 were included, however, by the Hungarian Government in every budget passed by Parliament from 1932 to 1937, and on each payment date the United States Government was informed that in lieu of transfer, Treasury bills in the national currency were deposited in its favor.

Since the summer of 1937 the Hungarian Government has been emerging from the moratorium which for several years has interrupted payments on all kinds of Hungarian foreign debts to all classes of creditors in all parts of the world. Arrangements on a provisional and temporary basis have been worked out with various groups of creditors. Concurrently a payment of \$9,828.16 was made to the American Government on December 15, 1937.

Responsive to the repeated indications given by the American Government to the effect "that this Government is fully disposed to discuss, through diplomatic channels, any proposals which your Government may desire to put forward in regard to the payment of this indebtedness, and to assure you that such proposals would receive careful consideration in view to eventual submission to the American Congress", the Hungarian Government is now prepared to offer to the United States Government to pay in full the total original amount borrowed.

It therefore tentatively formulates for the consideration of the American Government a possible basis of a new debt arrangement between the two countries to replace completely the debt agreement of 1924 and the amendments thereunder.

The terms and terms for effecting this new settlement which are under consideration as the basis of a possible offer to the American Government are as follows:

(1) That all payments hitherto made by the Hungarian Government

under the debt settlement of 1924 to the United States (approximate amount \$478,000) should be recalculated as credited against original principal (\$1,685,000).

That the original principal (\$1,685,000) of the amount borrowed less the preceding amount paid (\$478,000) or \$1,207,000 be paid in full in a series of annuities.

The sum total of these annuities shall be equal to this remaining principal and shall be in the form of dated non-interest-bearing notes falling due at specified dates. These annuities shall run for a period of approximately thirty years (and hence each would be approximately in the amount of \$39,000).

The Hungarian Government wishes to point out that the sum total of these annuities, taken together with amounts previously paid by the Hungarian Government under the debt agreement of 1924, would be identical with the whole original amount borrowed, and thus represent an exact and full discharge of the debt.

The Hungarian Government hopes all the more that this offer will prove acceptable to the American Government as it very closely approximates the basis for payment annuities already accepted in the Austrian settlement of May 8th, 1930 for the discharge of a relief indebtedness of the same character and referring to a country whose capacity to pay was hardly be considered inferior to that of Hungary.

In announcing the signature of said agreement with Austria, the Treasury Department stated that "The settlement compares favorably with the settlements made by the United States with the Governments of Greece, Italy and Yugoslavia".

The Hungarian offer would be even more favorable to the United States Government as in contrast to the terms of the Austrian settlement the Hungarian Government offers complete repayment of its relief indebtedness within the present generation.

(signed) JOHN PELENYI

Washington, D.C.

February 7, 1938.

February 10, 1938

Met with Wallace, Alexander and Baldwin, of Farm Security, and we agreed that they should have \$5,000,000 for grants and \$25,000,000 for rehabilitation loans, this money to be made available between now and July 1 of this fiscal year.

I stopped to explain to Wallace about what I am considering doing on desterilization of gold and he is most enthusiastic.

UNITED STATES DEPARTMENT OF AGRICULTURE  
FARM SECURITY ADMINISTRATION  
WASHINGTON

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Feb. 10, 1937

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE SECRETARY

Dear Mr. Secretary:

Dr. R. C. Williams, who is on assignment to this Administration from the Public Health Service and who is acting as Medical Director for us, has just returned from California where he has been making a study and survey of the conditions that exist among migratory agricultural laborers.

Dr. Williams made his survey in company with representatives of our regional office, members of the Public Health Service of the State of California, and local representatives of the County Welfare Boards and the State Relief Administration.

The survey and the best records available indicate that there are approximately 250,000 migratory families in California. A large portion of these workers have been able to maintain themselves; and others, who have been in the State mostly for periods of longer than two to three years and who are in need of aid, are being assisted by County Welfare Boards and the State Relief Administration; and some few, of course, who have been there for that period of time, have been certified to and are working on WPA works projects. Regulations of the State Relief Administration, however, make ineligible for State aid those persons who have been in the State for less than a year, and regulations of the County Welfare Boards in most instances make ineligible for county relief those people who have been in the State for less than three years and in that particular county for less than one year. Dr. Williams reports that the effect of these regulations in general is to preclude persons who have been in the State for an average of less than two years from receiving assistance from these agencies.

The survey indicates that between 20,000 and 25,000 transient families engaged in agricultural labor have been in the State for less than a year and because of the interpretation of the regulations are ineligible for and are not now receiving needed relief. Most of these families are now living in what are known locally as "ditch bank camps" in each one of which there are from 10 to 200 families grouped together. Most of them live in almost unbelievably insanitary conditions. Best estimate possible indicates that the average income which they are receiving at the present time is probably less than \$5 a week per family and cotton picking, which is affording them this income, is fast being

wound up. There is little or no prospect for additional employment for the next two to three months and although some of these families will get employment at that time, the agricultural market in California is glutted and the number of these people who will be seeking work at that time will tend to further depress the already low wage rate which is in effect.

There is unanimous opinion among doctors, engaged in private practice, public health officials, and social workers that these migratory agricultural laborers present a menace to public health because of epidemics that continue to break out and because of insanitary conditions in which most of these families live. At the present time, there are very few of the counties that even provide emergency hospitalization for this class of persons and no provision is made for medical aid. Epidemics of typhoid fever broke out in several camps during the last year, and at the present time, epidemics of small-pox have broken out in three camps. Diarrhea and dysentery among both adults and children are prevalent and malnutrition is widespread among the group. These conditions reduce resistance and make these persons susceptible to communicable and other diseases.

As indicated by the State and local regulations referred to above, the counties and the State of California refuse to assume responsibility for the 20,000 to 25,000 families in the group comprising the lowest stratum and in which the worse conditions exist. It is our proposal, therefore, that Farm Security Administration take steps immediately to relieve the most pressing emergency medical needs of these families. Considerable thought has been given to ways in which to provide this assistance and a decision has been made to recommend to you the following plan to be adopted:

A cooperative association incorporated under the cooperative law of the State of California will be set up. Its membership will be limited to destitute and low-income farmers, farm laborers, sharecroppers, tenants, or persons who when last employed obtained the major portion of their livelihood from farming operations. The association will have as its directors representatives of this Administration, State Public Health officials, and perhaps some outstanding citizens of the State who are interested in solving the problem created by these people and who have a sympathetic social viewpoint. The association will negotiate a contract with the State Medical Association and perhaps county medical associations by the terms of which doctors will agree to provide medical services for the members of the association on the basis of a greatly reduced schedule of fees. There will be no membership fee charged to the members but as and when they receive medical care or other services which are paid for by the association, they will either reimburse the association in cash or

execute a note to the corporation in the amount which the corporation has expended in their interest.

The Public Health Service of the State has agreed to provide a mobile unit in the field which will go from camp to camp and which will consist of one physician, two or more nurses as required, and two medical social workers. This unit (and perhaps two more such units if required) will examine persons in these camps and certify to the local representative of the association all emergency cases of malnutrition or cases suffering from disease or ailments which require the immediate services of a physician or a nutritionist. In cases requiring the services of a physician or a hospital, arrangements will be made by the association for these services and the association will be billed by the doctor or hospital, on the reduced schedule basis, for the cost of the treatment. In instances in which the persons are suffering from malnutrition and do not require the services of a doctor, the association will arrange to whatever extent possible for the distribution of surplus commodities or provide food through grocery orders which will be issued to the family and which will be drawn on stores with which the association has established its credit and has an agreement for supplying only certain items of nutritive food to persons holding such orders.

It is proposed that grants be made to the cooperative association by the Farm Security Administration in amounts sufficient to enable the association to meet the medical charges to be incurred for emergency medical care, the cost of food to be supplied to persons suffering from acute malnutrition, and the cost of nutritionists and certain clerks whose services will be required if the association is to function effectively.

It is our thought that if the Farm Security Administration agrees, for the Federal Government, to assume responsibility for meeting this phase of the need among transient agricultural workers in California it might be possible to get the State Relief Administration to relax its regulations and agree to assume at least part of the responsibility for taking care of the subsistence needs of those persons who are not yet suffering from disease or malnutrition. It is proposed to discuss this with the Governor and the State Relief Administrator with the view toward getting an agreement to that effect. If such an agreement could be worked out, it is estimated that the total amount which such an association would require to the end of this fiscal year would be approximately \$400,000 in grants from this Administration. However, if such an arrangement can not be worked out and it becomes necessary for the Farm Security Administration to assume responsibility for the subsistence needs of persons not now suffering from either disease or malnutrition, the total cost will be approximately \$1,300,000 of which the \$900,000

difference between the \$400,000 cost of operating the association and the total \$1,300,000 would be advanced as individual grants under the regular established procedure and would not be made available to the association for subsequent distribution by it to needy persons.

The advantage to be gained by setting up the association and operating in the manner outlined above is that the association will be able to negotiate favorable rates on a group basis with the State Medical Association and the expense of paying for the medical needs of these persons will be materially reduced as far as this Administration is concerned. The alternative is to make individual grants which would necessitate a great deal of investigation by our already over-burdened county staffs and involve the issuance of many thousands of vouchers and small Treasury checks to the individuals in need of the assistance.

The situation is critical at the present time since all avenues of work are rapidly closing up. Action to be effective must be taken immediately. If you have any suggestions or comments, I shall appreciate it if you will advise me.

In the event that you approve the plan outlined above, we propose to have Mr. Maguire leave today for San Francisco to assist in setting up the association and working out the details for the operation of this plan, and it is our feeling that these steps can be taken and the association can start functioning within a period of a week or ten days.

Authorization for approval of specific grants will, of course, be presented to you as and when they become necessary if the Association is set up.

Sincerely,

*Will W. Alexander*  
Administrator



DEPARTMENT OF AGRICULTURE  
WASHINGTON

Honorable Henry Morgenthau, Jr.

Secretary of the Treasury

Dear Henry:

It is my feeling that the attached memorandum from the Administrator of the Farm Security Administration to me will be of considerable interest to you.

The memorandum, in my opinion, demonstrates the splendid degree of cooperation that exists between the Public Health Service and the Farm Security Administration, and indicates the type of special problems in rural areas with which the Farm Security Administration is faced from time to time.

The report and the recommendations made therein are based on a survey recently completed by the field representatives of this Department and Dr. E. C. Williams, who is on assignment as Medical Director for the Farm Security Administration from the Public Health Service. Dr. Williams has been of great assistance to us in attacking the medical need and health problems of persons in rural areas.

Sincerely,

*J. A. Wallace*

Secretary





UNITED STATES DEPARTMENT OF AGRICULTURE  
FARM SECURITY ADMINISTRATION

Rural Rehabilitation Division

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INFORMATION REGARDING RELIEF NEEDS IN SELECTED COUNTIES

STATE	COUNTY	Estimated Unmet Need as of Jan. 15	SOCIAL SECURITY REPORTING SERIES			PSA Emergency Grant Case Load	FSA Emergency Rehabilitation Loan Cases	BIGGERS UNEMPLOYMENT REGISTRATION			REMARKS
			December General Relief Cases	Increase November-December	Average General Relief Grant for State December			Totally Unemployed Nov. 16-20 Not on Emergency Work	WPA	Partially Employed	
Kansas	Craighead	1200-1500	56	7.7	\$ 6.57	0	190	935	191	1,151	Approximately one-half unemployed are farm cases
	Phillips	1000-1200	86	3.5	6.57	0	237	1,277	415	1,561	Approximately one-half unemployed are farm cases
Texas	Collin	1075	94	-	8.88	N. A.	N. A.	1,943	469	1,295	7% are farm cases
	Upshur	500	19	5.6	8.88	N. A.	"	1,382	226	823	" " " "
	Fisher										No information available for these counties
Iowa	Fremont										" " " "
	Hughes	600	378	-1.0	4.01	0	250	1,772	839	966	62% farm families
	Pushmataha	1200	342	11.0	4.01	0	201	1,366	880	420	" " " "
Mississippi	Washington	1600	63	-	3.79	0	51	743	92	959	Farm families moving to town
Mississippi	Wachitoches	600	60	-18.0	11.54	0	162	2,417	469	1,598	One-half farm families
North Carolina	Paulding	450	N. A.	N. A.	3.76	0	56	368	41	118	Situation very bad. Co. WPA Assignment closed
	Putnam	500	"	"	3.76	0	49	518	144	198	Situation very bad. Co. WPA Assignment closed
Alabama	Shelby	500	15	50.0	6.73	0	75	1,466	302	834	
North Carolina	Union	300	N. A.	N. A.	10.78	0	194	1,345	561	650	
	Williamsburg	300	"	"	10.78	1	195	835	294	575	
North Carolina	Jackson	200	9	-	5.47	0	29	986	345	347	
Mississippi	Anderson					0	36				
	Hawkins	160	0	0	4.36	0	14	602	200	460	No general relief. Surplus Commodities only to categorical classes
Illinois	Alexander	1500-1800	N. A.	N. A.	N. A.	75	7	N. A.	N. A.	N. A.	100% share-croppers and farm laborers
California	Tulare	1000	1,939	"	"	50	173				60% farm families
North Dakota	Hand	N. A.	N. A.	"	"	730	538	313	324	269	
	Corson	"	"	"	"	636	736	378	534	166	
North Dakota	Williams	"	"	"	"	1,654	782	N. A.	N. A.	N. A.	
Nebraska	Dahlsie	"	"	"	"	269	74				
	Frederic	"	"	"	"	1	38				
Colorado	Kiowa	"	"	"	"	1	186				
	Calhoun	"	"	"	"	0	19				
	Marshall	"	"	"	"	0	25				
	Sensen	"	"	"	"	1	115				
	Hardin	"	"	"	"	0	111				
Washington	Stevens	"	"	"	"	1	100				
	Cowlitz	"	"	"	"	0	39				
Wisconsin	Calumet	"	"	"	"	0	4				
	Sauk	"	"	"	"	5	48				

Administrative Service Section  
February 10, 1938

UNITED STATES DEPARTMENT OF AGRICULTURE  
FARM SECURITY ADMINISTRATION

Rural Rehabilitation Division

INFORMATION REGARDING RELIEF NEEDS IN SELECTED COUNTIES

STATE	COUNTY	Estimated Unmet Need as of Jan. 15	SOCIAL SECURITY REPORTING SERIES			FSA Emergency Grant Case Load	FSA Emergency Rehabilitation Loan Cases	BIGGER'S UNEMPLOYMENT REGISTRATION			REMARKS
			December General Relief Cases	Increase November-December	Average General Relief Grant for State December			Totally Unemployed Nov. 16-20 Not on Emergency Work	WPA	Partially Employed	
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	Phillips	1000-1200	88	3.5	6.57	0	237	1,277	415	1,581	Approximately one-half unemployed are farm cases
Missouri	Collins	1075	94	-	8.88	N. A.	N. A.	1,943	499	1,395	7% are farm cases
	Upshur	500	19	5.6	8.88	N. A.	"	1,382	226	823	" " " "
	Fisher										No information available for these counties
Oklahoma	Freestone										68% farm families
	Hughes	600	378	-1.0	4.01	0	250	1,772	839	966	" " " "
Mississippi	Pushmataha	1200	342	11.0	4.01	0	201	1,366	880	420	" " " "
	Washington	1600	63	-	3.79	0	51	743	92	959	Farm families moving to town
Mississippi	Natahitoosha	600	60	-18.0	11.54	0	162	2,437	469	1,596	One-half farm families
	Paulding	450	N. A.	N. A.	3.76	0	56	368	41	418	Situation very bad. Co. WPA Assignment closed
Alabama	Putnam	500	"	"	3.76	0	49	518	144	198	Situation very bad. Co. WPA Assignment closed
	Shelby	500	15	50.0	6.73	0	75	1,466	302	834	
North Carolina	Union	300	N. A.	N. A.	10.78	0	194	1,345	561	630	
	Williamsburg	300	"	"	10.78	1	195	895	294	575	
North Carolina	Jackson	200	9	-	5.47	0	29	906	345	347	
	Anderson					0	36				
Tennessee	Hastings	160	0	0	4.36	0	24	602	200	460	No general relief. Surplus Commodity only to categorical classes
	Alexander	1500-1800	N. A.	N. A.	N. A.	75	7	N. A.	N. A.	N. A.	100% share-croppers and farm laborers
California	Tulare	1000	1,999	"	"	50	173	"	"	"	60% farm families
	San	N. A.	N. A.	"	"	730	538	513	384	269	
North Dakota	Corson	"	"	"	"	636	736	378	534	166	
	Williams	"	"	"	"	1,654	782	N. A.	N. A.	N. A.	
Nebraska	Daniels	"	"	"	"	269	74	"	"	"	
	Prairie	"	"	"	"	1	38	"	"	"	
Colorado	Kiowa	"	"	"	"	1	186	"	"	"	
	Calhoun	"	"	"	"	0	19	"	"	"	
Idaho	Marshall	"	"	"	"	0	25	"	"	"	
	Bannock	"	"	"	"	1	115	"	"	"	
Washington	Hardin	"	"	"	"	0	111	"	"	"	
	Stevens	"	"	"	"	1	100	"	"	"	
Oregon	Condit	"	"	"	"	0	39	"	"	"	
	Calamus	"	"	"	"	0	4	"	"	"	
	Bank					5	48				

Administrative Service Section  
February 10, 1938

February 10, 1938.

Dear Henry:

Let me acknowledge and thank you for your letter of February 5th, dealing with the conference between Mr. Bell of the Budget Bureau, Will Alexander of the Farm Security Administration, and myself. I am glad to have your comments and suggestions.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Henry A. Wallace,  
Secretary of Agriculture,  
Washington, D. C.

GEF/dbs

DEPARTMENT OF AGRICULTURE  
WASHINGTON



February 5, 1938.

Honorable Henry Morgenthau, Jr.,  
Secretary of the Treasury.

Dear Henry:

Will Alexander of the Farm Security Administration has reported to me on the helpful conference with you and Mr. Bell of the Budget Bureau on January 31.

I am glad that a careful check of sample counties is to be made in order to discover the amount of acute destitution calling for immediate relief. Grants, however, while necessary in many cases, are not a solution for the problem. Many of these grant cases could soon be brought to self-support if money were available for rehabilitation loans.

In this connection I should like to suggest that one of the conferences you have requested with Dr. Alexander be devoted entirely to the rehabilitation loan program. As you probably know, this is now the major activity of the Farm Security Administration, involving the expenditure, including the cost of administration, of between seventy and seventy-five million dollars this year. I think it very important that the relation of this work to the seed loan program of the Farm Credit Administration, the operation of the various Production Loan Associations, and the work of the Extension Service be better understood. It is apparent to me that the rehabilitation loan program offers the only means through which thousands of marginal farmers, eking out bare subsistence, can expect to increase their standard of living and be kept off the relief rolls.

In addition, preliminary reports indicate that there are a large number of families abandoning their farms who could be kept on the farms and made self-supporting if money were available to make them rehabilitation loans and give them the supervision necessary for their rehabilitation.

Our problem, therefore, is a double one, - to meet as far as possible with relief existing acute destitution and to extend aid in the form of rehabilitation loans which will start many of these destitute families on the way to self-support. It seems to me that we must keep both things in mind if we are to find a solution for the problem. The situation, as I understand it, is that there are

-2-

already applications for loans far in excess of the money available for this purpose and that this demand seems to be increasing.

Sincerely,

*H Wallace*

Secretary.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

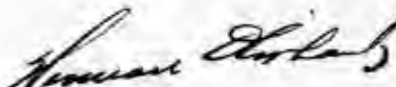
DATE

February 10, 1938

TO Secretary Morgenthau  
FROM Herman Oliphant

For your information

Reporting progress in the Genesee case, Opper and I shall attend a conference in Roy Smith's office at SEC at 9:30 tomorrow morning to discuss the reorganization plan with Mr. Landis, attorney for the Genesee Valley Gas Co., Mr. White, President of the Genesee Valley Gas Co., and Mr. Kline, attorney for the Bank of Manhattan and trustee for the first lien bondholders.



February 10, 1938

For the Secretary:

As you suggested, I discussed with Duffield the idea of having access to your diary in 1933 and subsequent years for the purpose of writing a book on the Monetary Policy of the New Deal. I understand you discussed it also with Tom Phelps. They are both enthusiastic about the opportunity, and eager to do a first rate job of which both you and they can be proud. Tom is willing to help out with the actual spade work if necessary, and will come to Washington two or three days a week, if necessary. He regards it as the most important thing that could happen in the next six months. Both want to start at once.

Duffield says that Kenneth Rogate will be willing to give him up to one hundred per cent freedom from other duties, if necessary. As Gene and I have discussed it, we have envisaged a book made up for the most part of documentary excerpts that spoke for themselves, with a minimum of interpretation or comment. Your view on that would be controlling, of course. Duffield seems to feel that there should be nothing in the way of pecuniary profit in it for him, which seems to me laudable.

I need not say that I am eager to be of all possible assistance in carrying this project through.

Upm



February 10, 1938,  
11:50 a.m.

Mr. Jr: Hello.

Operator: Dr. Burgess. Go ahead.

Mr. Jr: Hello.

Mr. Randolph Burgess: Hello Henry.

Mr. Jr: Hello Randolph.

Mr. Jr: I just wanted to chat with you a minute about this market.

Mr. Jr: Go ahead.

Mr. Jr: It's - it's holding very nicely.

Mr. Jr: Yes.

Mr. Jr: The thing that we're most concerned about is to see that we don't repeat the experience of - of last year on the market.

Mr. Jr: What's that?

Mr. Jr: We're a little concerned because the spread between the high grade bonds and the Government's was increasing a little bit.

Mr. Jr: Which way?

Mr. Jr: Oh, the spread is increasing, that is the Government's are worth more relatively.

Mr. Jr: Yes.

Mr. Jr: Were priced higher relative to the - to the other bonds.

Mr. Jr: Yes.

Mr. Jr: Than they had been. Now that's due largely to - it's due more largely to a little weakness present in the corporate, than it is to firmness in the Government.

Mr. Jr: Yes.

Mr. Jr: Although I think it makes it desirable to keep a little pressure on the Government market. I - I

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think it might be well to consider selling some from your account, once in a while, on that order you know.

- W.M.Jr: No, I don't want to do anything this week.
- B: You'd rather not this week.
- W.M.Jr: Not this week. I want to watch.
- B: I see.
- W.M.Jr: There's too much happening. I just want to sit back.
- B: I see.
- W.M.Jr: I mean I'll be more than pleased to review it with you again Monday.
- B: All right.
- W.M.Jr: But I told the boys definitely not to sell anything this week. There's too much churning around now.
- B: Yes - yes.
- W.M.Jr: And -
- B: That the market doesn't seem to have reflected particularly, that request for additional relief funds.
- W.M.Jr: No.
- B: That might have an influence.
- W.M.Jr: I'd just like to watch it, but I'd be more than pleased to review it with you again Monday.
- B: All right.
- W.M.Jr: How's that?
- B: All right.
- W.M.Jr: I don't think in the next few days much can happen, but -
- B: No, I don't think so. We're - we're keeping the dealers in line on their portfolios.

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H.M.Jr: That's good.

B: And we're making a few turns ourselves, once in a while.

H.M.Jr: Well. I - I'm always glad to hear from you and - to say - you're going up, aren't you, to Boston.

B: I'm going up tonight. Yes.

H.M.Jr: Yes. Well, when you get back Monday, give me a ring.

B: All right.

H.M.Jr: How's your family?

B: Much better, thanks, Henry.

H.M.Jr: Good.

B: My wife is coming out of the hospital on Saturday.

H.M.Jr: Good.

B: And I'm planning to leave, a week from today, for Jacksonville, for a week or so.

H.M.Jr: Well, take care of yourself.

B: Thanks.

H.M.Jr: Call me Monday.

B: Yes, I'll do that.

H.M.Jr: Fine.

B: Very good.

February 10, 1938.  
2:04 p.m.

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H.M.Jr: Hello.

Cochran: Hello. Hello, Mr. Secretary.

S.M.Jr: Yes, Cochran.

C: Mr. Secretary, we had a quiet day here.

H.M.Jr: Yes.

C: The only interesting thing was a speech given by Marchandeu - at the American Club.

H.M.Jr: Yes.

C: Where he referred very nicely to you, and to the statement which you made a few days ago.

H.H.Jr: Good.

C: And he said it was mostly timely and indicative of an understanding of the French monetary situation, and so on, and he gave a splendid speech. He didn't reveal any monetary policy.

H.H.Jr: Yes.

C: But he made a very good impression at the Club.

H.M.Jr: Uh-huh.

C: But what I wanted to ask you is just this one question.

H.M.Jr: Please.

C: You may remember that Bayns the President of the Banks International Settlement -

H.H.Jr: Who?

C: Has planned for some time to visit the United States.

H.M.Jr: Yes.

C: He hopes to come over this winter. One purpose would, of course be to try to interest our people in joining the bank officially.

H.M.Jr: Yes.

C: And he was in Paris a couple of days ago, and asked

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me if I thought he could accomplish anything by going over in March.

H.M.Jr: Well I can give you the answer.

C: All right.

H.M.Jr: There isn't a chance in the world.

C: I told him that I doubted it very much and I thought the situation had become worse due to the international complications and also that the Van Zeeland report might work against it.

H.M.Jr: Well, that I don't know, but at this time there'd be no sentiment here in favor of our joining.

C: Yes, well that's - I didn't want to discourage him completely on my own initiative, but I was convinced and he said, "Well, if I said the word," that he'd call it off, and come some other time.

H.M.Jr: Oh, we'd be delighted to receive him and just to exchange general information, but if he was counting on accomplishing something other than just to get acquainted, I would say that his trip would not be successful.

C: Yes. And my belief was that he might even encourage some unfavorable press reaction if he did come over while this Van Zeeland business is fresh in their minds.

H.M.Jr: No, No. He'd get a very good reception, but - but as to his being successful and getting us to want to go in the bank, the answer would be definitely no.

C: Fine. Well, I'll know what to say to him, then.

H.M.Jr: No.

C: Because I'll be going down Saturday night.

H.M.Jr: I see.

C: Have a meeting this week end. We're having a preliminary meeting Saturday of a committee of four, on this reorganization of banks.

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H.M.Jr: Uh-huh.

C: And it might be a pretty unhealthy atmosphere. It would certainly be the wrong time for us to come in, if we ever had any objection.

H.M.Jr: I see. The franc seems a little stronger today.

C: That statement has been pretty well discounted, you see.

H.M.Jr: I see.

C: I mean the loss of gold. So it was there

H.M.Jr: Well, the old adage. They always sell up after the news is out, eh!

C: Yes. -

H.M.Jr: After the bad news is out.

C: That's right.

H.M.Jr: All right. Everything else all right?

C: Yes, everything is going all right.

H.M.Jr: How's the Duke of Windsor?

C: Well, I haven't seen him around. He moved out to - next door to Professor Reis, the other day.

H.M.Jr: Next to Professor Reis, uh!

C: Down at the end of the street, down at Versailles.

H.M.Jr: I see.

C: I had lunch with Professor Reis yesterday, here in town.

H.M.Jr: Fine.

C: He didn't have anything particularly new.

H.M.Jr: Fine.

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C: I haven't anything, but I hope to get a story of  
some sort from my German friend this week or after.

H.M.Jr: All right.

C: If I can.

H.M.Jr: Cheero.

C: All right. Goodnight.

H.M.Jr: Goodnight.

RE \$100,000 TAX FORM

February 10, 1938.  
3:45 p.m.

Present: Mr. Magill  
Mr. McReynolds  
Mr. Oliphant  
Mr. Helvering  
Mr. Wenchel  
Mr. Sherwood

H.S.Jr: All right, go ahead with your \$100,000 snow. Isn't that what it is?

Magill: That's what it is. Do I lead off?

H.S.Jr: Well, ain't you Under Secretary? Who leads off?

Magill: Last time I knew, I was. I'm commencing to think up on the Bill that I'm just a kind of errand boy for a lot of members of the Ways and Means Committee.

H.S.Jr: All right.

Magill: This form was issued along in the middle of November - so-called form 962 - for purposes of getting a statement of net worth of taxpayers with incomes of over \$100,000. The mimeograph which sent it out specified, as the form does, that it is to be made out by the taxpayer himself and not by the agent.

There was quite a bit of discussion about it in the newspaper and so on, which took form, among other things, in an inquiry to the Commissioner or Mr. Oliphant, I don't know which, from Congressman Sumners, the Chairman of the Judiciary Committee - there may have been other similar letters - inquiring why we were issuing this form, and by what authority and so forth.

When Mr. Oliphant - I think I'm - guess I'm giving the history correctly - when Mr. Oliphant went into it, he expressed some doubt as to whether it was properly issued, considering the fact that the section of the Revenue Act which authorizes it prescribes that "taxpayers shall render under oath such statements as the Commissioner, with the



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approval of the Secretary may prescribe."

So after Mr. Oliphant and the Commissioner returned in January from their vacations and I was a little freer from the work on the Hill, we went into it, and I think the result of it was approximately this: that Mr. Oliphant felt that it was ....

H.M.Jr: Excuse me. I've got these two calls. (Holds two telephone conversations, on other subject matter)

W.M.: Oliphant, as I was saying, had some doubt - I guess more than some - as to the desirability of asking a taxpayer to fill out this form, thinking it was probably better not to do that but to have the agent make out the form.

I had talked to Mr. McReynolds about it at an earlier stage in the discussion, and I think he at that time felt - I don't know how he feels now - that it was better to leave the mimeograph and form and so forth in effect and proceed on that basis.

I have a memorandum from Mr. Helvering confirming the conference that we had, to the effect that he feels quite strongly, I take it, that it is better to leave the present situation as it is: go on and have taxpayers sign it up.

So that, having this difference of opinion, I thought it was a good idea to put it up to you in this office and have a - come to a conclusion as to what we should do.

H.M.Jr: Well, let me just get this. Who is in favor of leaving it in force?

Magill: I think the Commissioner and Mr. McReynolds are.

H.M.Jr: The Commissioner and Mr. McReynolds.

Magill: I don't know what Mr. Wenchel's view is. He probably must be - he and Oliphant probably .... What do you think?

Wenchel: well, it doesn't have the force of a regulation, it couldn't have, unless you (H.M.Jr) approved it.

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Therefore, you are asking for something that you can't require.

- Magill: Well, I think the question has gone a little beyond that, don't you? That is, what we're really considering is whether we should get out a regulation or whatever it takes to put the thing into effect.
- H.M.Jr: The thing, as I get it - should I back up Helvering in a thing he's done or should we say we've made a mistake and withdraw it.
- Magill: I think that's it.
- H.M.Jr: Now, I want you to say, should we leave it or withdraw it?
- Wencel: Withdraw it.
- H.M.Jr: What?
- Wencel: Withdraw it.
- H.M.Jr: You, Herman?
- Olipiant: That's right.
- H.M.Jr: You (Magill)?
- Magill: I don't know. I'm pretty much on the fence, as a matter of fact.
- H.M.Jr: Well, by God, you've got to get on one side or the other.
- Magill: All right. My net feeling about it is this. I wouldn't require the taxpayer to make it out in the first instance. Having come out with it, since on the whole the thing is good, although there are some parts of it I don't like, my inclination is to stick by it.
- Helvering: I'd just like to make a statement right here. A situation, not exactly like this but similar, came up shortly after I came into office. I was in seven

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or eight months. It had to do with the so-called forced sales.

H.M.Jr: With what?

Belvering: Forced sales - sales between husband and wife, and officer and his secretary, and all that stuff. Well, we just issued a mimeograph on the thing, told them we wouldn't recognize those things any further. There was a terrible furore for, oh, six weeks - that this had always been done before, therefore those losses were justified, so forth, and we shouldn't go back on these years. Well, that subsided after a while, and the last time I calculated the thing we collected \$62,000,000. When we issued the order in this same way about the brokers reporting all transactions handled by them for individuals with incomes above \$25,000, of course, another thing broke just like that, went on for about six or eight weeks. I haven't any tabulation on how much we collected on that, but I'm safe in saying it went into the millions of dollars.

Now, whether this produces that result or not, I don't know, and I'm free to confess to you that I don't know how we can get out a form to meet everything in this thing, that will get at what we have in mind.

H.M.Jr: Well, let me ask you this question. Somebody advances this argument, and I thought it was Mr. Magill; I may be wrong.

Belvering: Mr. Magill didn't advance this.

H.M.Jr: No, that isn't what I'm going to say. Somebody, anyway, in this room advanced the argument, "Why isn't it the duty of the examining agent to get this information?" Now, I don't know who advanced that. Somebody.

Whipant: Well, that was my suggestion I made.

H.M.Jr: Well, what's the answer to that?

Belvering: Well, the answer to that is, it put on the examining agent, with the force we have, such a large amount of extra work that we didn't deem it was expedient to

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have him do it.

W.A. Jr: Well, let me ask you another question. Now, we got out this thing. Supposing a fellow takes me into court and says, "Well, you have no right to ask me this." What chance have we got of winning?

Oliphant: I'd like to put this case in answer to that question, if I may.

W.A. Jr: Suppose Mr. X says, "You've got no business to ask me that information. I'm not going to give it to you."

Oliphant: I'd like to put this case in answer to that question. This purports to require all people having \$100,000 income or more to fill out this form. Now, that will include a lot of cases like this - let's take the woman who wrote "Gone With the Wind" and she has an income in the year of \$150,000; and there is no reason to suppose that the accuracy of her return has any connection with the number of diamonds she has, or office or autos or anything. And I think that if we get into court in a case of that sort, the courts are going to say this: that the Commissioner has the authority - I mean this Department has the authority to call on taxpayers to give them facts that are reasonably necessary and appropriate in verifying the accuracy of the return; and so far as this form doesn't cover the information now asked, available in the return, much of which is available in the return, I think we'll get cases where they'd say we don't have the authority.

And to me - just to finish up all I have to say on it - and to me the whole problem works down to working out a proper work sheet for the agent when he is examining the man's return. Now, if a proper work sheet is worked out for the agent, then we can draw off of those work sheets the information we need, without requiring all taxpayers to file the return.

Overwood: There have been a great many of the tax representatives in my office, Mr. Oliphant, and no one has challenged the right, apparently, of the Bureau - of the Secretary to ask for this information. They have

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questioned the form of the release of the requirement. Representatives of Mr. Ballantine's firm and many others who have been in tax practice for a long time haven't challenged the authority to require the information, if it has the Secretary's approval - the memorandum of release.

H.W.Jr: Well, hasn't it got my approval?

Belvering: Only by ...

Magill: No.

Belvering: ... by a statement you made to the press, is all.

H.W.Jr: Well, I just don't - somebody works in the Treasury and I don't let them down publicly. I may give them hell when I'm with them alone, but ....

Magill: I think that's the answer to your prior question. At least, it is the answer in my mind. I think that as far as the legal situation is concerned, if we're going to have this - I think we ought to get out whatever it is necessary to get out in the proper style, which includes your approval.

H.W.Jr: Yes.

Magill: Hence, I think the basic question is whether we do want to have taxpayers fill out something like this, or whether we don't.

Now, Mr. Oliphant is in substance suggesting one qualification which may be a good one to put in; that is, that something like this shall be required if the Commissioner so directs or the agent so directs - something of that description.

H.W.Jr: Well, let me ask you a question. Let's say, all right, I get out whatever this Secretary's regulation is; then does that make it legal? In other words, he needs something ....

Wenchel: As it is now, he can not require it.

H.W.Jr: All right. I say, "Well, all right, I baptize the child." Right now it's a bastard, is that right?

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Wenonel: Right.

H.W.Jr: All right, I get out a regulation and we legalize this child.

Oliphant: That is, assuming it doesn't go clear outside - we'd have to pass on the question of how many facts surrounding your tax business, see, is the Commissioner - is the Department entitled to, to verify the tax return? That is, you can't ask him any question.

H.W.Jr: I'd like to know this. All right, why do you want to know how many yachts a person's got? I mean what ...

Helvering: Well now, Mr. Oliphant has given you a question, <sup>on</sup> that. Now let me give you another concrete illustration. We investigate a man and we find that during a particular year he's building a house that costs \$45,000, and yet in the year he returns no taxable income. Well, we further investigate and we find that he was in an oil deal where the part of the contract that he was to be paid on the barrelhead was \$65,000 cash, which he never reported, of course.

H.W.Jr: Well, asking for jewelry, yachts, his house, and all that - would that show up?

Wenonel: This wouldn't take care of that, Commissioner.

Helvering: Oh yes. When he gets his house, it's his net property. Then we can ask him where he got the house.

To make my position clear on this, this is a very - you won't hear the end of it for a long time - a very sad thing to put out for these ....

H.W.Jr: I'll say you won't hear the end of it for a long while.

Helvering: I take this position. I don't mean to be contentious ...

H.W.Jr: All right, let me just ask this. I mean you fellows are getting legalistic on me. Couldn't this same thing that you want be accomplished by having this thing included in the work sheet?

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- Belvering: well, to a considerable extent, but not completely. Do you (Sherwood) think it would be?
- Sherwood: I think in many instances ....
- H.A. Jr: what?
- Sherwood: Of course, you could have a work sheet requiring the agent to dig for this information, but in very many instances I think the taxpayer would prefer to give it in this form rather than to have this intensive inquiry by the agent. And then, too, we were anxious so far as we could to preserve the time of these better men who are required to handle the cases of the taxpayers with the larger incomes. They are not too sufficient in the work we have to do.
- H.A. Jr: Well, we set up what they call a blueprint department of these very wealthy people. They have a blueprint of these very wealthy people, showing what their interests are, and that was started last year, wasn't it?
- Sherwood: And this form was definitely to be useful in that connection.
- Whiphant: Well now, that's right - what Guy said a little bit ago; there are going to be cases, in passing on a man's income tax return, where it will be desirable for Guy to have a complete inventory of this man at the beginning of the year and at the end of the year. Now, where that is necessary and desirable, my point is, it's all right to ask for it; but to say that every taxpayer has got to give you an inventory when there is no showing at all that it would be of any use to us, as in the case of the woman who wrote the book - I could cite other examples - that was just the difference, you see.
- H.A. Jr: Well, let's take another - let's say we have this regulation. Now, how do you know that they're going to fill this out? Doesn't a fellow have to make a check? How you going to know this blank was filled correctly?
- Sherwood: That will be his basis for the check, Mr. Secretary, in the leads he may secure.

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A.S.Jr: Pardon me?

Sherwood: That will be ...

H.W.Jr: But now do you know this fellow - let's say this man is dishonest and that he's got to fill this thing out. Is he going to put down stuff there which is going to give you the leads? I mean, in order to have it accurate, don't you have to check it anyway?

Sherwood: Well, you check the information you get. I think perhaps that applies too to his return he originally files. But we must presume that there is an honest response to the directions on the return, just as there is here.

A.W.Jr: Well, there is also something else on this I don't like about it. I mean I want to get every taxpayer to pay every nickel he owes the Government, and I have demonstrated for the four years I've been here I'll back you fellows up to the limit, see? But I kind of feel that this thing kind of smacks of Russia - these countries - that you're going to go ahead and we'll get into people's own business; I think you're beginning to cross the borderline as to what's the Government's business and what is a man's personal home and his property, and his own personal rights. I mean I think you're beginning to crowd that line pretty hard.

Delivering: I think that's right.

A.S.Jr: What?

Delivering: I think that's right too.

A.W.Jr: I think you're beginning to break into a man's - this thing, a fellow's home is his castle. And when you begin to ask him how many diamonds he's got and how many of this, which is his personal property, and so forth and so on, isn't the United States Government beginning to cross the line of one's own personal privacy - I mean beyond the stage of what is one's income? huh?

Delivering: I agree with that, except in those cases where we have doubts, and then we're at liberty to ask for it.



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- H.S.Jr: Well, where you have doubts and you think the fellow is withholding his income, then go the limit.
- Olyphant: And ask for an inventory.
- H.S.Jr: Ask for anything.
- Merwood: I think the form as drafted hardly suggests that we request an inventory of jewelry. It is addressed to personal holding company interests - to yachts ....
- Magill: Well, some of them thought that it did; I don't know, they may have been unreasonable, but I think the form could be better.
- H.S.Jr: Do you think I'm overstating it when I think we're crowding a man's personal privacy a little bit on this thing to where a fellow - his own - an honest fellow doing everything he should?
- Silvering: Well ....
- Magill: Yes, I think that's a fair statement. I don't - of course, it depends, I think, on a - a good deal on how you approach it. As the Commissioner will tell you, a corporation files a balance sheet every year and they have to put in items of this kind. The ordinary taxpayer in business probably wouldn't think very much of filing this statement. Undoubtedly some taxpayers would feel very strongly, very much more strongly than you have expressed, that we are invading his privacy and that this - some of these questions in here are asking things we have no business knowing.
- H.S.Jr: Well, let me put it this way to you, Ros - I mean so long as we're in here. Let's say that this thing hadn't been issued at all.
- Magill: All right.
- H.S.Jr: Would you recommend that we get this thing out?
- Magill: No. If it hadn't been issued, my suggestion would be to have the revenue agent get some information of this character - probably not all.
- Silvering: There are many things ....

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- McGill: I wouldn't ask the taxpayer to make it.
- Belvering: There are many things you can't anticipate that will result that you know more about after the thing is shot out and you receive the result. Now, I think the most objectionable thing to this is that we ask the taxpayer for his net income statement or his net worth statement. Now, they come to you and you've got some stock that cost you \$50,000 which you know today isn't worth five. Well now, the question arises immediately, "What am I going to do? Am I going to put that in at cost or present value?" If you don't put it in at present value, then it isn't the correct net worth statement, and yet we have instructed them in this that ....
- W.L.Jr: Which side are you on, Guy?
- Belvering: Well, originally I was against this ...
- W.L.Jr: Hun?
- Belvering: ... but after I issued it and we started in on it, I didn't think it was good policy to back up on it, although I did recommend that if this was too drastic we amend that so as to read that where the man didn't keep the proper set of books, then we could demand him to make this statement.
- McGill: You mention that - you wrote something about that in December; that is, when I took it up. We had a conference with Mr. McReynolds and Gaston.
- Belvering: I'd like to suggest a further complication here that hasn't been raised. If we follow the ordinary practice that these net worth statements will be open to the state tax officials ....
- McGill: Well, that ought not to be ...
- Belvering: And that makes it even worse, and it's going to be very conspicuous if we do it and don't open it to the state tax officials.
- Overwood: Well, that's the real concern to a great many of them.
- W.L.Jr: I feel this way about the thing. I think it's

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serious and that we ought to have a unanimous front inside the Treasury. Now, the fact that we have done it, with me, weighs very little. I look at it - "Well, if we're going to do it at all, is it right or is it wrong?" The fact that it is out - I think that the United States Treasury can be big enough to admit it's wrong, see? I mean personally I'm perfectly willing - whichever way it tastes the best, we'll do it. If it tastes better to have you do it, we'll do it that way; if it tastes better to have me do it, I'll do it. But here McGill isn't very strong - you yourself, if you had to do it all over again, you wouldn't ....

McGill: No, I think my feeling is a good deal like the Commissioner's. That is, if I were doing it again, I wouldn't do it.

H.A.Jr: That's enough answer for me.

McGill: As a matter of fact, I didn't know the thing was out until it was out.

H.A.Jr: What are you doing at this conference, Mac?

McGill: He's in for the rule.

H.A.Jr: Got any opinion, having listened to all this great wisdom?

McGill: Well, Ros called Herb Gaston and me in one day during this thing. I expressed the opinion that ....

H.A.Jr: Louder.

McGill: I didn't know anything about this when it was issued. There would be considerable doubt in my mind, so far as I understand the case, as to the desirability of originally releasing it. But if it's going to provide us any additional assistance in handling the case of a taxpayer, and particularly in view of the fact that there was a big squawk against it and I don't like to back down in the face of a squawk, I thought it would do more harm than good ....

H.A.Jr: Old bureau head.

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McR: ... to withdraw it.

H. S. Jr: Now, I'll tell you what I would do. If you don't mind, Ros, take this gang into your room and if you can't settle it after this discussion, I'll settle it tomorrow by rule of thumb, see? Take them into your room, and if you fellows can't come to an agreement between now and midnight, I'll settle it at 9:30 tomorrow morning. That's fair, isn't it? What?

Delvering: Could I just ask ...

H. S. Jr: That's fair.

Magill: Sure, that's fair, but ...

H. S. Jr: You go to your room. If you fellows can't settle this thing, why, ...

Magill: Will you put a cracker on that, please?

H. S. Jr: A cracker so fast ....

Magill: Tell them to stay there until they do settle it.

H. S. Jr: Well, I said midnight.

Magill: Because my experience with these boys is that I get them in there, then they just sift out the door one by one.

H. S. Jr: Every one of them go in your room and stay there until it's settled.

Magill: That's fine.

H. S. Jr: How's that?

Delvering: I think you'll get a quick decision.

H. S. Jr: Yes.

Delvering: Could I get your reaction on a ten-line memorandum here?

H. S. Jr: Sure.

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- Belvering: "I transmit a copy of the memorandum" - tell you what it is - "promulgating the rules requiring individual taxpayers having a net income of \$100,000 or over to file a net worth statement." I'm writing this to Mr. Magill. "I wonder how you would feel concerning an amendment to this direction limiting the requirement to those cases where the current records of the taxpayer are insufficient to permit the investigating agent to obtain the information intended to be provided through the medium of the return."
- H. J. Jr: What's that last sentence again?
- Belvering: "I wonder how you would feel concerning an amendment to this direction" - that is, concerning our .... - "limiting the requirement to those cases where the current records of the taxpayer are insufficient to permit the investigating agent to obtain the information intended to be provided through the medium of the return."
- Oliphant: That is, where the investigating agent determines that the records are insufficient.
- Belvering: Yes.
- H. J. Jr: Who determines that?
- Belvering: Well, the agent examining.
- H. J. Jr: Well, this stuff - there isn't a person - I don't think there's a person, not one in a hundred, that's got his records in such shape ...
- Belvering: That you could get this, you mean?
- H. J. Jr: I don't think there is one in a hundred. I'd go along on this if you say that if the examining agent, in going over the returns of the taxpayer, is suspicious that he is withholding necessary information, then it is within his jurisdiction to ask for any and all information necessary in order to get an accurate picture of the net income of the taxpayer.
- Wencel: He can do that now.

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- H.M.Jr: Well, that's what I say - I mean that's how I'd write it.
- Wanchel: Well, under existing law he can do it.
- H.I.Jr: Well, I don't see - then you're simply - then that's the way I'd write it.
- Oliphant: That was the reason for my suggesting that the problem here has been all along the work sheet of the examiner.
- H.M.Jr: I don't see, if a man goes over ... - "Gee, this taxpayer's stuff is in beautiful shape. Everything's there. He's got an accountant, a good law firm advising him, and his stuff is in beautiful shape." There's no question about that. But if he goes in to somebody else and it looks phony, then go the works and ask him for everything he's got.
- Sherwood: Does that mean, Mr. Oliphant, perhaps putting it this way: that this form might be employed, with the approval of the Secretary, in instances where the records were not sufficient for the revenue agent to himself obtain the information.
- Oliphant: Well, I'd want to take a little time to phrase that.
- Sherwood: Naturally.
- Oliphant: Where there are doubts - where the revenue agent determined that there were doubts in his mind as to the accuracy of the return - something of that sort.
- H.M.Jr: Well, then, I'd say it was up to the agent to ask for all information necessary to get a net worth picture of the taxpayer.
- Oliphant: Well, to verify the complete return. Don't limit it to the net worth. All information necessary to verify the return.
- Sherwood: Perhaps authority to require a sworn statement of this nature - that's what we'd like.
- H.M.Jr: You people go into Mr. Magill's office and stay there until you settle this, please.
- Magill: Thank you for that letter. I like that.

February 10, 1938.  
3:50 p.m.

H.M.Jr: Hello.

Operator: Senator King. Go ahead.

H.M.Jr: Hello.

Sen.King: Mr. Secretary?

H.M.Jr: Talking.

Sen.King: Senator King.

H.M.Jr: How are you?

K: Oh, bully. I'll report favorably tomorrow morning's full committee, and I'll get him confirmed tomorrow by noon.

H.M.Jr: I thank you very much.

K: All right, my dear friend.

H.M.Jr: I appreciate it.

K: Goodbye.

February 10, 1938.  
4:22 p.m.

H.H.Jr: Hello.

Operator: Senator Capper.

H.H.Jr: Thank you.

O: Go ahead.

Sen. A. Capper: Hello.

H.H.Jr: Hello Arthur.

O: Sat, Henry, I just wanted to tell you we okayed your man. I didn't - I don't know whether you got the information from any of the others.

H.H.Jr: Well, King called me a little while -

O: Oh, he did. Yes, well, all right, I just -

H.H.Jr: Well I appreciate it very much.

O: Well, he - he's all right. I had a nice talk with him there, and he - Mr. Cliphant along with him. They both made a very favorable impression.

H.H.Jr: Good.

O: All right.

H.H.Jr: Thank you so much.

O: All right. Godbye.



February 10, 1938.

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H.M.Jr: Hello.

Operator: Congressman Johnston. Go ahead.

H.M.Jr: Hello.

Cong.  
Johnston: Morgenthau?

H.M.Jr: Yes, sir.

J: Congressman Johnston.

H.M.Jr: How do you do?

J: I - pretty well today, how are you?

H.M.Jr: Fine.

J: I imagine you're busy. I didn't want to borrow any money.

H.M.Jr: Well you can have some if you want it.

J: I know, but - I tell you, I called you, and maybe I shouldn't have called you, but I just want to take a chance on you.

H.M.Jr: Go ahead.

J: I have a colored gentleman, down there in your Department.

H.M.Jr: Yes.

J: He is - messenger down there. He's got a family and he's educating his girl and his boy. He's only getting \$1200, he's a messenger, got a Civil Service status, and he's a veteran and a colored man.

H.M.Jr: Yes.

J: He used to be a school teacher and a very intelligent gentlemanly fellow.

H.M.Jr: Yes.

J: And I was wondering if you couldn't, kinda fix that up so he could get a little better job. He's only

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getting \$1200 a year, you know, and that's pretty - pretty thin, to get by.

H.M.Jr: What's his name?

J: His name is F. W. Holbert. H-O-L-B-E-R-T. Holbert.

H.M.Jr: I didn't get the last.

J: F. W. Holbert. H-O-L--B-E-R-T.

H.M.Jr: H-O-L--B-E-R-T.

J: Yes. Now, he's worth while - colored chap.

H.M.Jr: I - I understand.

J: And he's worth while and all right.

H.M.Jr: Well, let me look into it. I'll be glad to.

J: You look into that, and see - see Dr. Dolan. Look into that and see if you can't do something.

H.M.Jr: I'll be glad to do it.

J: He's been in the Postal Service in Ohio. Got a Civil Service Status. He's a veteran and trying to get along. He's all right. He comes from my district and very helpful.

H.M.Jr: Well, let me take a look at it, and I'll let you know. I'll do the best I can.

J: All right.

H.M.Jr: Thank you.

J: All right.



## TREASURY DEPARTMENT

WASHINGTON

February 10, 1938

CONFERENCE IN THE OFFICE OF THE SECRETARY  
OF THE TREASURY ON FEBRUARY 10 WITH  
MR. JESSE JONES REGARDING (1) HOUSING  
CORPORATIONS; (2) LOANS TO INDUSTRY;  
AND (3) BANKING CONDITIONS.

-oOo-

Those present besides the Secretary and Mr. Jones were Mr. Taylor and Mr. Bell.

(1) Housing Corporations: Mr. Jones said that he would like to discuss first the matter of setting up mortgage associations to operate under the Federal Housing Administration. He handed the Secretary a copy of a letter dated February 7 which he had written to the President, and a copy of the President's reply of that same date. The letter from the President to Mr. Jones directed the Reconstruction Finance Corporation to organize a National Mortgage Association in Washington with a paid-in capital stock of \$10,000,000 and to provide it with management. The President also asked the Corporation to reserve \$40,000,000 more of its funds as additional capital for the National Mortgage Association of Washington. Mr. Jones also handed the Secretary a copy of proposed press release of February 10 stating that the Reconstruction Finance Corporation had organized the National Mortgage Association

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of Washington with paid-in capital stock of \$10,000,000 and a paid-in surplus of \$1,000,000, and giving the names of the directors in the Association. Copies of the letters and the proposed press release are attached.

(2) Loans to Industry: Mr. Jones said that over the past two or three years the Reconstruction Finance Corporation had received 6,997 applications for loans to industry under Sections 5 and 5(d) of the Reconstruction Finance Corporation Act, aggregating \$617,000,000. Of this total the Corporation had authorized 2,727 loans in an aggregate of \$201,000,000. Since these loans had been authorized 1,063 had been cancelled for one reason or another -- the applicants found at the time the Reconstruction Finance Corporation was prepared to make the loan that they did not need the money, or that they were able to get it from other sources more cheaply. The amount of these cancelled loans is about \$69,000,000. Under the total authorization the Reconstruction Finance Corporation has disbursed \$104,000,000 to 1,456 borrowers. Some of these loans were made on installment plans and are still being disbursed under the approved applications, on account of which the sum of \$9,000,000 is owing. 323 borrowers have paid their loans in full. The Corporation has received all told the sum of \$29,280,000 as repayments and there are outstanding at the present time about \$75,000,000. A copy of statement showing loans to industry as of January 29, 1938, is attached.

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The Reconstruction Finance Corporation has received no new applications for the past six months. In connection with the talk around town about additional loans to industry Mr. Jones said that it was his opinion that if a great deal of care was not exercised we would find the Government making loans which would in effect be subsidizing small inefficient business ventures. He said the Reconstruction Finance Corporation had had a great deal of experience in making loans to industry and that they would not need any more authority; they are prepared to go ahead with this proposition if the President approves.

The Secretary said that as far as he has been able to ascertain, when all this talk is boiled down the Government will assume all of the bad risks. He told Mr. Jones that he had had a good many people tell him that the reason the capital market was now not open was because of the Government regulations and restrictions. He said he has asked an investment banker to give him cases of solvent concerns which want to borrow money and which he would consider good risks from the standpoint of an investment banker, and bring them to him and show him why they can not go into the capital market because of Government red tape. He also said he thought it was a mistake to bring small-business men to Washington, that so far as he has been able to see, nothing constructive had come from the meeting.

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There was some discussion of the industrial loans made by the Federal Reserve banks over the past three years, and it was felt that these banks should stop making further industrial loans. It is not their function, and if the Government is going into this business there is but one organization that should do it -- that is the Reconstruction Finance Corporation. Mr. Jones agreed to study the matter further and report to the Secretary at a later date.

(5) Banking Conditions: Mr. Jones then discussed the bank holding companies. He said that he had been over the list furnished him and he did not see any danger spot except the one in California. He said that the group he had before him showed sound capital of about \$790,000,000 to which should be added \$44,900,000 preferred capital put in by the Reconstruction Finance Corporation and another one and one-half million put in by other interests, which were junior to the Reconstruction Finance Corporation capital, making a total of about \$837,000,000 of sound capital in these institutions. The deposits in these institutions total about \$5,600,000,000.

The Secretary then brought up the McAdoo Bill which apparently does away with holding companies but permits branch banking in the Federal Reserve districts. This would seem to

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be designed particularly to take care of the situation in California. The Secretary said he had talked to both the President and Senator Glass about the matter and neither one felt there was any particular hurry at this time but that they should continue to study the matter and submit a complete report and recommendation at a later date. Mr. Jones then said that he would study the matter further and be ready to report early next week. The Secretary said he would be glad to see him Tuesday morning at 10:30 a.m.

A statement showing the condition of group banks is attached.

SWB

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C O P Y

**RECONSTRUCTION FINANCE CORPORATION  
WASHINGTON**

JESSE H. JONES  
CHAIRMAN OF THE BOARD

February 7, 1938

Dear Mr. President:

If you approve of the course outlined in the attached letter, we can organize "The National Mortgage Association of Washington" immediately. It will mean no new money as we have on hand approximately \$40,000,000 FHA insured mortgages which the new association could at once set about issuing debentures against.

There is a favorable investment market now that we should take advantage of, and care must be exercised in acquainting the public with the soundness and desirability of the debentures for investment.

I think this can best be accomplished by proceeding as outlined in the attached draft.

Sincerely yours,

(Signed) JESSE H. JONES

Chairman

The President  
The White House



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C O P Y

THE WHITE HOUSE  
WASHINGTON

February 7, 1938

Dear Jesse:

In order that the benefits of the new Federal Housing Act may be made immediately available to all who wish to build, and to those who wish to invest in the debentures of national mortgage associations, I wish the Reconstruction Finance Corporation to organize a national mortgage association in Washington with a paid in capital stock of \$10,000,000, and provide it with management. I should also like the Corporation to reserve \$40,000,000 more for capital in other national mortgage associations, or as additional capital for the National Mortgage Association of Washington.

It is my hope that builders, material and supply people working men, prospective home owners, and those who may desire to build private or multiple dwellings for rent or sale will cooperate in taking advantage of this new law.

The obvious effect of such whole-hearted cooperation will stimulate business and provide employment for hundreds of thousands.

Inasmuch as the debentures of national mortgage associations can only be issued against first mortgages that are insured by the Federal Housing Administration, they are backed indirectly, but nevertheless effectively, by the credit of the United States Government.

These debentures will be exempt both as to principal and interest from all taxation (except surtaxes, estate, inheritance and gift taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority. They will afford an attractive and absolutely safe investment for people of small or large means, and should be issued with this in view so as not to be a drain on the Federal Treasury.

Very sincerely yours,

FRANKLIN D. ROOSEVELT (signed)

Mr. Jesse H. Jones  
Chairman  
Reconstruction Finance Corporation  
Washington, D. C.

RECONSTRUCTION FINANCE CORPORATION  
WASHINGTON

February 10, 1958

STATEMENT BY JESSE H. JONES, CHAIRMAN, RECONSTRUCTION FINANCE CORPORATION

At the request of President Roosevelt the Reconstruction Finance Corporation has organized "The National Mortgage Association of Washington" with a paid in capital stock of \$10,000,000 and a paid in surplus of \$1,000,000. The directors of the Association are: C. B. Henderson and Earl Schram, directors of the RFC; Robert V. Fleming, President, Riggs National Bank, Washington, D. C.; Claude E. Hamilton, Jr., General Counsel of the RFC; and W. C. Costello, Assistant to the Chairman of the RFC.

The President has also requested that we hold in reserve an additional \$40,000,000 for the capitalization of other national mortgage associations, or for increasing the capital stock of The National Mortgage Association of Washington."

The organization of "The National Mortgage Association of Washington" completes the machinery for making available immediately the facilities and benefits of the new Federal Housing laws, and it is hoped that builders, material and supply people, and workmen in the building trades will cooperate generally in a building program that will produce homes at the lowest possible cost to prospective home owners, and to those who may desire to build private or multiple dwellings for rent or sale.

NAME OF BANK	LOCATION	NO. OF BANKS	E GROUP BANKS		9 (000 omitted)		TOTAL SOUND	DEPOSITS
			PAR VAL. COMMON	SOUND VALUE COMMON	P R E F E R R E D			
					A	B		
Almours Securities, Inc.	Jacksonville	9	2,550	4,669	-	-	4,669	49,722
American National Bank	Nashville	8	3,430	4,149	-	-	4,149	57,204
Anglo-Natl. Corporation	San Francisco	8	11,075	12,879	4,095	-	8,264	57,204
Atlantic National Bank	Jacksonville	7	3,650	4,040	5,000	-	17,878	212,878
BancOhio Corporation	Columbus	12	7,440	11,232	-	-	4,840	51,508
Citizens & Southern H <sub>o</sub> lding Co	Savannah	7	6,200	10,086	-	-	11,232	106,227
Commerce Trust Co.	Kansas City	4	6,700	12,020	48	-	10,132	109,598
First Bank Stock Corp	Minneapolis	79	19,185	41,282	-	-	12,020	180,304
Old Colony Trust Associates	Boston	14	36,292	106,481	-	-	41,282	390,447
First National Bank	Chicago	7	32,400	73,165	1,000	-	107,481	645,786
First National Bank Trustees	Louisville	8	2,450	7,202	395	-	73,561	245,449
First Security Corporation	Ogden	5	1,869	6,166	225	-	7,427	43,588
First Trust & Deposit Co	Syracuse	12	2,543	398(2)	1,290	15	7,471	67,508
Hamilton National Assoc. Inc.	Chattanooga	12	3,744	5,784	6,628	1,172	7,410	84,071
Hartford-Connecticut Tr. Co	Hartford	5	325	875	1,941	100	7,325	75,797
Marine Bancorporation	Seattle	3	2,525	6,463	-	-	875	5,424
Marine Midland, Inc.	Buffalo	12	22,900	52,016	-	-	6,463	73,962
National Shamut Bank	Boston	7	10,925	29,045	1,920	-	53,838	399,435
Transamerica Corporation	San Francisco	7	56,300	109,906	297	150	29,492	188,489
Northwest Bancorporation	Minneapolis	94	17,563	30,226	460	-	110,355	1,499,042
Trust Co. of Ga. Associates	Atlanta	6	3,860	22,672	9,017	-	39,243	394,365
Union Tr. Co. & Mellbank Corp.	Pittsburgh	24	20,675	225,278	-	-	22,672	38,220
Wisconsin Bank Shares Corp.	Milwaukee	12	8,005	14,769	1,415	100	22,672	725,156
			<u>282,589</u>	<u>790,807</u>	<u>44,890</u>	<u>1,537</u>	<u>837,234</u>	<u>6,590,235</u>

CONFIDENTIAL

February 4, 1938

Mr. Schram

## WEEKLY REPORT ON LOANS TO INDUSTRY UNDER SECTION 5 and SECTION 5d

1. SUMMARY (AS OF JANUARY 29, 1938)

	A P P L I C A T I O N S		A U T H O R I Z E D			C A N C E L L E D	
	Number Rec'd at Head Office	Amount Rec'd at Head Office	Number Loans	Number Borrowers	Amount Authorized	No. Loans Cancelled in Full	Amount Cancelled (Total)
*NRA* loans (1)	1,784	\$351,091,726.62	177*	92 (2)	\$ 16,589,775.00	115	\$ 10,773,278.50
Section 5d - Loans and participations	5,154	465,687,115.05	2,518	2,229	164,022,739.89	939	55,873,417.40
Section 5 - Fishing loans	29	1,081,900.00	26	21	809,400.00	9	79,900.00
Total	6,967	617,860,741.67	2,721	2,342	181,421,914.89	1,063	66,726,595.90
Add: Commitments Outstanding	-	-	6	6	11,326,000.00	-	-
Total, including Commitments	6,967	617,860,741.67	2,727	2,348	192,747,914.89	1,063	66,726,595.90
Add: Amounts to be taken by participating institutions	-	-	-	-	8,868,763.35	-	3,036,674.65
Total, including Commitments and amounts to be taken by participating institutions	6,967	\$617,860,741.67	2,727	2,348	\$201,616,678.24	1,063	\$69,763,270.55

	D I S B U R S E D				R E P A I D		O U T S T A N D I N G		
	No. Loans Com- pletely Disb.	No. Loans Partly Disb.	No. Un- disb.	Amount Disbursed	Amount Undisbursed	No. Loans Repaid in Full	Amount Repaid (Total)	No. Loans Outstanding	Amount
*NRA* loans	62	-	-	\$ 5,816,496.50	\$ -	27	\$ 4,406,818.73	35	\$ 1,409,677.77
Section 5d - Loans and participations	1,379	98	102	98,339,759.73	9,809,562.76	294	24,635,324.19	1,285	73,704,435.54
Section 5 - Fishing loans	15	2	-	719,375.00	10,125.00	2	238,254.42	15	481,120.58
Total	1,456	100	102	\$104,875,631.23	\$ 9,819,687.76	323	\$29,280,397.34	1,335	\$75,595,233.89

\* Represents number of loans to business borrowers (not number of loans to mortgage loan companies).

(1) Including 48 loans, totaling \$4,192,750.00 which were cancelled in full and reauthorized (in the same or different amounts) under Section 5d.

(2) Excludes 74 borrowers to which loans were authorized under both "NRA" and Section 5d. These 74 borrowers are included in the figure for Section 5d.

2. ACTIVITY IN RECENT WEEKS

(Section 5d and Fishing Loans under Section 5 - Excludes "NRA" Loans)

	Number Applications Received at Agencies (Bi-weekly)	Amount Applications Received at Agencies (Bi-weekly)	Number Loans Authorized (incl. Com.)	Amount Authorized (incl. Com.)	Cancelled	Disbursed	Repaid	Amount Outstanding at End of Week
	(in Thous.)	(in Thous.)	(in Thous.)	(in Thous.)	(in Thous.)	(in Thous.)	(in Thous.)	(in Thous.)
October 30, 1937	-	-	-	-	\$ 96	\$ 198	\$ 316	\$ 73,867
November 6, 1937	10	1,090	-	-	24	190	358	73,638
November 13, 1937	10	-	-	-7 (3)	105	58	161	73,534
November 20, 1937	-	538	4	- 410 (3)	1,831	141	290	73,363
November 27, 1937	-	-	5	417	4	220	274	73,314
December 4, 1937	8	1,550	2	36	36	110	224	73,190
December 11, 1937	-	-	4	70	30	1,084	185	74,092
December 18, 1937	7	1,160	1	- 60 (3)	143	443	144	74,351
December 25, 1937	-	-	2	214	16	559	81	74,829
December 31, 1937	2	44	3	108	43	845	309	75,275
January 8, 1938	-	-	-	-	319	101	309	75,068
January 15, 1938	9	1,778	-	- 10 (3)	57	59	267	74,870
January 22, 1938	-	-	2	245	1	149	50	74,269
January 29, 1938	13	1,517	2	93	477	33	519	74,185
Cumulative totals (since 6-26-34)	6,728	\$ 496,095	2,550	\$ 176,150	\$ 55,953	\$ 99,059	\$ 24,873	\$ 74,185
Add "NRA" loans	- (4)	- (4)	177	16,590	10,773	5,816	4,407	1,410
GRAND TOTAL	-	-	2,727	\$ 192,740	\$ 66,726	\$ 104,875	\$ 29,280	\$ 75,595

(3) Decrease due to rescission.

(4) Data not available.

Note: In addition, - "Catastrophe Loans" (under the Act of April 13, 1934, as amended) were authorized to 213 industrial borrowers totaling \$1,711,962.75 of which \$820,590 was cancelled and \$891,372.75 was disbursed.

CONFIDENTIAL: The following letter must be held for release until it is read in the House of Representatives.

STEPHEN EARLY  
Secretary to the President

The President today addressed the following letter to the Speaker of the House of Representatives, requesting a supplemental appropriation of \$250,000,000 to carry the Works Progress Administration and its related programs through the period ending June 30, 1938:

"The Speaker of the House of Representatives.

"Sir:

"I have the honor to submit herewith for your consideration a supplemental estimate of appropriation of \$250,000,000, for relief of the unemployed.

"Emergency and Work Relief: To continue to provide relief and work relief as authorized in the Emergency Relief Appropriation Act of 1937, and subject to all the provisions thereof, \$250,000,000, which amount shall be added to, and proportionately increase the specified amounts of the limitations prescribed under the appropriation made in such Act (50 Stat. 352).

"According to the best estimate available at this time it appears that, during the past three months, approximately three million persons have lost their jobs with private employers. This increase in unemployment could not, of course, have been foreseen at the time the last relief appropriation was under consideration. Hundreds of thousands of needy unemployed persons have recently applied for relief work which could not be provided for them with the funds on hand. It has become increasingly clear that these needs cannot be met unless employment by the Works Progress Administration is increased immediately.

"The funds available on January 1, 1938, would permit employment of an average of only 1,700,000 persons for the six months ending June 30, 1938. The number of persons on the Works Progress Administration rolls today is 1,950,000. Funds available at this time will not only not take care of the additional burden caused by the recent increase in unemployment but will require a sharp reduction in the near future of the number on the Works Progress Administration rolls. This estimate of \$250,000,000 will permit the continued employment for the next five months of the number now on such rolls, and will provide a reasonable measure of relief for those who have recently become unemployed and are in need.

"Respectfully,

"FRANKLIN D. ROOSEVELT"

## MEMORANDUM OF THE DAY'S ACTIVITIES

February 10, 1938

To: The Secretary  
From: Mr. Magill

1. Tax bill

Mr. Vinson informed me this morning that most of the Democratic members of the Ways and Means Committee were satisfied with the proposed tax on closely held corporations with perhaps one or two amendments. These amendments would somewhat increase the reasonableness and equity of the proposal, but would not materially affect its yield. The Democratic members discussed the provisions both morning and afternoon but did not come to a vote.

The complete draft of the bill is now available in a Committee print. Not all of the matters which the subcommittee recommended have been covered, but only two of these omissions are particularly important from the Treasury's point of view. One of these, declaratory rulings, is a long job which the draftsmen have not been able to complete at this time. The other, a provision regarding the statute of limitations, will probably be completed in a week or so and then inserted as an amendment.

2. The \$100,000 form

At the discussion in my office it was agreed that the mimeograph issued by the Commissioner should be withdrawn and a new mimeograph issued in place of it to the general effect that taxpayers may be required to file net worth statements where the information shown by their books is inadequate to enable the examining agent to determine their actual incomes accurately. The Commissioner's office will prepare the new mimeograph and will then submit it to the General Counsel for approval, after which it will be forwarded here for your approval.



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Feb 10, 1938

Chronology relating to Increase in Reserve Requirements Announced July 14, 1936.

On May 15, 1936, the Federal Reserve Board published its annual report which revealed that five members of the Open Market Committee had voted on December 18, 1935 "to consider a more early and substantial increase in present reserve requirements of member banks".

On May 26 the Wall Street Journal reported that the meeting of the Open Market Committee of the Federal Reserve System discussed the problem of a possible increase in excess reserve requirements but adjourned "with no positive decision".

On June 5, 1936 Duffield stated in the Wall Street Journal that "an increase in reserve requirements for Federal reserve member banks as a means of guarding against credit inflation is understood to be discussed with growing seriousness ... action would not come before July 1 and increase in reserve requirements probably would not exceed 25 percent. An increase of this amount would mean on the basis of conditions prevailing June 3 a cut in excess reserves from 2.84 billion dollars to 2.12 billion dollars ... step down necessarily representing reversal of administration's easy money policy".

On June 24 Duffield stated in the Wall Street Journal that the requirements will be increased by 25 percent some time between July 1 and September 30.

On July 6 the Wall Street Journal reported that "high Treasury officials will offer no objections to an increase in member bank reserve requirements if the Board of Governors of the Federal Reserve System decides to order such an increase. This appears to remove any threat of last minute administration interference with Board's policy ... Prior to its June financing Treasury was understood to have been reluctant to see any tampering with reserves".

On July 14 the Federal Reserve System announced its increase in excess reserve requirements. The complete statement (clipped from the August issue of the Federal Reserve Bulletin) is attached.

August 15. Reserve requirements were increased by 50 percent.



Feb 10, 1938

Chronology Relating to the Gold  
Sterilization Policy Announced December 22, 1936

On December 3, 1936 Duffield in the Wall Street Journal definitely predicted gold sterilization and an increase in Federal reserve member bank requirements.

On December 12, 1936 Eugene Duffield in the Wall Street Journal announced that "a definite decision to sterilize gold imports next year probably by Treasury open market borrowing of funds necessary to buy foreign gold has been reached".

On December 14, 1936 Frank Waltman in the Washington Post stated that "Treasury officials have made up their minds to take affirmative action to prevent additional gold imports from further broadening the nation's credit base".

On December 18, 1936 the Washington Post, the Wall Street Journal, New York Sun and the New York Times reported a speech by Mr. Eccles in Boston in which he had stated that "the heavy inflow of foreign funds is undesirable and suggested sterilization as one way of preventing such funds from influencing the credit structure".

On December 22, 1936 the announcement of the sterilization policy was made by the Treasury. (Press statement attached)

Feb 10, 1938

Chronology Relating to the Increase in Reserve Requirements Announced January 30, 1937

On December 3, 1936, Duffield in the Wall Street Journal announced that some plan for increasing member bank reserve requirements early next year would be coupled with a plan to sterilize gold imports.

On December 9, Paul Mallon in the Washington Star predicted an increase in reserve requirements in January.

On the same day the American Banker and the New York Herald Tribune quoted Winthrop W. Aldridge as having advocated an increase in the reserve requirements of member banks up to the limit of the law.

On December 12, a letter of the Goldsmith Washington Service stated that "Reserve requirements of member banks probably will be raised to the full legal limit late in January or early in February".

On December 14, Kilgore in the New York Herald Tribune stated that "The Board of Governors of the Federal Reserve System is prepared to take action to raise reserve requirements early next year".

On December 16, The New York Times referred to the "lift" of reserve requirements by the Federal Reserve Board early next year and stated that it was the general belief that it would result in slight tightening in money rates "... it is likely that heavy borrowing would be necessary by some banks to meet a 50 percent increase in reserve requirements".

On January 30, 1937, the increase in reserve requirements was announced by the Federal Reserve System to the full 33-1/3 percent permitted by law, one-half of the increase to become effective as of the opening of business March 1, 1937, and the remaining half to become effective as of the opening of business on May 1, 1937, (the complete statement attached).


On March 1, 1937, reserve requirements were increased 16-2/3 percent. As a result of the change required reserves of member banks increased from about \$4,600,000,000 to \$5,400,000,000 and excess reserves declined from about \$3,100,000,000 to \$1,300,000,000.

On May 1, 1937, reserve requirements were again increased 16-2/3 percent. As a result of the change required reserves of member banks increased from about \$5,300,000,000 to \$6,100,000,000 and excess reserves declined from about \$1,600,000,000 to \$900,000,000.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 10, 1938.

TO Secretary Morgenthau  
FROM Mr. Haas 

Attached are chronologies relating to the following:

1. Increase in Reserve Requirements Announced July 14, 1936.
2. Increase in Reserve Requirements Announced January 30, 1937.
3. Gold Sterilization Policy Announced December 22, 1936.

Yesterday you asked Mr. White to prepare these for you.

# FEDERAL RESERVE BULLETIN

Vol. 22

AUGUST 1936

No. 8

## REVIEW OF THE MONTH

Excess reserves of member banks have been in extraordinarily large volume for many months as a consequence of an inflow of gold from abroad. The problems raised by these reserves have long been under consideration by the Board of Governors. In order to change a part of the excess reserves into required reserves and thus to eliminate the possibility of this part of the reserves becoming the basis of an injurious credit expansion, the Board on July 14 decided to exercise its power under the Banking Act of 1935 to raise member bank reserve requirements. The considerations that led the Board to adopt this course of action are presented in a statement to the press, which was issued on July 14 for publication the following day, the text of which is as follows:

"The Board of Governors of the Federal Reserve System today increased the reserve requirements for member banks as follows: on demand deposits at banks in central reserve cities, from 13 percent to 19½ percent; at banks in reserve cities, from 10 percent to 15 percent; and at "country" banks, from 7 percent to 10½ percent; on time deposits at all banks, from 3 percent to 4½ percent. These increases, which amount to 50 percent of present reserve requirements, will become effective after the close of business on August 15, 1936.

"This action eliminates as a basis of possible injurious credit expansion a part of the excess reserves, amounting at present to approximately \$3,000,000,000 and expected to increase to nearly three and a half billions by the time this action takes effect. These ex-

cess reserves have resulted almost entirely from the inflow of gold from abroad and not from the System's policy of encouraging full recovery through the creation and maintenance of easy money conditions. This easy money policy remains unchanged and will be continued.

"The part of the excess reserves thus eliminated is superfluous for all present or prospective needs of commerce, industry, and agriculture and can be absorbed at this time without affecting money rates and without restrictive influence upon member banks, practically all of which now have far more than sufficient reserves and balances with other banks to meet the increases. Furthermore, by this action the remaining volume of excess reserves, which will still be larger than at any time in the System's history prior to the recent large inflow of gold, is brought within the scope of control by the Federal Open Market Committee which, as constituted by the Banking Act of 1935, consists of the members of the Board of Governors and five representatives elected regionally by the Federal Reserve banks.

"Excess reserves are the funds held by member banks on deposit with the Federal Reserve banks in excess of the amounts required by law. Total reserve deposits of member banks at the present time are \$5,900,000,000, of which \$2,900,000,000 are required reserves and \$3,000,000,000 excess reserves. According to present indications it is estimated that total reserves are likely to increase by as much as \$400,000,000 before the increase in reserve requirements goes into effect on August 15, bringing the estimated total of reserves at that time to approximately \$6,300,000,000. By the present action required reserves will be increased by

\$1,450,000,000, or from \$2,900,000,000 to \$4,350,000,000. This will leave excess reserves of approximately \$1,900,000,000. Therefore, even after the increase in reserve requirements has gone into effect, member banks will still have a larger volume of excess reserves than at any time prior to the recent large gold imports.

Present excess reserves of approximately \$5,000,000,000 are likely to increase to a new peak of nearly three and a half billions by the time the increase in reserve requirements becomes effective because of an expected reduction in Treasury balances and a decrease in money in circulation, which at the present time is exceptionally high owing to the large disbursements in connection with the cashing of veterans' service bonds.

The portion of existing excess reserves, which will be absorbed by the Board's action, if permitted to become the basis of a tenfold or even larger expansion of bank credit, would create an injurious credit expansion. It is for this reason that the Board decided to lock up this part of the present volume of member bank reserves as a measure of prevention on the one hand and of further encouragement to sound business recovery and confidence in the long-term investment market on the other hand.

The present is an opportune time for the adoption of such a measure. While there is now no excessive credit expansion, since the excess reserves have not been utilized, later action when some member banks may have expanded their loans and investments and utilized their excess reserves might involve the risk of bringing about a severe liquidation and of starting a deflationary cycle. It is far better to sterilize a part of these superfluous reserves while they are still unused than to permit a credit structure to be erected upon them and then to withdraw the foundation of the structure.

Thorough surveys made by the Board show that the reserves are so well distributed

that practically all member banks are in a position to meet the increased requirements either by utilizing their excess balances with the Reserve banks or by drawing upon their excess balances with correspondent banks.

In the light of recent experience and in view of the fact that after the increase in requirements goes into effect member banks will still have approximately \$1,900,000,000 of excess reserves, the Board is convinced that this action will not affect easy money conditions now prevailing. It does not constitute a reversal of the easy money policy which has been pursued by the System since the beginning of the depression. Rather it is an adjustment to a changed reserve situation brought about through the extraordinary inflow of gold from abroad.

The prevailing level of long-time interest rates, which has been an important factor in the revival of the capital market, has been due principally to the large accumulations of idle funds in the hands of individual and institutional investors. The supply of investment funds is in excess of the demand. The increase in reserve requirements of member banks will not diminish the volume of deposits held by these banks for their customers and will, therefore, not diminish the volume of funds available for investment. The maintenance of an adequate supply of funds at favorable rates for capital purposes, including mortgages, is an important factor in bringing about and sustaining a lasting recovery.

The reduction of excess reserves to an estimated level of approximately \$1,900,000,000 brings them within the scope of control through the System's open-market portfolio which consists of \$2,430,000,000 of United States Government securities. Frequent changes in reserve requirements of member banks should be avoided because they affect all banks regardless of their reserve position. At this time an increase can be made optically because reserves are widely distributed. Unless large additional increases in reserves

occur through gold imports or otherwise, no occasion for further adjustments in reserve requirements is likely to arise in the near future.

For current adjustments of the reserve position of member banks to changes in the credit situation the Reserve System should continue to rely on the traditional methods of credit control through discount policy and particularly through open-market operations. By the present action excess reserves will be reduced to within the amount that could be absorbed through open-market operations, should such action become desirable. Conversely, should conditions develop requiring expansion of reserves, they could be increased through open-market operations.

The Board of Governors believes that the action taken at this time will give assurance for the continued encouragement of full recovery.

The supplement to the Board's Regulation D, which officially establishes the new reserve requirements, is printed on page 624 of this issue of the BULLETIN.

The present volume of excess reserves has resulted from a number of developments of the period since the autumn of 1929. Additional reserves were created from 1929 to 1933 through purchases of

United States Government securities by the Federal Reserve banks as a part of the System's policy to ease money conditions with a view to counteracting deflationary forces and encouraging recovery. In the autumn of 1933, when excess reserves had increased to \$800,000,000, the System discontinued its open-market purchases. Since that time the principal source of additions to member bank reserves has been importation of gold from abroad. These facts are illustrated by the chart, which shows United States Government security holdings of the Federal Reserve banks, cumulated gold imports, and excess reserves from 1932 to 1935. It is clear from the chart that until the autumn

of 1933 increases in excess reserves corresponded to purchases of United States Government securities by the Reserve banks, and after that time to other factors, principally gold imports.

In addition to gold imports member bank reserves since January 1934 were increased by additions to the monetary gold stock from domestic production and other domestic sources, amounting to about \$400,000,000, and by the issuance of about \$700,000,000 of silver coin and currency by the Treasury.



All figures are in billions of dollars. United States Government securities are shown as of August 14, 1935. Cumulated gold imports are shown as of August 14, 1935. Domestic gold production and other domestic sources are shown as of December 31, 1933.

Of the reserves originating from these sources \$900,000,000 was employed by member banks in meeting an increase in the demand for money in circulation and \$1,000,000,000 in meeting an increase in required reserves arising from the growth in member bank deposits. Changes in the various factors affecting the volume of member bank excess reserves from 1930 to date are shown in the chart on page 632 of this BULLETIN.

Excess reserves increased to a maximum of about \$3,300,000,000 in December 1933. After that they declined in consequence of a large increase in Treasury balances with Federal Reserve banks and during the first half of 1935 were generally less than \$3,000,000,000. They fluctuated considerably during

\* For statistics made on a later date see table on p. 417.

the year largely in response to Treasury operations. In the last week of July excess reserves again exceeded \$3,000,000,000, representing an increase of \$1,000,000,000 since the middle of June, reflecting principally payments by the Treasury in cashing veterans' adjusted service bonds. Continued payments by the Treasury from its balances with Federal Reserve banks are expected further to increase member bank reserve balances during the next few weeks.

As indicated by the Board in its statement, the increase in reserve requirements is not a reversal of the easy-money policy pursued by the System since the beginning of the depression, and the Board is convinced that it will not affect easy money conditions now prevailing. Developments since the Board's announcement of the increase in reserve requirements have been in accordance with its expectations. Money conditions have continued to be easy.

After the action of the Board goes into effect the member banks will still have nearly \$2,000,000,000 of excess reserves which could serve as a basis of credit expansion. The volume of member bank deposits which this amount of excess reserves will support on the new basis of reserve requirements is approximately \$16,000,000,000, representing a 50 percent increase in the present volume of member bank deposits, an amount that would be ample to meet all present and prospective demands for bank credit for business recovery.

This volume of potential additional deposits contrasts with the amount of deposits that could have been supported by the excess reserves prior to the Board's action. On the basis of \$3,500,000,000 of excess reserves the increase in deposits at the old ratio could have been as much as \$42,000,000,000, an increase which would have considerably more than doubled the existing volume of deposits.

The decrease in possible expansion since the Board increased requirements is due not only to the elimination from excess reserves of about \$1,500,000,000 but also to a reduction in the ratio of expansion on the basis of the remaining reserves. In recent years this ratio has been approximately 12 to 1, while after the new requirements go into effect it will become 8 to 1. The 12 to 1 ratio is one that has actually prevailed between required reserves and total deposits subject to reserve requirements. The average amount of reserves that member banks were required to hold against deposits subject to reserves in March 1936 was 8.4 percent. After the Board's action goes into effect the percentage will be approximately 12.6 percent. That is, broadly speaking, every \$100 of deposits under the old requirements was supported by \$8.40 of required reserves, or putting it the other way, every dollar of required reserves supported \$12 of member bank deposits, while under the new requirements every dollar of required reserves will support only \$8 of deposits. The Board's action, therefore, in addition to removing a superfluous amount of existing reserves, has placed a lower limit on the possible expansion on the basis of the remaining reserves, and consequently has increased the effectiveness of the System's control of future credit expansion.

An important reason why the increase in reserve requirements could be made at this time without a tightening effect on credit conditions is the prevailing wide distribution of excess reserves among all classes of member banks in all parts of the country and among individual member banks. The following table shows the distribution of excess reserves among the various classes of member banks in the first half of July, together with estimates made on July 31 for this distribution in the last half of August, after the increase in requirements will become effective:

Distribution of  
excess reserves

## TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Tuesday, December 22, 1936.  
12/21/36

Press Service  
No. 9 - 20

The Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, announces that he proposes, whenever it is deemed advisable and in the public interest to do so, to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department.

This will be accomplished by the sale of additional public debt obligations, the proceeds of which will be used for the purchase of gold, and by the purchase or redemption of outstanding obligations in the case of movements in the reverse direction.

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X-9805

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers  
of Sunday, January 31, 1937

January 30, 1937

The Board of Governors of the Federal Reserve System today increased reserve requirements for member banks by  $33\frac{1}{3}$  percent, as follows: On demand deposits, at banks in central reserve cities, from  $19\frac{1}{2}$  to 26 percent; at banks in reserve cities, from 15 to 20 percent; and at "country" banks, from  $10\frac{1}{2}$  to 14 percent; on time deposits, at ~~all banks~~, from  $4\frac{1}{2}$  to 6 percent. For the purpose of affording member banks ample time for orderly adjustment to the changed requirements, one half of the increase will become effective as of the opening of business on March 1, 1937, and the remaining half will become effective as of the opening of business on May 1.

The following table shows what the reserve requirements are at present, what they will be from March 1 through April 30, and what they will be commencing May 1:

Reserve Requirements.  
(percent of deposits)

Class of bank	Demand Deposits			Time Deposits		
	Present Requirements	March 1 through April 30	May 1 and after	Present Requirements	March 1 through April 30	May 1 and after
Central reserve city	$19\frac{1}{2}$	$22\frac{5}{4}$	26	$4\frac{1}{2}$	$5\frac{1}{4}$	6
Reserve city	15	$17\frac{1}{2}$	20	$4\frac{1}{2}$	$5\frac{1}{4}$	6
"Country"	$10\frac{1}{2}$	$12\frac{1}{4}$	14	$4\frac{1}{2}$	$5\frac{1}{4}$	6



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This action completes the use of the Board's power under the law to raise reserve requirements to not more than twice the amount prescribed for member banks in section 19 of the Federal Reserve Act.

The section of the law which authorizes the Board to change reserve requirements for member banks states that when this power is used it shall be "in order to prevent injurious credit expansion or contraction." The significance of this language is that it places responsibility on the Board to use its power to change reserve requirements not only to counteract an injurious credit expansion or contraction after it has developed, but also to anticipate and prevent such an expansion or contraction.

By its present action the Board eliminates as a basis of possible credit expansion an estimated \$1,500,000,000 of excess reserves which are superfluous for the present or prospective needs of commerce, industry, and agriculture and which, in the Board's judgment, would result in an injurious credit expansion if permitted to become the basis of a multiple expansion of bank credit. The Board estimates that, after the full increase has gone into effect, member banks will have excess reserves of approximately \$500,000,000, an amount ample to finance further recovery and to maintain easy money conditions. At the same time the Federal Reserve System will be placed in a position where such reduction or expansion of member bank reserves as may be deemed in the public interest may be effected through open-market operations, a more flexible instrument, better adapted for keeping the reserve position of member banks currently in close adjustment to credit needs.

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As the Board stated on July 15, 1936, in its announcement of the previous increase of reserve requirements, excess reserves then held by member banks had resulted almost entirely from the inflow of gold from abroad rather than from the System's credit policy. Since that time the country's gold stock has been further increased by a large inflow of gold, amounting to \$600,000,000. Between the time of the banking holiday in 1933 and December 24, 1936, when the United States Treasury put into effect its program for preventing acquisitions of gold from adding to the country's banking reserves, the gold inflow aggregated approximately \$4,000,000,000. This inflow of gold had the effect of adding an equal amount to the reserves of member banks as well as to their deposits. The total amount of deposits in banks and the Postal Savings System, plus currency outside of banks, is now \$2,000,000,000 larger than in the summer of 1929.

The present volume of deposits, if utilized at a rate of turnover comparable to pre-depression levels, is sufficient to sustain a vastly greater rate of business activity than exists today. In order to sustain and expand recovery, the country's commerce, industry, and agriculture, therefore, require a more complete and productive utilization of existing deposits rather than further additions to the amount now available.

The excess reserves of about \$1,500,000,000 eliminated as a base of further credit expansion by this action could support an increase in the supply of money, in the form of bank credit, which beyond any doubt would constitute an injurious credit expansion.

The present is an opportune time for action because, as was the case when the Board announced its prior action last July, excess reserves are widely distributed among member banks, and balances with correspondent banks are twice

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as large as they have generally been in the past. All but a small number of member banks have more than sufficient excess reserves and surplus balances with other banks to meet a 33-1/3 percent increase in reserve requirements. As of January 15, the Board's survey indicates that only 197 of the 6,367 member banks lacked sufficient funds to meet such an increase in reserve requirements by utilizing their present excess balances with the reserve banks and not more than one-half of their balances with correspondent banks. On this basis these 197 banks, in order to meet the full requirements, would have needed an additional \$123,000,000, of which \$110,000,000 would have been needed by banks in central reserve cities, \$11,000,000 by banks in other reserve cities and only \$2,300,000 by country banks.

Another reason for action at this time is that, as stated by the Board last July, "it is far better to sterilize a part of those superfluous reserves while they are still unused than to permit a credit structure to be erected upon them and then to withdraw the foundation of the structure."

The available methods of absorbing excess reserves have been under consideration. It has been decided that under present circumstances changes in reserve requirements should precede reduction in reserves through open-market operations, because changes in requirements affect all banks, regardless of their reserve position, and consequently should be made while reserves are widely distributed.

This action increases reserve requirements to the full extent authorized by law. It is not the present intention of the Board to request from Congress additional authority to absorb excess reserves by means of raising reserve requirements.

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It is the Board's expectation that, with approximately \$500,000,000 of excess reserves remaining with the banks, credit conditions will continue to be easy. At the same time the Reserve System will be in a position to take promptly such action as may be desirable to ease or tighten credit conditions through open-market and rate policy.

In announcing the previous increase in reserve requirements, the Board said:

"The prevailing level of long-time interest rates, which has been an important factor in the revival of the capital market, has been due principally to the large accumulations of idle funds in the hands of individual and institutional investors. The supply of investment funds is in excess of the demand. The increase in reserve requirements of member banks will not diminish the volume of deposits held by those banks for their customers and will, therefore, not diminish the volume of funds available for investment. The maintenance of an adequate supply of funds at favorable rates for capital purposes, including mortgages, is an important factor in bringing about and sustaining a lasting recovery."

The same considerations apply with equal force at the present time. The Board's action does not reduce the large volume of existing funds available for investment by depositors, and should not, therefore, occasion an advance in long-term interest rates or a restrictive policy on the part of institutional and other investors in meeting the needs for sound business, industrial and agricultural credit.

In view of all these considerations, the Board believes that the action taken at this time will operate to prevent an injurious credit expansion and at the same time give assurance for continued progress toward full recovery.

RE GOLD MOVE

February 11, 1938.  
9:30 a.m.

Present: Mr. Taylor  
Mr. Gaston  
Mr. Upham  
Mr. White  
Mr. Haas  
Mr. Lochhead  
Mr. Goldenweiser  
Mr. Harrison  
Mr. Knoke  
Mr. Gordon Rentschler  
Mr. Robert Warren  
Mr. Walter Stewart  
Mr. Riefler  
Mr. Eccles

H.W.Jr: Where is your boss, Goldenweiser?

Golden.: I don't know. He said he'd meet me here at 9:30.

H.W.Jr: Well, why don't we start? Mr. Eccles knows what we're going to talk about.

What I asked you people to come down and give me advice on frankly, the way you have in the past - what we talk about here is for my benefit only, and the benefit of the President. And that is the question of gold sterilization. And what we've been talking about during the week is the possibility of discontinuance of sterilizing newly-mined domestic gold. And I'd like you to feel perfectly free to say here - you people have been here before - you know that we can talk in the room and nothing is said afterwards. You can talk on that or anything that would - that I am responsible for. I mean I don't want to get into a lot of subjects which I am not, as Secretary of the Treasury, responsible for. But anything that comes under my responsibility - I'd be more than pleased. But that's what we asked you to come down for.

Now, I don't want - anybody that would like to start it - I don't like to embarrass him, but I'd like to call on Dr. Warren first, because it was your article that is more or less responsible for this program, as far as I am concerned. I wondered how you felt since

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you had written the article. Do you mind my calling on you?

Warren: No, sir.

H.M.Jr: If you mind, I'll start with somebody else.

Warren: The first consideration, I think, would be the magnitude. As I have the figure in mind, the newly-mined gold would run to 125 to 150 million dollars a year.

H.M.Jr: 180.

Warren: 180.

H.M.Jr: About 15 million a month.

Warren: 15 million a month. Why, I should say that the question, as it appeared to me at first, is that this magnitude is not so great as to be a dominant factor in credit development, and the question that would immediately arise in my mind would be as to the desirability of drawing a distinction of that sort between the monetary qualities of domestic gold and the monetary qualities of ....

(Eccles comes in)

H.M.Jr: We just got started.

Warren: ... and the monetary qualities of gold in general. Quantitatively, I don't think that it presents a problem of major magnitude. In quality, I think that there is something on which the grounds have to be rather carefully explored as to its repercussions on the general status of gold in a money system.

H.M.Jr: Well, do you mind if I ask you some questions?

Warren: No, sir.

H.M.Jr: Would you - well, are you satisfied - put it this way - that we do nothing about gold sterilization at this time?

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Mr. Secretary, I couldn't say that I'd be satisfied to do nothing about it, but I should be very hesitant to alter a policy which was undertaken in harmony with the policy of other countries in the tripartite agreement, particularly England, without making a very deliberate effort to harmonize that change in program with the de facto programs elsewhere. Not so much that there is a conflict of fact, but that there might be a conflict of attitude, and the attitude particularly of the British authorities toward gold and its monetary relationship is not very clear. It has never been defined, in the sense that they are still operating under old statutes which have not been modified; but in fact they are operating on a scheme which is quite similar to that under which we have been operating for the past year. And any alteration of that de facto relationship would seem to me to have to be approached as part of a mutual problem.

Now, it is quite true that both the United States and England have at various times deauthorized gold as special assets. Such a deauthorization of a category of gold would certainly not be inconsistent with the record of the arrangement. Nevertheless, to regard one kind of gold, that produced within your borders, as having a virtue or quality, even if it is mostly a quantitative virtue, distinct from gold in general - that would present itself to me as a problem, and one on which I wouldn't be able to give an answer right at this time.

I think that we could approach the question, though, from those two angles: First, the quantitative amount and its calculable quantitative effects; and second, the question of the general desirability of making a distinction between domestic and foreign gold.

Well, what I'm trying to do - it's hard for me - is, I don't want to sell the idea, you see - I mean as people come down to ... but maybe as you get along - maybe you'll get a little warmer to the subject as you hear arguments which you may or may not agree with.

Stewart, do you want - you ready to say something?

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- Stewart: I don't think I'm a good one to follow Mr. Warren, Mr. Secretary. I'm too close to him. I agree very much with what he says in the analysis of the problem. I'd like to speak a little later.
- A.M.Jr: All right. Maybe somebody wants to talk without being called on.
- Harrison: Mr. Secretary, I wonder if it would clarify our thoughts if you felt free at this stage of the game to let us know a little bit about what your objective is in the possibility of doing this.
- H.S.Jr: Well, I can tell you very definitely what I've got in my mind, but I hate to be in the position of trying to sell the thing.
- Harrison: I don't think it is - I think if it is an individual isolated step, you might get one reaction; if it is a part of a general objective, you might get an entirely different reaction from the group.
- H.S.Jr: Well, I'm perfectly willing to talk. The reason that I am interested at this time in considering doing something is this. In the first place, I think we've got to go back to the time when we did it, and I think one of the principal reasons why we decided to sterilize gold at the time that we did was that we felt that it was coming in and distorting our own banking picture and we were at the mercy of the rest of the world as to how much gold they would or would not send in here and it took the control of our own situation away from us; and through sterilizing gold we removed gold as a factor in our own internal domestic economy and made it possible for the Federal Reserve System to do what they thought was necessary under those conditions. I think that was the motivating thought back of our sterilizing the gold.
- wouldn't you (Eccles) say that's about a correct statement?
- Eccles: Yes.
- A.M.Jr: What?
- Eccles: Yes, that was the - that was the principal discussion between you and me at the time.



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H.M.Jr: At that time.

Well now, since that's happened - it's a little over a year - we've sterilized about a billion and a quarter of gold, and that is ample as a cushion against any possible call that might be on us from the rest of the world for gold - plus the billion eight that we have in our Stabilization Fund. So right there we've got three billion dollars worth of gold. And Mr. Eccles says if necessary he could supply a little more, if called on. But without calling on the Fed, we have three billion dollars available for any possible demand on us from the rest of the world, which as far as anybody can see is more than enough.

Now then, I'm going to talk very frankly and, as I say, very confidentially, as long as Mr. Harrison asked me to. Now we come to the fact - here we've got about \$15,000,000 worth of gold a month coming in, and, going back to July 1, 1936 - and, again going back again, the Administration has done a number of things to put the brakes on, and the only major step that the Treasury has taken, in cooperation with the Federal Reserve, is releasing the \$300,000,000 worth of sterilized gold - as any indication towards the rest of the world that we want to ease up the brakes on deflationary action which we have taken. Now, the thought in my mind is that by stopping the sterilizing of newly-mined gold, that is an indication that the Administration wants to ease up the brakes.

Now, furthermore, there are, as I realize, two schools of thought. One school believes that if you let the newly-mined gold go to work, it has an effect on commodity prices. I am not - I have never permitted myself any monetary hobbies, so I'm not going to say whether they are right or wrong. But there is a distinct school of people that think it would; I don't know. I do think that at this time if the world could get the idea from such action taken by Mr. Roosevelt's Administration that we want to see a gentle rising in both domestic and world commodities, that would be a correct interpretation that they might give to this move, and that is what we would like to see. I mean we think it is terribly important at

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this time to stop this downward spiral if we can. And through this throwing \$250,000,000 more into the pot to take care of a very desperate unemployment situation, plus doing this over the week-end - if the two things were considered simultaneously - they were not considered separately, were considered simultaneously - it would be some indication of how we felt.

Also, I think there's been very much misunderstanding about what the President said about prices again, and there could be a little explanation of the difference between most commodities and the prices of so-called monopolies like steel and cement and that sort of thing.

And I don't - if we decide to do it, Mr. Eccles and I would do it together, the two organizations announcing it the way we did the original step, to show that the Federal Reserve and the Treasury are together, which is - I always think that that in itself is as important as any action we take; in fact, I think it is more important - to serve notice that the two organizations are moving in the same direction rather than any individual action. And as I say, there wouldn't be any great trumpets or fanfare, but we'd just do it as a straw in the wind as to how we like to see things move.

And certainly our English cousins, without even having to ask them, I know would be most pleased, because they are much more commodity-minded than we are. Reuter's commodity index is not acting as well as our own, and I know that they are very much disturbed about it in the whole sterling area, and anything that we do to help world commodity prices would be most pleasing to the English, I mean, and would help them.

And again - I mean I'm throwing out things - there is the school of thought that says, "Well, not only do you take all the world's gold, but you lock it up and you don't give prices a chance to go. And now the hell do you ever expect us to get back if you not only take the gold, but lock it up and won't give it a chance to have a play?"

So as far as - I would be 99 percent sure that this

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thing would be most pleasing to both the British Treasury and the Bank of England. I am more sure of the Treasury than I am of the Bank of England; but I am sure it would be pleasing to the British Treasury and the British Government.

Well, that gives you, as far as I can tell, I think, a very frank statement of everything that I have in mind. And I don't know - as I say, I am confining myself entirely to this particular subject. It doesn't mean that my head is in the sand or I don't know what's going on around me; but this is Treasury responsibility and I think I ought to take care of my own responsibilities first before I try to go outside of my path.

But does that answer your question?

Harrison: Yes, it does, but ....

Warren: Mr. Secretary, ...

Harrison: Just one more thing. I judge from what you say, then, that it would not necessarily imply what your policy would be if the gold movement should turn again and we should begin to get imports of gold. I mean, in other words, this action wouldn't necessarily be taken as an implication of your position on imports of gold for the future.

H.A.Jr: No - I mean this is just - here we've got \$15,000,000 worth of gold coming out of the ground every month. I think it is - if we either - possibly looked at it originally, we might not have sterilized that at all. But at the time we felt, "Well, let's do the whole thing rather than do it - be misunderstood." I mean, if you're going to do this thing and make it possible for the Federal Reserve to control the domestic situation, go the whole hog. But now, to protect ourselves against political upsets in the rest of the world, we've got a three billion dollar cushion, and I don't - I think that, like all these things, these situations change so fast. Last March the world was worried we're going to drop the price of gold; this September they're worried we're going to raise the price of gold. I don't think - I never want to commit myself beyond the day, because you

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don't know what's going to happen. I mean here's Switzerland now working out the hot money program for us very nicely; last night we got a message that they're going to get out a conversion issue and not let anybody but Swiss subscribe to it.

So, to answer you - I mean for the moment I haven't anything else in mind. I've told you everything I've got in my mind. But this is what we're considering.

Warren: Mr. Secretary, may I - I don't wish to monopolize the discussion; but, to refer to this original quantitative amount, if the announcement is made in the form of a statement that henceforward or until further notice, or ~~or~~ definitely, all domestic production will not be sterilized, it is a commitment which presently, with a reversal of the flow of gold, might become troublesome. The same quantitative effect would be obtainable by the progressive desterilization of an amount equal to the domestic production, but not drawing a distinction between the domestic production and other gold, not in any way committing the inactive gold fund to an indefinite program; simply done in the same quantitative amount.

Now, that, of course, would have the advantage of not binding the action to the future. It would lose something of the psychological impact, but it would leave the Treasury rather freer for the future.

H.M.Jr: But I think what you said - I think the psychological effect would be less.

Warren: That is true; the psychological effect would be less, and different.

H.M.Jr: Yes.

Harrison: Do you think there would be much psychological effect from an announcement of a cessation of sterilization of domestic production?

Warren: I don't know.

Harrison: I don't know either. I was just wondering what your reaction was.

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Warren: I really don't know.

Stewart: The measure of that depends on the position you find markets in at the time the announcement is made, and you will frequently not attribute to the act the consequence which is really due to it; if it is caught with other things, it appears to have very little influence. I think it is as effective as frequent reductions in discount rates would be; it is a gesture toward a situation, and, as the Secretary describes it, that is partly what is intended. It is a gesture. Certainly in terms of magnitude it couldn't ....

A.W.Jr: In terms of what?

Stewart: In terms of the magnitude of its influence in any quantitative way, it couldn't have any effect, and the risk of it, I should think, from the standpoint of effect, would be that you might have the thing regarded as a gesture involving small magnitude, have a brief appearance of influence, and then have it disappear.

Warren: Another psychological effect that I would mention, without being able to have an opinion on it, is that it is possible that there would be a reverse psychological effect; that is, that this drawing a distinction between the monetary quality of domestic gold and the monetary quality of gold in general might produce psychological effects abroad on which, as I say, I wouldn't have any opinion; and yet, I'd raise the question if there wouldn't be countervailing influences. It might raise the question, for instance, as to whether the policy of drawing such a distinction between domestic and foreign gold might not be carried very much further.

A.W.Jr: Well, how much further could you do it?

Warren: Well, to the extent of a price differential, let's say, or even to the extent of opposing certain barriers ....

Stewart: I feel pretty certain that would be an effect in London. What they will do is think in terms of a parallel with our silver policy. They'll say, "This is the first step. It is all consistent, all clear."

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They're going to deal with domestic gold as they have with silver, and we run the risk now of finding ourselves with gold which we mayn't be able to sell later at the existing price, or perhaps not at all." You could easily - I don't say this will happen, but they might perhaps take some of this hoarded gold and say, "Now would be a good time to part with it." It is conceivable that you could have a return movement started on that sort of thing. I only say that because I don't think the whole policy of hoarding is an intelligent thing; I think it is a nervous, excited, irrational thing. It is so irrational that you can't predict what men will do when something that they don't understand happens in another place.

Kieffer: Is another suggestion in order?

W.C.C.: Anything is in order, as I say, as long as it comes under my responsibility; but I don't want you to talk about capital gains tax today, if you don't mind.

Mentschler: Is that for me?

W.C.C.: Mentschler, wherever the shoe pinches.

Kieffer: I have three observations.

First, as a long range point of view, I think that it would be good psychological effect to be able in some way to say to the world that we are not locking up all the new gold and preventing it from working, that we contemplate a certain amount of the new gold production incorporating itself in the credit structure. Personally, I would think that for this country, on the average and over the long run, it would be more than 15 millions a month; I would say it would be 20 or 25 or something like that. So that a formula or program which gave that implication of growth, I would like.

Second, in terms of this specific thing at this specific time, I would be worried about its immediate effect having a kickback. The essence of the problem is what our bank reserves are, and the excess reserves

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are a billion four. People would say that adding 15 millions a month to that amount is futile and it is not an awfully large amount. And I am quite sure that Mr. Stewart is right; so far as the London reaction is concerned, you might get a reverse reaction.

Now, the thing that impresses me most in what you said, about the necessity of expressing an attitude toward gold, toward commodities, and its being acceptable to our British cousins, gave me the suggestion I would like to throw out. When I was over there in December, some of the people in the Bank spoke to me about the necessity of letting some gold go to work, the fact that their bankers' balances had not increased in five years, and that they very definitely wanted to take an attitude toward commodities. So I was wondering, would it be possible to make this a simultaneous business in the London and New York markets? I think that would have a very different effect. If London and New York both said that "we're going to let bank reserves increase by 15 millions a month or 20 millions a month in each country," or proportionately, or something like that, that the two countries that are practicing free currencies would let gold go to work in their credit structure, that, I think, would have just the psychological effect you want. It would be common and it would give an indication to the world of an attitude. And I think that it would have at this particular juncture - February, 1935 - any net results of that psychologically would be good ones.

I would hesitate to tie it up with the distinction between foreign and domestic gold. I would rather say that from now on we're going to let gold go into the credit structure ...

W.S.Jr: Into what?

Meiler: ... we're going to let gold go into the credit structure at the rate of 20 millions a month, some progressive amount like that. I think I'd make it a little larger than domestic production. And if the British did the same thing, made a simultaneous announcement, that, I think, would avoid the big danger of having this ascribed to a differentiation

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between the way we treat the domestic and the way we treat foreign.

Golden.: Mr. Secretary, may I say a word?

H.M.Jr.: Please.

Golden.: It seems to me the only real distinction between domestic gold and foreign gold, just the same as with silver, is in its relation to a domestic industry. And if there was - if it was public policy to help the domestic industry in some way, there would be a good sound reason for doing something different for domestic gold than for foreign gold. But here is an action which would make a distinction between two kinds of gold without doing the domestic industry any good whatsoever. The domestic industry wouldn't benefit from it; they'd get the same prices they were getting before. And it seems to me that is the only ground on which that distinction would stand up. I don't think it would stand up psychologically and any other way. That is why I feel the same way as Mr. Riefler, that if you feel that some of the gold ought to go into the picture, the thing to do is to decide on the amount either as a lump sum or as a monthly amount, and announce it. But bringing in this factor of uncertainty as to the exact amount and making a distinction between domestic and foreign when the domestic people won't benefit by it, doesn't seem to me to be the very best policy.

H.M.Jr.: Do you want to say something, Rentschler?

Rentschler: I'd want to wait.

H.M.Jr.: Oh, you want to wait.

Lochhead: Of course, there is no uncertainty as to amount. It might vary a million dollars in some month, but ....

Golden.: Well, I'm not stressing that point very much. It just happens to be 15; might be something less; hasn't always been 15.

Lochhead: No, but this thing, for instance, the last two quarters has been exactly 45 million each quarter;



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that is, over a period of six months. So you can see there is not any sudden change. When we started to sterilize, we didn't know whether we were going to get two million a week from a brood or a hundred million. But on this it is easy to calculate the amount you're going to get in.

- Taylor: Suppose you did it on that basis, Dr. Goldenweiser. Would you in your comments on your action call attention to the fact that that happened to more or less coincide with the amount of your domestic production? Do you think that that - in other words, would that meet the criticism that you have in your mind, Dr. Warren?
- Warren: I would prefer to - if it were decided to release a certain amount of gold per month, I would prefer not to give the basis on which that was done and let people make their own inferences. If the figures ran rather close to the domestic production, a certain number of people would draw that inference. But I would not bind myself to it.
- Taylor: Well, that's what I meant - not bind yourself to that, but have it brought out in conversation - "By the way, it does just happen to add up to approximately this amount."
- Riefler: Why not make it a different amount?
- Belmont: That's why I'd insist on making it a rather large amount.
- Riefler: Why not make it a different amount, so ....
- Golden: I'd make it a larger amount so they wouldn't draw that inference. And I don't want to do too much talking, but I don't see what you'd gain by tying it to something that has no particular reality, unless it were to support a home industry, and you're not going to do anything to support it.
- H. A. Jr.: You see, Dr. Goldenweiser - let's be entirely frank - I think you belong to the school that does not believe that gold has any effect on the price of commodities.
- Golden: No, I wouldn't want to say that, Mr. Secretary. I

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don't think that it has any direct effect in itself. The price of gold has a direct relationship with the price of commodities, particularly the price of gold in any one country as against another country. I wouldn't say that the amount of gold and the amount of reserves has no relationship to the price of commodities.

I think as a matter of fact, of the two schools - I think there is one school and one church. I think that all economists are in the same boat on the effect of gold on prices, except some have a mystical religious belief in it that doesn't rationalize at all.

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

Golden.: I don't belong to that last school.

H.M.Jr: But you admit there is that school, and it isn't only confined to this country.

Golden.: Well, there are - I think it is a very small minority, and ...

H.M.Jr: And a pretty vociferous one.

Golden.: Yes.

H.M.Jr: Yes.

Well, let's just - I mean we're getting off on ... I'd just like to start over again, if I might. I guess - if you don't mind my directing my talk at you, I think the first thing is - rather, we ought to arrive at: do you think at this particular stage that the Administration should do something about loosening the brakes?

Golden.: I should favor that, yes.

H.M.Jr: I mean let's think - I mean that's the premises that I'm starting from. Now, maybe I've found the wrong device, but let's start on that premise, you see.

Golden.: Well, I'm with you that far.

H.M.Jr: What?

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Golden.: I agree with that, yes.

H.A.Jr: Well, do you think - just go a step further. We agree on that. All right. Then the question is, what is the best device to use to loosen the brakes and let the world know that we want to do that? Now, maybe the one that I've suggested isn't the best one. So therefore, if you don't mind, I'm going to say to you, "What would you suggest as the first move?" You don't mind my asking you.

Golden.: Not at all. We're all speaking frankly, and of course I'm speaking only for myself, not for anyone else. I should favor personally that - if you would, along with this request of the President's for 250 million dollars additional for relief - he would say that you will meet that additional expense as it is incurred by release of gold to that amount.

H.A.Jr: You'd release 250. You would release it as it is spent, or release it at once?

Golden.: I would think that as it is spent would be - as you need that additional 250, you'd release it so that it will be noticed that you're going to loosen up, you're going to spend some more money, and you're not going to increase either taxes or the public debt; and you're going to meet it by releasing that much gold. That will have the effect of not affecting the bond market unfavorably, it will have the effect of not scaring the taxpayers, and it will have the effect of increasing both deposits and reserves of the banks as, if, and when you spend that money.

H.A.Jr: And that is your suggestion?

Golden.: That would be my preference, yes, sir.

H.A.Jr: All right. Well, now we're on a basis, let's ask other people here, first, if they think we should do something to loosen the brakes, and if so, what would be their remedy?

Now, Mr. Stewart.

Stewart: I would do something, not because I think it would loosen the brakes so much in fact; I think it is

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worth while to get a declaration of attitude in some form. And I would favor the gold desterilization because I think something is due for change in the gold sterilization anyway; and I think there is never a very opportune time for it, particularly if you wait until people become gold conscious. I think this is a very appropriate time for an alteration in the gold position, and I would make it on the loosening side. And therefore, I would favor something in the nature of desterilization.

I would not couple it as Mr. Goldenweiser suggested with any fiscal matter, because I would feel that I was exposing that fund - not only that fund, but the Stabilization Fund - to a raid by people who felt there were more urgent uses for it. I think it is much more difficult to control monetary forces if you get as close a relationship between Government spending and the gold fund as that.

H.M.Jr: Well, I happen to agree with you on that, so - I mean if I did the other thing, it just would, I think, open the way for Congress. I mean that would scare me to death.

Stewart: Your next alternative ....

H.M.Jr: Incidentally, I'm on record last week that if we were going to have to have any more money, we'd borrow it in the market, not do this or do that. And we didn't arrive at that - again, I'm asking for advice, but I only made the statement last week that if we're going to borrow extra money, we'd go right out in the market. I'm here to listen. But go ahead.

Stewart: I was going to say your alternative to gold desterilization, as far as monetary effect is concerned, would be an open market purchase of Governments. I would prefer the desterilization to a purchase of Governments; so far as an effect on the banking position is concerned, I would now rather release whatever gold you have in mind than to purchase a corresponding amount of Government securities through the Open Market Committee. I think that covers your question.

The question of the magnitude of it and the manner of ....

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- H.A.Jr: If you don't mind my pressing you a little bit - you've thrown out another suggestion, this question of buying Governments, which I haven't discussed recently; and I think that we'd have a long time arriving at a friendly understanding.
- So let's get back to this sterilization, because I take it that you feel that that is the thing. Well now, what method would you use?
- Stewart: Well, that I'd want to do quite a little thinking about, just because of issues that have been raised here.
- H.A.Jr: well, from what you have said so far, it would lead me to think that you feel if we're going to do anything you'd rather have us stop sterilizing entirely.
- Stewart: No, I'm not entirely clear on what you contemplate. If as you originally outlined it, I assumed that it meant no sterilization for an indefinite period of domestic production, and that you'd finance any export, if you're returning to an export trend, from your sterilized gold.
- H.A.Jr: Yes.
- Stewart: If the reverse were to happen and you were to have an inflow of gold....
- H.A.Jr: Yes.
- Stewart: ... you would, on this assumption, sterilize it.
- H.A.Jr: Yes.
- Stewart: So that your real distinction in action comes not in your first step, where you release new gold; it comes at the second step, when gold comes in from abroad.
- H.A.Jr: That's right.
- Stewart: And you begin sterilizing. That I wouldn't like. I'm looking forward to the time when you get a reverse movement of gold, and your free - and domestic gold to go into the bank reserves, and you're

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sterilizing foreign gold.

H.M.Jr: Well, the only other thing would be to stop all sterilizing.

Stewart: No, the other thing would be to deal in specific amounts, which makes no distinction between the two, leaving you free, therefore, to deal with it over as long a period and in whatever amount you felt appropriate.

H.M.Jr: You mean just say 15 to 25 million a month?

Stewart: Or in a lump sum, or varying amount. I think a set amount, and I'd be inclined to say a more generous figure than 15. But I wouldn't now make the distinction between the two types of gold. If I wanted later to, or were forced later to, I'd do it. But I see nothing now in your program except a queer kind of feeling, which I think psychologically is true, that you'd have, even though there were no truth in it. From the business point of view, you'd have a feeling that this is a nationalistic thing, in some way this is meant for our market, this is going to have an effect; but actually it would have a very short effect and it would be talked down rather than talked up. It would give a little impression in the headlines and disappear, I'd think.

So I should say, if you ask for my quick reaction to this - I should rather favor desterilization; that I would not make the distinction between domestic and the foreign; and that the amount of it is a matter that you will have to determine from time to time, which you will leave yourself free to determine if you don't commit yourself to a definite amount.

H.M.Jr: I think I'm right in saying the advantage over - doing so much each month until further notice has an advantage over doing X amount at one time. Then whatever effect you get is over. But doing so much each month is a constant pressure, and it's there just as long as you keep doing it, isn't it?

Stewart: Yes. I'm not - if you want my judgment on that, I'm not very much impressed with what the effect is going to be. My reason for it is that the effect of the

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300 million wasn't very impressive.

H.M.Jr: Oh boy, I disagree with you, because - well, I mean, tremendously, because it just completely turned around these various banks from selling Governments.

Stewart: It did in the Government market, but I thought your intention was on commodities.

H.M.Jr: Well, at that time we were thinking of the money market. I mean what we were worrying about at that time was not Governments; we were worrying about the effect of the Holidays and the tightening of money and the banks getting ready for that.

Stewart: Oh, well, I don't question that.

H.M.Jr: And that was that. That's why that statement came from the Federal Reserve Board, requesting me to do that, because, their responsibility being the money market, they asked me.

Stewart: I didn't mean it didn't accomplish anything, Mr. Secretary. I mean it didn't influence the objective we are now talking about.

H.M.Jr: No, and we didn't have that in mind. And therefore, I greatly question using that method, of taking a block of gold and sterilizing it, and being finished. I mean I greatly question the efficacy of doing it in that way, as opposed to the possibility of each month releasing, either through the newly-mined .... - that constant pressure.

Stewart: There is only one observation I feel I ought to make on that. There is nothing so discouraging in public policy as an effort at bringing about a correction, where each successive step fails, because you are being dragged along tag-end of something, and each additional gesture - they say, "Well, there's another effort and nothing happened." And if this is intended to have an effect on commodity prices, releasing a certain amount at a time, and doesn't have an effect, then the question arises, "Well, now, what are they going to do?" And there is a great difference between ...

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- G.M.Jr: well, all right; of course, if you follow that to its natural conclusion, then we'd just sit here and hold on to our seat ....
- Stewart: No, I don't think you want to do that.
- G.C.Jr: ... and watch this spiral go down.
- Stewart: That wouldn't be my conclusion. My conclusion - you'd consider what you had to do to see whether or not it is just a gesture or whether it is in fact expected to accomplish the purpose that you are intending to accomplish.
- G.C.Jr: Well, that's the purpose of ~~this~~ conference this morning.
- Stewart: Well, I think in fact it will not accomplish the purpose. I think it is a gesture and it will not accomplish your purpose. Therefore, you will be confronted at a later date with a thing - less of a gesture and more of an act. What that would be, I am not prepared to say. But I think that's the risk you're taking.
- G.C.Jr: Well, that's a perfectly fair statement.
- Do you suppose that if we go back to the original suggestion and just did the newly-mined gold, and simultaneously with a release of the information here there was more or less a semi-official explanation in England as to what we had in mind, that that might offset the idea that we were looking toward the two-price system on gold?
- Stewart: It's awfully hard to guess, because you're not dealing with the people in the bank or the people in the Treasury; you're dealing with these queer people that hold gold over there, whose minds I don't understand.
- Lochner: I was just wondering - just getting a picture of the gold situation as it stands now. We are not importing any gold at the present time in any large amounts. However, your figures will show that in a month we will have 20 million dollars worth of gold received, of which 15 will be domestic; the other five is miscellaneous gold - it comes in orders and



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so forth.

There's just a question - just now, that you can do two things. If we stop sterilizing right now, we're doing just about the same as if we stopped sterilizing domestic only. Now, if you do it that way, you'd accomplish about the same result without distinguishing between the two. Now, is it in your mind that that would be a good idea? Now, this is not a question of the point that we're ceasing to sterilize further conditions when they come this way. I'm just saying it would accomplish about the same purpose if you just cease sterilizing just now. Do you (Stewart) think that would answer your objection?

Stewart: It has a much larger effect, psychologically - much larger - without the risk - it leaves you subsequently free to decide whether you do then want to sterilize a foreign inflow. But the psychological effect of that is much broader.

Rentschler: Don't you take care of that then when you come to it?

Lochhead: These statements have always been made so that when we speak about a policy there was never anything said that it was a permanent policy. The statement on sterilizing gold - if you will read that, the Secretary said that whenever in the public interest he thought it best to sterilize, he'd do so. Now, conditions are certainly different than they were a year ago. I don't think it's a change of policy; it is really more confining yourself to the policy, rather than letting yourself be bound up by the turn of events.

Rentschler: Isn't there another consideration? At this time there is a sufficient amount of sterilized gold to protect just the thing you wanted to protect, for which you adopted this policy last year. You've got your billion eight and you've got your billion two or billion two fifty. That's all you need. If that's all you need, why keep on sterilizing, if you want to accomplish this other effect? Then you don't draw a distinction between foreign and domestic gold. You just announce that you stop your sterilizing.

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- Gaston: You could place a limit on that. You could say you'd sterilize - up to a total of 25 million a month, that would be an exemption - 25 million; and anything over that would be sterilized.
- Rentschler: If there was a great flow of gold that came in, you could deal with that when you came to it.
- Lochhead: I think that's a little different. You're talking about ceasing to sterilize ...
- Gaston: No, I'm not ceasing to sterilize all new acquisitions, but with an upper limit of 25 million. Any new acquisitions of over 25 million a month would be sterilized.
- Lochhead: Oh, I see, you're joining those two.
- Gaston: But the first 25 million would not be.
- Rentschler: I would prefer not to be specific.
- Taylor: No, I think that would be ...
- Lochhead: The mere fact the policy is still flexible - if conditions change, you change your action again.
- Eccles: You didn't adopt a policy of sterilization in the beginning, however, for the purpose of having gold available to take care of the reversal. Therefore, the point you (Rentschler) make seems to me to be hardly valid.
- Rentschler: Except, Marriner, that that is what you really accomplished.
- Eccles: Yes, but it wasn't begun in order to hold gold available for an outflow.
- Rentschler: You didn't want that gold to get in the monetary structure. Isn't that correct?
- Eccles: That is correct.
- Rentschler: Now you have accomplished that purpose.
- Eccles: That is correct. Now, to announce a policy of general discontinuance of the sterilization, of

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course, leaves the thing entirely open. It leaves the banking system in the same position that it was before you announced the policy of sterilization. It leaves the situation entirely indefinite as to whether or not you'd let a hundred million or two billion in. In case you got a huge importation of gold again, it would go into the banking system and you go right back where you were before you sterilized in the beginning. Therefore, why sterilize at all? It seems to me it has that effect.

I have felt that to let a definite amount of gold be released from time to time, either in lump sum or in periodic monthly amounts, whatever the case may be, gives you a definiteness, it gives you a control of what the situation - what amount you want to put into the banking system, based upon conditions that exist at a given time; whereas you do the other and you are leaving the thing open, making it very indefinite, and you are leaving the amount of excess reserves to be determined by foreigners instead of being determined here by the monetary authorities in this country.

As I understand it, the British control very definitely the amount that is permitted to go into the banking system there, from time to time, based upon what they think the requirement is. And inasmuch as we have adopted that policy, I would hate to see us now revert to a policy that existed prior to the adoption of this policy of a control on the part of the Treasury and the Reserve System through joint action.

Harrison: Mr. Secretary, it seems to me that certainly, from those who have spoken, there is a general inclination that something might be done now....

Secretary: Seems to be.

Harrison: ... as you yourself indicated in your first statement. There is some doubt in the minds of perhaps most of us as to how effective it would be to stop sterilizing domestic production, for two reasons. First, it is a small amount, relatively. Second, it might have

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other repercussions abroad in differentiating in the minds of some people domestic and international gold. And third, I think there is some question about committing yourself to an unlimited policy.

Therefore, I have some sympathy with the statements that have been made that your effect would be greater and your control certainly would be greater if you decide how much gold you want to let go into the banking system, either by not sterilizing new gold or by not sterilizing additional gold that might come to you from abroad or elsewhere. It seems to me that that sort of policy has, as has been indicated here, the advantage of giving you an opportunity to make, not an agreement with the British, but, let's say, a parallel approach with the British to a common - more or less common problem. And just as you said in your initial statement there is a certain psychological advantage in having the country believe that the Treasury and the Reserve System are working together, so I think for the world as a whole there is a great advantage in letting them think that you and the British are certainly not going counter to one another and are probably working for the same general objective. It would have an added advantage, I think, of bolstering up the psychology that went with the tripartite arrangement - that you and the British are working together for a general objective.

Now, what the position of the Bank of England would be, I don't know, but I should imagine, from the fact that the British have from time to time, as Mr. Eccles just pointed out, desterilized gold when they wanted to add to banking reserves, that you might find they would be perfectly willing in one way or another - whether by not sterilizing or desterilizing; that's just purely mechanics - to work with you in allowing gold, or a certain percentage of gold, to go into the banking system.

Now, when you started sterilizing, and when the British started sterilizing, I think that it wasn't

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in your mind, and I don't think it was in the British mind, that either of you would get the amount of gold that you have gotten. The world as a whole has dumped gold on Great Britain and the United States in an amount beyond what you thought at the time would come in. Frankly, I lost a nominal bet when you continued to sterilize more than a billion dollars. It never occurred to me in the early days that you would ever allow that fund to go above that amount. I think the British have taken a great deal more than they expected to get when they started sterilizing, though I should imagine that you'd find that they'd desterilized relatively more than you have.

query, therefore: If you have a desire to have a psychological influence on the world regarding commodity prices, not knowing how much the actual effect would be, I think you would accomplish more - tend to accomplish your objective much more surely if somehow you were working along the same line as the British, even if not in definite agreement with the British on specific amount.

Now, actually, we all know, it doesn't make a bit of difference whether you fail to sterilize 20 millions of dollars or whether you desterilize 20 millions of dollars a month. The effect is exactly the same. There is, as has been pointed out here - and it's given me a new idea about it - there is the advantage in shooting for a definite amount of not tying this thing up solely to what might be a variable factor of domestic production alone. It has the further advantage of not putting in the minds of people throughout the world that you're going to make some kind of preferential treatment for domestic gold, as against foreign gold.

I haven't got any recommendation to make. I am in general sympathy with doing something, and I think it has been pointed out here there is some advantage in simultaneous common approach by you and the British to a problem which is more or less a common problem merely because it's gone beyond any limits that you reasonably anticipated when you began. You get exactly the same result,

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and you avoid some of the misunderstanding. The trouble with this damn gold business is that so few people in the world understand it anyway; as you pointed out, there are different schools as to what it will do and what it will not do. And I think if you're going to do something, the fewer elements of uncertainty and misunderstanding that you put in your program the more effective the program is likely to be.

Lochhead: Governor Harrison, if you approach - as you say, approach the British on this subject and they aren't in accord or it meant a long, long discussion, would you say that we shouldn't do anything until we had reached a definite and full agreement with the British?

Harrison: Well, I don't know.

Lochhead: Hate to drag a thing out like that a long while.

H.M.Jr: That would depend entirely on the circumstances.

Harrison: I agree with Mr. Stewart that if you're going to do anything now - and I don't mean today as against next week - this is a good time to do it. How long it would take to sound out the British also, I don't know; but I wonder whether your common understanding with the members of the tripartite arrangement wouldn't make it appropriate for you to advise them in advance anyway.

Lochhead: Oh well, that ...

Harrison: And second, perhaps give them the opportunity to do the same thing that you are doing at the same time that you do it.

H.M.Jr: Well, of course - I just want to say this - this is a good time for us to do something, but it's a very bad time for the British. Now, believe me, we took our medicine here for the year; took this gold and liked it, and smiled. Now the British are taking it and don't particularly like it. And this would be - if I go to the British and talk to them now, it would be a wonderful time for them to open up their problems and dump them in my lap. I took this thing; I took it and liked it, and

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smiled, and talked down all these rumors that went around, and all that. Now, this is a good time for us, but it's a very bad time to approach the British, and I don't know just what they would dump. It would be magnificent for them to have me come over there just at this time, when they are worried sick about all the gold that is coming there. And I'd want to think a long time before I went to them and said, "Listen, old fellow, don't you want to talk about gold?" And they'd say, "Sure. Help us out. We're right up to here."

I've been sitting back very quietly, chuckling and watching what's going on in England and Switzerland and Holland and saying, "Well, you're getting the same dose of medicine that we have taken here." We took what - what was the French gold, a billion and a half, something like that?

Doc: Over a billion. Doesn't appear. Whether French or not, we took over a billion and a half since we started.

H.A.Jr: I mean it's a bad time to talk to them, because they're taking it right now and over here things are quiet as far as gold goes.

Riefler: Well, I wouldn't hold it up for an agreement with them, but I'm not sure - I mean I've found several people talking the language that the United States and Britain ought to take a common action toward world commodity prices. This depression has hit England and they've got a heavy increase in unemployment. And I don't think - I mean I wouldn't hold up an agreement with them, but I think you might get their general view in just the spirit you want it, and very quickly.

H.A.Jr: You mean you wouldn't hold up our doing something like ...

Riefler: I wouldn't say I would - will not do it if they don't come along.

Harrison: I wouldn't either.

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- Aiefler: But I do think you've got the chance of their coming along in about the same proportion, and that would be tremendously important in your effects. This depression is now becoming a world phenomenon. It would increase - I'd say would more than double - the good effects would be more than doubled.
- Eccles: If England believed that there was some magic influence on the price level through desterilization of gold, why don't they undertake it? They are sterilizing gold just in the same manner that we have been doing, and they are having a depression, they are having - world commodity prices are going down. They must not have very much faith over there in any mystic value of ...
- Harrison: I'm not so sure.
- Eccles: .. of gold. Do they?
- Harrison: Mr. Knoke, do you know - have you got any evidence of the extent to which the British have, say, in the past six months desterilized gold, or they have sterilized?
- Knoke: No, the evidence is very general. But I was going to say this, that up to, say, about two or three weeks ago the British were very definitely worried about the amount of gold, or disliked the amount of gold they had to take in. But since then I think we have seen a complete change in the situation again. First of all, you have an increased amount for hoarding; and secondly, you have on the part of one of the funds of one of the countries - Netherlands - you have a situation where the Netherlands within the last ten days have probably taken in London more than ten million dollars worth of gold.
- H.M.Jr: Taken it away?
- Rentschler: Taken it home to the Netherlands from London.
- Knoke: So I think today - whereas the Secretary's comments would have fitted beautifully three or four weeks ago, I'm not so sure that is the situation today any more. May change again next week.



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- Harrison: Well, if the British are being fettered with gold that they don't like, from the point of view of the Treasury - they may be switching on the amount they have to borrow to buy the gold - you might well, from the point of view, again, of the Treasury, find them agreeable to a consideration of not sterilizing all that they are being asked to buy. I don't know, but I think there is something in what Mr. Riefler says about that.
- Eccles: Did they announce desterilization of lump sums at any particular time, make an explanation or announcement of it?
- Harrison: We can figure it out.
- Eccles: I know you can do that, but I'm just wondering, did they give it special consideration to the extent of giving out a newspaper release?
- Warren: No, sir, they do not.
- White: They did once.
- Eccles: Huh?
- White: They do when they sell gold at the Bank of England, which isn't quite the same thing.
- Eccles: They don't try to create any psychology as a result of any ...
- White: Well, as to the statement - whether they hoped it would have any psychological influence or not, I don't know. I don't think so.
- H.M.Jr: Well, certainly before we approach the English - I mean we'd want to know what we think would be good for the United States.
- Lochhead: That's one of the questions, Mr. Secretary.
- H.M.Jr: What would be the best way to handle it?
- Riefler: But you're trying to get a commodity effect, and that's world.
- H.M.Jr: Well, I wouldn't want to - Riefler, I'd just want to

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amend that a little bit. Commodity effect, yes; but what I am trying - what I am groping for here is - I want to do something, and I think that - I think the President feels just the way I do about it; we definitely want to do something to indicate at home and abroad that we want to correct some of the deflationary things that this Administration has done. Now, I have been concentrating on the gold thing. Again, as I say, I want to exhaust the possibilities within the Treasury rather than look somewhere else. But I think it is high time that the Administration do something to correct some of the deflationary moves it has made, and of course ...

Harrison: Would it accomplish the purpose that you have in mind, Mr. Secretary, if you announced - let's forget the British for the moment - if you announced to the world merely that you're going to allow gold to the extent of 15 millions a week to take effect? Now, there would be a lot of people who would say, "Well, that's just the amount of domestic production, and obviously that's what they're doing. They're not sterilizing domestic production." But even so, you'd do exactly the same thing as if you announced that you were not sterilizing domestic production, and would avoid tying yourself up to one specific yardstick, which I think some here feel has a disadvantage, and I'm inclined to agree that they're probably right.

Or if you wanted to remove it a little bit further from domestic production, you would say, "Well, we'll allow gold to the extent of 20 million a week ...

H.M.Jr: Month.

Harrison: ... a month" - I beg your pardon - "to take effect." You do then what the Chairman said; you do not tie yourself up to any - I think it was the Chairman - to any fiscal policy or appropriations by Congress, which I think would be a dreadful mistake myself; you do not commit yourself to any lump sum or amount; you just say, "For the present, in view of existing conditions, I'm going to allow gold to that extent to take effect." Doesn't make a bit

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of difference whether you don't sterilize or whether you desterilize, and you maintain a freedom of action that I think you might lose, to a certain extent anyway, if you make your yardstick merely what the domestic production is.

- Eccles: Seems to me that in view of this announcement of this 250 million, an action right at the moment, irrespective of how you do it, is not going to be - it's going to be interpreted and connected; so that if you don't want to have any policy of either desterilization or a discontinuance of sterilization of the domestic supply in any way related to it, it seems to me that it might be a good thing to put it off for a week until - and not tie it together.
- Harrison: Wouldn't you overcome a lot of that, though, if by chance you did get a simultaneous approach by the British?
- Eccles: That's right.
- Harrison: Then you're tying ....
- Eccles: You'd get strictly a monetary effect.
- H.M.Jr: Well, if we did, for instance, what George said, announce that we're going to desterilize, say, from 15 to 25 million dollars a month - and that would get away from the figure which would correspond to the newly-mined, and that would overcome your (Eccles) objection that by complete discontinuance of sterilization you have ....
- Eccles: You have lost control.
- H.M.Jr: .... you have lost control of the thing, and that's what we started it for.
- Eccles: Well, I favor - I would favor the announcement of desterilization of a certain amount per month until further notice. I wouldn't put a - discontinue any time or increase it any time. But it's specific and definite as to at least the amount per month, and you don't lose the control, whereas you would the other way, and the amounts - it can amount, in

effect, to what the domestic mined gold is.

If, on the other hand, we want to get some psychological effect on commodities, which is a world problem, then to the extent that we can work in conjunction with the British on it, on a joint move - I can't help but feel there is a good deal of merit in that.

H.M.Jr: May I just say ... Who was that? Can you (Lochnead) hold it a minute?

Let me see if I can understand Marriner Eccles right. What you are saying is, if we take some lump sum which wouldn't be just the same as newly-mined and announce it, then that overcomes the objection that you have against complete desterilization, which we have been over before at different times, because it leaves you in an uncertain position.

Eccles: Well, we just go back where we were before we ever started.

H.M.Jr: That's right, and it is difficult to answer.

Of course, if we decided that as a definite proposition - I mean if I was going to do it, I'd at least want to do 25 million a month.

Eccles: Yes, I think so. Wouldn't do less than 25.

H.M.Jr: I'd do 25 million a month. We could say to the British, "Look, we're thinking of announcing that until further notice we're going to desterilize 25 million a month. Can't you do something simultaneous along the same lines, so we could have more or less simultaneous announcements?"

Marrison: You wouldn't have to use the word "desterilization." It is either desterilization or a lack of sterilization of new gold; I mean you accomplish the same thing. In other words, you've got 25 million in a lump sum. They'd know that 15 million of that would be accomplished by 15 million of newly-mined gold that you would not sterilize, and 10 million would be desterilization, which would give you a total ...

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- Eccles: What you're going to do is desterilize 25 million. Otherwise, you tie it up with newly-mined gold.
- Harrison: I just say, in approaching the British, they'd be interested in - if they agree, not in desterilizing anything they happen to have, but in failing to sterilize current imports of, say, 25 million a month.
- H.M.Jr: Well, whichever way suits their position. But it would be a simultaneous announcement.
- Harrison: That's right.
- Eccles: In other words, they would announce they were going to permit a certain amount of gold to go into the banking structure.
- H.M.Jr: Right.
- Eccles: And whether they do it as a result of gold imports or desterilized gold would make no difference.
- Harrison: That's all I had in mind.
- H.M.Jr: Well now, go ahead. Win?
- Riefiler: What you'd say to them is this. "We're going to do this - we're thinking of doing this. If you are contemplating making a move toward ease in view of the depression that's hit you, we think it would be valuable that the two come out at the same time and it would increase the psychological effect enormously."
- Taylor: "Approximately ....
- Riefiler: "Approximately the same thing." That would be the way.
- Golden.: How about the French?
- H.M.Jr: No, there's nothing we can say to the French, because we can't do anything ....
- Lochhead: We have to be careful if this is to be under the tripartite. We must remember that under the

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tripartite we retain complete independence of action on our own, and I don't think by trying to tie up the British domestic policy and ours it quite meets that, because we have each saved the right to do whatever action we think necessary in itself.

Now, the British could come in after we announced it if they wanted to do it, but as a joint action I think you're going a little bit further than the tripartite.

H.M.Jr: Archie, this would have nothing to do with the tripartite.

Golden.: It hasn't. Your sterilization program was started quite a few months later, and it had no relationship with the tripartite agreement whatsoever.

H.M.Jr: It had nothing to do with it. But up to now - I mean the thing that took me - for three years the reason we couldn't get together with the British was that they refused to discuss the domestic price situation. They refused to discuss it. And we almost went on the rocks on this thing because we tried to get them to say, "We'll try to keep the pound between \$4.90 and \$5.00," and we kept hammering away for that for three months, and they wouldn't agree to it, because they kept - we kept talking about the domestic price situation. Well, the answer is, we have practically kept it between those points, although there was no agreement.

From everything we get abroad, I should think - but I never can tell what the British - I should think if we say, "This is what we're thinking of doing. Wouldn't you like to come along with the same thing?" - I should think they'd do it. But I wouldn't know. But I don't object to being turned; I've got so I like it.

Golden.: Mr. Secretary, may I say what I think about that?

H.M.Jr: Sure.

Golden.: I think myself that it would be preferable if you would decide to do what you want to do here, as

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has been pointed out. I think it would be best to fix an amount per month and put it in the form that you're going to add that much to the banking reserves, whether you de-sterilize or whether you fail to sterilize; but a certain fixed amount of gold will be permitted to enter into the banking system. Then, after you have done it, you can say to the British, "Why don't you come along and do it too?" And if they would do it a little later, I think the psychological effect of their following you in this would be more powerful than if it was a joint or simultaneous action, and there would be less likelihood of domestic criticism of too much joint action and too much interest in foreign people's attitudes. I mean you'd do it; you lead the way and let them follow.

H.D.Jr:

Of course, we're having that trouble right now in the Senate, you know. They're worrying about too much joint action. And what I had hoped for, and I'm not giving up yet - I've got - I mean a certain feeling about the market, and so forth and so on. And I may be wrong; I've been more right than wrong - I mean as far as my feelings on the market are concerned, heretofore. And my old elbow tells me it's an awful good time to do it here, now - I mean right now. I mean I hate to put this thing off a week or two weeks or - while they take their British week-end, until they come back next Wednesday and get down to business again and all that stuff, and "we can't discuss this; we've got this thing with Italy and we've got this thing in China, and what are you going to do about this thing and that thing." And they move very slowly and it's just a question whether - I'm very bold - but if we could do something over this week-end - I mean everything tells me .... But some people may say, "Well, you're all wrong." But we have checked the commodity market very, very carefully and all our checks tell us, looking at it as a whole - there are spots, but taking the commodity market as a whole, it's on a firm foundation. Now, that's what we find. I mean taking it - you may say, "Well, what about copper?" Well, I don't know about copper, but taking the whole thing as a whole, it looks as though it's made a bottom. But it's moving side-wise. Now, what can we do to possibly make it gently begin to move up? That's what I'm trying to cover.

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Knoke: Nevertheless, Mr. Secretary, if you make your statement this week, it will be tied up with the \$250,000,000 announcement.

H.A.Jr: No, if you don't mind, I differ with you there. What I think they would say - you people correct me - would be, "Well, the Administration is getting a little inflation-minded." That's what I think they'd say; I don't know; that's what I think they'd say.

(Secretary leaves room)

Taylor: George, suppose you pick this amount of 25, for example, and you know that your new production approximately is 15. That means that you get 10 from somewhere. Normal minor imports, let's say, why, might account for that. But suppose there was an offset, so that that would mean taking 10 - say, 10 each month out of your present inactive gold account to produce your 25, see? Then you are faced with this situation: that in a given month it is more than possible that you would have an outflow from this country - it is very conceivable that that might happen - of anywhere from 15 to 200. Might even be more than that. How would you handle that?

Harrison: Well, of course, I think if an outflow of 250 million, which is provided by withdrawals from the inactive account ....

Taylor: Well, in other words, it would have to come out of the - you've got 25 going in and you're committed to 25 going in from somewhere.

Harrison: Yes.

Taylor: See? Of which 10 probably comes from your so-called inactive account - what would be your inactive account. Then you'd get an outward movement of any amount that you want to describe, in addition to that 10. Now, you'd certainly want to deesterilize whatever that outward movement was, wouldn't you?

Harrison: Well, yes. And I don't know that you'd have to add the 25 million to that.



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- Taylor: Well, that's what I'm asking. I mean suppose - if we do get committed to a definite amount, then you get an outward movement on top of that.
- Harrison: I see.
- Taylor: See? What would that do to you?
- Harrison: Well, if you - as I understand the technique of it, if you withdraw from the inactive account sufficient gold to meet an outward movement, your excess reserves end up just as they are.
- Taylor: That's right. But in terms ...
- Harrison: Because you have then offset the withdrawal of bank balances, we'll say.
- Taylor: But that would be - unless you wanted to do more than offset that withdrawal, you'd have to pull down your inactive account, wouldn't you?
- Knoke: Well, that assumes you don't redeem any of the issues that you have previously made to pay for gold.
- Taylor: See, you've got this - there's 10 that you have to produce from somewhere if you do more than the 15; I mean that's assuming everything else is as is. Therefore, that means if you pick a number, 25, why, you've got 10 that's coming out of your inactive account.
- Knoke: That's right.
- Taylor: Each month.
- Knoke: Yes.
- Harrison: What I said - assume that you do release it, because you don't keep your status quo unless you meet an export of gold by a withdrawal from the inactive account, which gives you money in the General Fund out of which you redeem maturing bills in an equivalent amount. Isn't that right, Warren?
- Warren: That's right.

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Taylor: Then you have your 25 plus whatever might - I think that would be plus whatever might go out, wouldn't it?

Harrison: If your announced policy is to add 25 millions a month to reserves, then you would have to go 25 in addition to the amount that you'd take out of the inactive account to meet outflows of gold.

(Secretary returns)

H.M.Jr: You fellows all want a little time to huddle?

Warren: Yes.

H.M.Jr: Fine.

(Discussion proceeds in small groups for about 20 minutes)

H.M.Jr: Well, will the committee go back as a whole?

After all these conferences, who's got a bright idea now?

Harrison: Mr. Secretary, we were talking about the British. I haven't any adamant point of view about getting a simultaneous announcement or agreement, necessarily, but I think somebody said that you would naturally advise them in advance of any public announcement in any event. I don't know whether that would be your plan. I think if you do that you cover pretty nearly what is in my mind, provided you tell them why you're doing it and suggest the possibility they might want to do it for the same reason at the time you make the announcement. Of course, they will have to decide.

And I agree with you there is no reason, if you want to do it for domestic reasons, why you should predicate your action on what they do or don't do. But I think, from the point of view of effectiveness of the policy, whatever the mechanism is, there is some advantage in not only letting them know, but giving them the opportunity to do it at approximately the same time, if they want to.

That's all that I have in mind. You can't force them

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to do it anyway, and naturally they won't do it unless it is to their own advantage. The only question, whether or not it is to their advantage as it is to ours, is whether we shouldn't give them adequate notice so they can act approximately the same time if they want.

I wouldn't fear any possibility of criticism from what might be called joint action, because the criticism in the Congress about joint action has never related itself as yet to joint action between the two Treasuries; it's always been between the two foreign offices.

H.M.Jr: Two navies.

Riefler: Well, the people who are criticizing joint action are the ones who would like this move, in general.

Harrison: I wouldn't fear any criticism of approximately simultaneous notice of cooperative action of the two Treasuries on a monetary question.

H.M.Jr: Well, I've traveled this far this morning, and this conference has certainly been helpful to me. If what we started with this morning would raise the question in anybody's mind of a two-price gold, I'm "agin" it, see? I mean that is the last thing in the world that we want to start. I mean I've worn myself out, so has the President, denying that we had any idea of changing any price of gold. I think we have finally convinced the world that unless there is some awful good reason, we'll stay where we are.

Eccles: Want the rest of them to continue to hoard as long as they will.

H.M.Jr: Yes. And I think the action of gold stocks the last couple months - somebody thinks it's a good buy, because they've sort of moved independently; so somebody thinks gold stocks are a good buy.

Eccles: Well ....

H.M.Jr: Now, I can - the thing that's bothered us - right now we, the Federal Reserve and ourselves, I mean -

the easiest thing would be to stop all sterilization, but I can think now it would throw that great uncertainty into the laps of the Federal Reserve, and after all, that was why we started the whole thing. Now we stop it and people say, "What the hell did you do it in the first place for?"

- Eccles: Wanted to get control, and now we've decided we made a mistake; I mean it's an admission that we possibly were wrong.
- H.M.Jr: If I thought it was wrong, I'd be willing to say so.
- Eccles: That's right. But you don't, and neither do I. But at least there is that - it is subject to that interpretation; and it seems to me that I've gotten this morning the idea that - a slant on this that I didn't have before, and that is this two-price thing. That hadn't occurred to me.
- H.M.Jr: Me either.
- Eccles: No. And I can see how it certainly could be interpreted in that way, in view of the recent silver action.
- H.M.Jr: That's right.
- Eccles: And it seems to me it is just too darn important, we just can't afford to take that kind of a chance.
- H.M.Jr: That's right.
- Eccles: That there isn't enough involved here - a matter of 180 million dollars of domestic gold - to take a chance, by gosh, of getting foreign gold started to coming this way, for fear that we're going to have a two-price policy. I think that's a risk that we just can't afford to take.
- Harrison: And that you needn't take to accomplish what you want to accomplish.
- Eccles: I get back to the - it seems to me that the door is pretty well closed on one of two programs; that

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is, discontinuing entirely, which has the objections stated; and the other is to announce that we're going to desterilize a fixed amount of gold per month until further notice. And to the extent that we might be able to get the British to follow with us, the action would be that much more favorable.

H.A.Jr: Yes.

Eccles: That would be my choice.

H.A.Jr: Yes.

Eccles: And I think that it couldn't - I don't think that we could say, don't think we should attempt, at least, in any public statement, to tie it in any way to commodities, because if we ...

H.A.Jr: No.

Eccles: ... indicated that, and that commodities would respond, they'd say, "Well, it's a sleight-of-hand," and that we're trying to correct through monetary action everything that some of these monetary cranks think we can correct, and we are - in other words, we are following that school that thinks that by monetary action you can control the economies of the world, and by that only. And I don't think we can afford to have any such interpretation put on it, of course. The explanation that we might give is that the situation has changed to a point where it is felt that we had better move in the direction of building up further the reserves, and we have chosen this method of bringing it about. The situation is very different than the one that did exist a year ago, and it is moving in the - in the direction of monetary relaxation, a greater monetary relaxation.

Hiefler: And there is a second point, that we think that in a growing world monetary authorities ought to make fairly continuous provision for a fairly steady incorporation of a certain amount of new gold into the credit structure.

H.A.Jr: Would you just - one second, George, can you hold your thought a minute?

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Harrison: Yes.

H.M.Jr: Well, Marriner, do you feel the way I do as far as we have gone this morning, that this suggestion of depositing 20, 25 million dollars a month is a better thought than what we started with? I mean I feel that way.

Lucas: Well, I do now. I - as you know, yesterday I suggested a choice of a lump sum; but then I felt that 180 million dollars was in a sense a lump sum. I mean if we say domestic gold, we know that's a definite amount and that it had somewhat the equivalent of giving notice that we were in effect going to - going to put into the banking system a lump sum over a period of time, and that although it was small and I didn't think it would have any particular effect, I had no objection to it, was agreeable to it. However, in view of the danger that we have discussed of the two-price thing, I don't think we can afford to take that chance.

H.M.Jr: Check.

Lucas: And I agree with you that the only other alternative now, if you're going to do anything at this time, is to announce a lump sum per month over an indefinite period of time.

H.M.Jr: You wouldn't have any trouble with your Board on that.

Lucas: I don't think so. They were perfectly agreeable to go along on the other, and I think if there is brought to their attention this danger of the two-price thing - I am sure they would feel the way we do. Don't you (Goldenweiser) think so?

Golden.: Oh yes, I think so.

H.M.Jr: Well, Herbert is a little worried that they might hook this up that this is the way of financing the 250. We might even make it ....

Gaston: No, my idea is that you make it a release of only new acquisitions of gold up to a limit of 25; that

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you don't go into the existing stock of inactive gold at all, but only deesterilize new acquisitions up to a monthly limit of 25 million.

Eccles: That would cover it. That, in other words, puts your top on and doesn't necessarily put the bottom.

Riefler: Be easier to explain, but it would amount in practice to about the same thing. But you have about that amount coming in.

H.M.Jr: Which way do you think it would be easier?

Riefler: I like the other better.

H.M.Jr: Which one?

Riefler: I'd like the release of up to 25 million either through sterilization or - through deesterilization or failure to sterilize, better as a technical device. But as a thing to explain and something which amounts in the end, roughly, to the same thing, I think it would probably be more simple to say that we will not sterilize up to 25 million a month - your idea.

Gaston: Yes.

Riefler: In practice it would amount to about the same thing.

Eccles: In other words, you would agree with Herbert's suggestion.

Riefler: I think it is very worth while considering, as a practical thing, very easy to explain.

Eccles: Saying we're going to deesterilize any new acquisitions up to 25 million.

Lochhead: You're not going to deesterilize, you're going to not sterilize. Because if we go out and say we'll deesterilize 25 million a month, the newspapermen immediately say, "Are you going to reduce your debt? Are you going to reduce your debt by pulling bills out by 25 millions?" You have to answer that question.

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Eccles: It's going to be much easier ....

H.M.Jr: I'm not sure that I've got it.

Eccles: You're going to announce that you're not going to sterilize new acquisitions of gold except in such amounts that are in excess of 25 million a month.

Gaston: Right.

Eccles: See?

H.M.Jr: In excess?

Eccles: That's right. You're going to sterilize what is in excess of 25. In other words, what is up to 25 ...

H.M.Jr: ... gets a free ride.

Eccles: Gets a free ride. So that that puts a top ....

Gaston: If you get in 18 million of new gold in a month, it all goes into the working balance, not into the inactive fund. But if you get in 26 million of new gold, then one million goes into the inactive gold fund, the sterilized fund, while 25 goes into the working balance.

H.M.Jr: Now, wait a minute. Just a second. You talking about net?

Gaston: Net.

Taylor: He has to be talking about net.

H.M.Jr: I mean you're talking about net.

Gaston: Net.

Eccles: That would be equivalent to taking the domestic-mined gold and such foreign gold up to 25 million that may come in. If none came in, why, you'd be balanced out so far as foreign acquisitions. It would mean just taking the domestic. But you don't announce specifically that the domestic ...



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- H.M.Jr: I'd steer a thousand miles away from the word "domestic."
- Eccles: Now, that seems to me a little bit easier to explain. Because last year when it was a question of desterilizing an amount of gold for the purpose of building reserves, the Reserve System, or the Board, made the request as a result of recommendations that it got from the Open Market Committee, that a certain amount be desterilized, and you complied. Now, this is the same sort of action to the extent - if you're going to desterilize a specific amount, it is exactly the same action, and the question is, should the Reserve System request that you desterilize a certain amount per month. Now, I don't think so, because - whereas if you do it the other way, the way that has been suggested here, it would mean that the Treasury announces that they're going to sterilize only that amount of gold ...
- H.M.Jr: In excess.
- Eccles: .. in excess of 25 million, and the Reserve System concurs in that action, see? I think that is much easier to handle.
- Harrison: And you take it away from your 250 million as far as you can.
- H.M.Jr: Well, Herbert Gaston is worried about the statement I made last week that if we had to ask for any money for the unemployed, I'd just go out and borrow it. I mean he likes to keep me consistent from week to week. It's damn hard, but he does the best he can.
- Eccles: I was going to suggest it might be well to put this action over for a week, and in the meantime you'd have a chance to feel the British out. Another week isn't going to make any great difference.
- H.M.Jr: Well, it may. And that's what I want to ask these foreign exchange sharks.
- Lochhead: Your sterling is up to \$5.02 5/16; the franc is \$.0332.

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- H.M.Jr: Let's just say that this came out in Sunday morning's papers. What would that do to sterling? I call up the British on the telephone tonight, see, and say, "Now, we're thinking of doing this thing and we'd like to have you go along." Now, is that going to put - is that going to make sterling go up or is it going to go down? I mean you're over in the Bank, you fellows, and Walter Stewart, you're over sitting in the Bank of England, see? The Secretary of the Treasury calls up; he's thinking of doing this thing. I mean as of the immediate thing, with sterling rising the way it is, how are they going to react?
- Knoke: Sterling would go higher.
- H.M.Jr: Well, why the hell should they cooperate?
- Lochhead: If they cooperated, it would neutralize that movement. It might keep sterling from going higher.
- H.A.Jr: I don't get it. Let's say we do this thing now, the last way it's been suggested, and we suggest that they do something similar. Is that going to put the sterling-dollar rate - put it still higher?
- Knoke: If they do something similar, I think it will cancel that. If they don't act, we'll see a higher sterling rate, which they may not object to, on the assumption that a higher sterling rate might in the very near future bring us to the export point - that is, figuring gold would move up to \$35.22 - and then, from then on the thing would work automatically; from then on the full burden wouldn't fall on the British any more, but we would be in a position to regulate sterling by means of gold.
- H.A.Jr: How do you like this last suggestion that's been made?
- Knoke: Pardon me?
- H.M.Jr: How do you like this last way of putting it, that we will not sterilize the first 25 million that comes in, net?
- Knoke: Why, I think it is a compromise.

Harrison: Mr. Secretary, I think that there are a number of different things you can do. First, do nothing; the group rather feels you should do something. The second is to relate it to domestic gold, which I think all of us agree now would be a mistake, for the reasons given.

Third would be to announce in effect a desterilization of a lump sum per month, either by failure to sterilize or by actually desterilizing. And the fourth is this present suggestion, which I think is much easier to explain than the third, for the reasons that are given.

H. J. Jr: Uh-huh.

Harrison: The easiest thing to explain, frankly, I think, and the cleanest cut thing, would be to do what the Chairman just discarded; that is, to announce a cessation of all sterilization until further notice. But I think the difficulty with that would be - and I don't think it would make much more difference; I don't think you'd have a different result from the one Mr. Gaston has suggested - the "out" about that is that it might be more difficult for you at a later date, if there is an influx of gold, to resume sterilization again, and if there were any risk of that, I would be opposed to that last method. Otherwise I think that would be the cleanest cut and perhaps the most easy to explain of all the different alternatives. The risk is that you wouldn't resume.

G. J. Jr: Well, it would be easier for me, but it would be damn hard for Eccles.

Stewart: Mr. Secretary, may I suggest a third?

H. J. Jr: It would be easy for me, but ... Go ahead.

Stewart: A third alternative ...

H. J. Jr: We are on the fifth now. We've had four.

Stewart: Fifth. I don't think either of those explanations are very easy. I think the simplest explanation

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would be that we have looked at the sterilization figures of the last two months, if you like - anything you like, any period you like that fits your figure - and we are going to cease sterilization of an amount equivalent to that over a period - I mean if anybody gets a question, your experience recently has been what you said, 45 million a quarter, something like that.

Lochness: Well, that's newly-mined domestic. The total gold that's coming in is somewhat larger.

Stewart: Yes. Why isn't it possible to take some period, and, if you like - if you want it the first of the year, release an amount equivalent to that from the first of the year. It seems to me none of these explanations relating to gold up to 25 million and then sterilizing one million if it comes to be 26 - I think it's awfully difficult to explain, because obviously it is an attempt not to do something else; it is an attempt not to say it is domestic, or it is an attempt not to bring in the foreign. I think there are ....

Eccles: I don't understand your proposition.

Stewart: I was thinking of taking the recent past, and take an average of what it was for a month and say, "For this period, it's been coming in averagely at such a rate, and we will in the future treat the gold to be monetized in an amount equal to the average of what's come in over the recent period."

Knoke: It so happens what we've received practically has been domestic production.

Lochness: Then the other point is that as far as public figures, the gold that has arrived has not gone into the inactive fund. The inactive fund has stayed stationary. It's been absorbed through the Stabilization Fund. So it would be pretty hard to use the figures.

Stewart: Yes.

G.M.Jr: Another thing, the reason we happen to be at a quiet time - if we don't - I mean we might, for

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instance, today get a notice - today or tomorrow get a notice of a new flood of Jap gold from Japan, if we did something that - they'd hook it up with all kinds of rumors. There isn't anything on the horizon just now, so - I mean Russia isn't dumping any gold. So they can't interpret it we're frightened of something.

Stewart: Well, I think the answer was given to mine. I had a hope that you could get a statistical figure that you'd refer to as an average.

H.M.Jr: No, by the time we juggle all this ....

Stewart: That's an answer.

H.M.Jr: ... doesn't leave anything. As I say, what I'm fearful - Japan may start - not fearful, but they might start any time and then we're doing it on account of Japanese gold or something like that.

Knocke: Have you had any indication from the Japanese recently?

H.M.Jr: Oh, they come in and see you now; not me, Mr. Knocke.

Knocke: All right, but I want to say this. I heard late last night that the Japs have talked in the market in New York about further gold shipments. Burgess told me that late last night.

H.M.Jr: No, they come down now and see you people; don't see me.

Eccles: I had this further thought: in speaking of sterilizing only that amount of gold acquisitions received in excess of 25 million a month, you want to take a period ....

Riefler: Make it cumulative.

H.M.Jr: That's my thought. For instance, you've got to - it seems to me you've got to work that out; you might find one month that you actually would lose gold taking it on the net; another month you might get a very substantial amount above 25 million. Now, I think it ought to be worked out in such a way, the statement,

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so that it would be cumulative and over a period of time.

Harrison: You could say that, for the purposes of the Treasury, on the average, until further notice, you'd allow about 25 million to come in.

H.M.Jr: Archie says he'd fix it so it would be about 25 million.

Eccles: Well, all right.

H.M.Jr: Archie says he could juggle it.

Eccles: He'll have to do it anyway, so he'd better be able to.

H.M.Jr: He says he could make it look all right.

Lochhead: You see, if gold went out - if we had to take it out of the Stabilization - depends on which place you take it out, which basket. I'm going to borrow ...

Upham: Keep out of the basket field.

H.M.Jr: What do you fellows back there think? Haas and White, you've been awfully quiet.

Haas: The only thing that concerns me - I don't know how important it is, Mr. Secretary - is, you take the 25 a month, or whatever figure you take, and you have the task of explaining that particular quantitative amount. If you stop the sterilization, you don't have the task of explaining a particular amount. That's the only thing that concerns me.

Harrison: That's the reason I think that, were I sure that you'd be free to resume sterilization at any time you want, I would prefer the flat statement that you began sterilizing a year or so ago for such and such reasons, which are obvious to everybody; that those reasons do not appear to the Treasury to be important today, therefore you have stopped sterilization for the time being. Now, I think that would be the simplest.

Gaston: That is much the simplest.

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- Harrison: And the cleanest cut thing. Except for the difficulty which the Chairman mentioned and the possible difficulty that for political or other reasons it would be difficult for you to resume sterilization if the gold flow turned.
- Riefler: Another point, though - suppose we should have an export of gold. We want that to be a desterilization.
- Taylor: It would be anyhow.
- Lochhead: That would come out .....
- Taylor: Whatever you do under any of these plans, why, if you had an outward movement that would be plus whatever that outward movement was.
- Harrison: May I ask this question. Supposing you have an outward movement of 200 millions of gold next month. Let's forget this desterilization. That will take 200 millions out of bank reserves, unless you reduce debt by that amount.
- H. A. Jr: That's right.
- Harrison: would it be the continued purpose of the Treasury, if there is an export movement, to reduce debt in the present circumstances by the amount of exports of gold?
- H. A. Jr: Well, let me answer .....
- Eccles: That wouldn't reduce bank reserves.
- Harrison: It would.
- Eccles: It wouldn't to the extent that that money was spent.
- Harrison: Yes, because you get an order on the National City for 10 millions withdrawal of deposits; that goes out of bank reserves at once at that stage.
- Eccles: At that stage, and the Treasury gets the cash; now, if they spend the cash or if they retire debt, it gets back in either way.

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- Harrison: Well, I know, but ...
- Eccles: They're not just - of course, if they keep it on balance in the Reserve Bank, it doesn't get back. But they're not going to keep it on balance. They would either retire debt or it would be spent instead of borrowing.
- Lochhead: You either retire debt or you don't incur debt which you otherwise would have.
- Eccles: That's right.
- Lochhead: That's right; you don't retire, but you don't incur debts you otherwise would have.
- H.M.Jr: Well, you decrease your borrowing by that amount. That's what it amounts to - by that amount. Let me put it this way ....
- Harrison: Then it would be much lower than it would have been.
- H.M.Jr: George, we haven't got anything here - we're putting all our cards on the table; we have to in order to get you fellows .... And as I say, if they ask me - the press - "Well, now about your policy?" "Well, the policy is just the same. The only difference is this difference." And if 200 million went out - I mean if the budget was balanced, we would let 200 million run off; but if we had a 200 million dollar deficit during that period, we'd just borrow 200 million less. That's the answer.
- Harrison: Which answers my question; which means that excess reserves at the end of that month will be 200 million dollars less than they would have been otherwise.
- Eccles: No, they wouldn't.
- H.M.Jr: This is grand.
- Harrison: I don't want to delay ...
- H.M.Jr: No wonder a fellow on the street can't understand it.
- Lochhead: I think the reserves would be increased.



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- Eccles: Sure, they would, because the deposits are decreased.
- Harrison: Murriner, I never expected to hear that.
- H.M.Jr: Well, this warms the cockles of my heart. As a farm boy, I enjoy hearing this conversation. It does - it's all right.
- Harrison: You can't make me believe that 200 millions of gold will go out of this country without reducing the net of excess reserves by that amount, unless you do something about it.
- Gaston: It comes out of the inactive account.
- Eccles: You've got to do something about it, but you don't have to retire debt.
- Gaston: You're speaking about a shift from the inactive gold account. The Treasury reduces its inactive gold account.
- Harrison: I admit you can conceal what would have happened.
- Eccles: Money goes out ....
- H.M.Jr: Well now, having passed this technical crisis, may we continue? I mean I know you're not satisfied, but you'll have other opportunities.
- Eccles: We'll take aim on afterwards.
- H.M.Jr: You can retire to the Federal Reserve Board room.
- Harrison: But I admit you could do that by saying the only change in policy is the question of sterilization of incoming gold to X amount, and that's the only change. But just academically, between us, I'd like to get out a pencil and show some of you what would happen if you don't do something about it.
- H.M.Jr: Well, will you take on some of these professors?
- Harrison: No, not the professors.

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H.W.Jr: Well, all right, George.

Harrison: Yes, I'm satisfied.

H.W.Jr: You're satisfied? You're satisfied you're right.

Harrison: Right.

H.W.Jr: All right.

Harry, you've been quiet.

White: I don't think there is any choice between the two, and I don't really like to hear it called a first and a second choice. The chief motive for initiating a reversal of policy is to attain a certain psychological effect. I think there is general agreement that the mechanical effects are too small to be a decisive factor. The question therefore becomes, how are we going to attain that psychological effect? It appears to me that we set a very definite limit to that effect to an extent which makes it a negligible one, by setting a specific amount, 15, 20, or 25, you immediately raise a very pertinent question as to "Why have you selected 25 a month? Is it your opinion that 25 a month is going to be sufficient to turn this situation?" and you introduce or pave the way for a great deal of justifiable criticism that the amounts involved are too small to achieve the purpose.

Therefore, it is an essential that the reversal of policy rest on a qualitative change. You have examined the situation and you feel that the time has now come to cease sterilizing further imports of gold. I think that is preferable to making a distinction between domestic and foreign. We always felt it was preferable. We only went to the second because we might - felt it might be more palatable. But as between that and the second choice of limiting it, I personally don't see any merit in the second choice.

H.W.Jr: Well, let me ask you, in view of the discussion that's taken place so far this morning, knowing what the objectives are, what do you recommend?

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- White: Cessation of sterilization and announcement that until further notice you are going to cease to sterilize.
- Eccles: Both domestic and ....
- White: In other words, the same position that Mr. Rentschler took earlier in the meeting.
- H.M.Jr: Stop sterilizing all gold.
- Taylor: New net acquisitions.
- White: New net acquisitions of gold.
- Haas: Imported or domestic.
- White: Imported or domestic. Not draw a distinction between the two.
- H.M.Jr: Just stop sterilizing.
- White: That's it.
- Upham: No more sterilization.
- Eccles: From a standpoint of a psychological effect.
- White: That's quite right, which is the sole justification for this step at this time.
- Eccles: Now, just assume that you should get a huge importation again.
- White: I think that would be quite an appropriate time to reexamine the situation and to take the step which is called for. Not a reversal of policy; it is an execution of a flexible policy. The very term "flexible policy" - the very term "policy" implies that there are times when you use it in one direction, there are times when you use it in another direction. It appears to me that that is inherent in any adoption of any policy, and I see no reason why we should be concerned over our independence of action and the prospect of calling together the same group of people and deciding that the same situation has arisen that brought the policy into being. I don't see the difficulties.

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Woolley: Let me put it this way. You announce a discontinuance of sterilization without having any knowledge whatsoever as to whether or not that policy would greatly increase excess reserves or would not increase them at all. Therefore, the announcement that you'd make, you must know, leaves the domestic monetary situation in a very uncertain position, because you have no knowledge as to what amount is going into the reserve picture. You are leaving the thing entirely to chance and you are depending upon a psychological effect instead upon managing it.

Wente: There is a very important distinction. The chance lies all in one direction. The chance, which can hardly be called a danger in the present state of business activity, is that there might be a substantial increase in the reserves by virtue of a very, at present, unforeseen but possible substantial importation of gold. It appears to me that this is one of the effects that we would like to create; that that is a possibility, and if that does happen we are not going to abandon attempts to check the recession; if that inflow continues, and if at the same time business improves to the extent that you fear that that addition is going to create problems, then I think that is quite an appropriate time to reexamine the situation and take whatever steps are necessary.

Woolley: If you need reserves, see, in order to turn the thing, then we have ways of giving those reserves. If we don't need the reserves, then why undertake to leave a situation where it is entirely indefinite as to whether or not they are going to increase.

Now, I don't know what - is there any - taking the English, for instance, not that we necessarily need to follow them; but they - they, of course, do sterilize. In other words, the Bank of England, together with the Treasury, control very definitely the amount that goes into the banking structure. They don't simply leave it entirely to chance. They don't make a public announcement to the effect that "We're going to leave this whole thing to chance, with the hope that it will create an inflation psychology."

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- White: I don't think it is reasonable to say that we're leaving things to chance, because neither the Secretary nor yourself is going away for a year's vacation.
- H.M.Jr: Can't be sure.
- White: well, it will be either less than a year or longer than a year, but ... - if you know what I mean.
- (Hearty laughter)
- Dyham: That's telling him.
- Taylor: You and God.
- H.M.Jr: Go ahead, Harry. I just wanted to break the strain.
- White: A most effective answer to the objection the Chairman is raising is this: Unless you feel this act is going to have a bullish or expansive psychological effect, unless you feel that, why take it? And if you do feel it, it must be so because some impression somehow or other is going to be deduced; we are not at all certain, but some impression is going to be deduced that there is a reversal of policy and that there will be some expansive effects created as a consequence of that. If you feel that, how are you going to answer the question, "Why did you select 25 million dollars a month? Do you feel that the mechanical effects of that 25 million dollars a month are going to do the trick?" I don't think you do.
- Eccles: No. I don't know.
- White: Then why limit the attempt to achieve as effective a step as possible? It seems to me we'll have ample opportunity before we reach the point at which there is any immediate prospect of danger of inflation - before that time is reached, it appears to me you not only can continue to sterilize gold, but again reverse the gold policy and acquire much more.
- Eccles: I don't think the announcement of discontinuing sterilization would have much of a psychological

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effect, because in the present situation you are not sterilizing any to amount to anything. I mean everybody would say, "Well, that isn't - that's more or less meaningless, unless we get a substantial amount of gold in here and it goes into the bank structure. Then what that does is just build up reserves - merely building up reserves. How can that in itself be inflationary?" I mean that's the way the thing looks to me.

Now, on the other hand, if we really want to get an inflationary development here and get a real - get an effect of it, you've got to get a doggone sight more than 25 million or you've got to get - merely an indefinite amount that may be nothing or may be less than 25 or may be more than 25 isn't going to do it.

White: I think your statement is an excellent answer to your own objection, because everything you said goes with greater force against a cessation of a sterilization of a moderate amount like 25 million. Exactly.

Lucas: I'm not arguing for the 25.

White: I thought you were.

Lucas: No, no, I - no, I'm not - I don't have any faith in it. I'm not recommending it. I just say I certainly have no objection to it, and of the various programs discussed here, that would be - the one that was discussed yesterday was the most favorable, dealing with domestic supply; but, for the reasons stated now, this would appear to be the most favorable. But I don't have any particular faith myself at all in the effect of it. It certainly - if it has any effect, it would be on the - naturally, on an inflation side. But I think it would have practically no effect. That would be my opinion of it.

R.M.Jr: Could I just, while you people are thinking - I got a slight modification to suggest, which is really yours, Marriner. What would you think of this? Instead of saying 25 million a month, saying that the first - we would or would not sterilize up to a

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hundred million dollars during any one quarter, see? I mean that gives it a little bit - I mean that we would not sterilize up to a hundred million dollars net acquisitions of gold during any quarter, and that ...

Golden.: It raises the ante a little.

H.M.Jr: Pardon?

Golden.: It raises the ante a little.

Eccles: It sounds better. I mean if we're going ...

Stewart: That's much better.

H.M.Jr: Then if I say - if Japan dumps 40 or 50 million on us, that goes right through.

Eccles: It raises ...

Stewart: It raises a better figure.

Eccles: I think it's better.

H.M.Jr: Say net up to a hundred million dollars in any quarter.

Stewart: Much better.

H.M.Jr: What?

Stewart: Much better.

Eccles: I think it's better; 25 sounds awful small.

H.M.Jr: What do you (Gaston) think of that?

Gaston: I like everything that moves in that direction of stopping sterilization.

H.M.Jr: Walter Stewart, you like that better.

Stewart: I do very, very much.

H.M.Jr: What?

Stewart: Yes, I do.

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H.M.Jr: How about you, Riefler?

Riefler: I like it better.

H.M.Jr: Huh? That gives us a chance to play. And we could make that for this quarter, so we get the effects right away. I mean make it for this particular quarter. What? If you get - want to get the play right away, make it as of this quarter.

Golden.: That's the advantage of introducing a figure that has some substance to it.

H.M.Jr: It has some substance, and it takes care of the genuine objection which Mr. Eccles raised, being charged with the responsibility which he has; and he knows the worst that he could - he knows just where he stands, and it means more. Huh? It has some meaning.

Golden.: I think that's the best proposal.

H.M.Jr: Well, it's really Eccles' proposal. I've just changed the figures on it. I mean instead of making it - I've raised it 25 million, that's what I've done; make it 100 million instead of 75; make it for the quarter. Down here in Washington, you know, it's got to be either a hundred million or a billion; I mean we can't fuss around with anything less than that.

Rentschler: No hat sizes.

H.M.Jr: No.

Harrison: I've heard ten million mentioned lately.

H.M.Jr: What - did I ask you (Riefler)?

Riefler: (Nods yes)

H.M.Jr: Well, why not let's chew on that a little bit? You (Harrison) all right on that?

Harrison: I think that is superior to any suggestion other than the broader fundamental one which Dr. White has mentioned, but which has the objections that Mr.



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Eccles referred to, and I fear myself that it might be difficult for you to resume sterilization, or more difficult for you to than under this program.

H.M.Jr: Herbert, you wouldn't have any objection from a public relations standpoint on that, would you?

Gaston: I don't think so. Of course, it goes back to January 1 in this quarter, and I was also thinking of the fact that in the first two quarters of the year it would be 200 million dollars. I'd a little rather have started from the present date.

H.M.Jr: Well ...

Riefler: Don't you think there'd be an advantage in having the two back months, so it would mean an actual release?

H.M.Jr: How much would that give us?

Lochhead: You mean you're going to release what you have taken?

H.M.Jr: I mean what has come in.

Gaston: Release net acquisitions from January 1.

Eccles: Until further notice, each quarter.

Lochhead: Of course, the inactive fund hasn't increased at all since the first of January. Now, I can release what has come - frankly speaking, I wouldn't say much more than 25 or 30 million, even allowing for 15 domestic.

Rentschler: Well, 15 a month - you've got 45.

Lochhead: Very little else.

H.M.Jr: You like going back to the first of January, Wayne?

Taylor: Very much.

H.M.Jr: What?

Eccles: I do.

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Gaston: I think it's all right.

Harrison: I don't think you have to explain that in your statement, and I think a simple general statement of 100 million a quarter is all you've got to do.

Coates: But you've got to say the starting date, George.

Harrison: Well, you can explain that in your collateral statements, Mr. Gaston.

H.S.Jr: well, let me get this thing straight now, just see where we're at. I don't want to go too fast, but without committing anybody, I gather - well, there's some here would rather ~~stop~~ all sterilization; well, I can see at this time that we can't go that far; but, lacking that, we have the idea of saying we would not sterilize net acquisitions of gold up to a hundred million dollars that comes in in any quarter. Then the question is, if that is at the moment what the people think they like the best here, should we say to the British Treasury, "Now, we think we'll announce this. If you want to do something similar, fine." Or should we - I mean we'll give them notice anyway - or should we sit back and wait, or just go ahead and say, "We feel this is right and we hope you'll follow and back us up?"

Coates: You'd say "for this quarter and future quarters, until further notice."

Stewart: Mr. Secretary, does that mean there would be a net acquisition in case - does it carry with that that there would be a net addition, or depend on what is received?

H.S.Jr: Let me put it the way I did - what I am talking about is that if you get net acquisitions - if we take in net up to a hundred million dollars during the first quarter, that will not be sterilized; if we take in 101 million dollars, why, then the million ...

Stewart: If you take in 50.

H.S.Jr: If you take in 50, it would not be sterilized.

Stewart: But would you de-sterilize another 50? Is it 100 or does it depend on how much comes in?

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- H.M.Jr: No, depends on how much comes in. Does that clear it up?
- Stewart: Yes. I just wanted to be clear.
- H.M.Jr: If it doesn't come in, we don't do anything about it.
- Stewart: If it goes out, there is no net addition.
- H.M.Jr: Pardon?
- Stewart: If it goes out, there is no net addition at all.
- Taylor: There would be a subtraction from your inactive fund by whatever ...
- Stewart: I just wanted to be clear.
- H.M.Jr: Does that clear up that? I mean if we, for instance, would buy 75 million dollars worth of gold and 65 million dollars went out, why, the net would be 10, wouldn't it, and the result would be we wouldn't sterilize any gold.
- Harrison: The only new addition to reserves, therefore, if this policy is adopted, would be the desterilization of that amount of gold which has come in during January and this part of February, to make the policy retroactive to January 1.
- Eccles: That's right.
- H.M.Jr: Now, the only thing on that is, how can we say to sterilize 30 million dollars now until you know what it is about the 31st of March?
- Harrison: Yes.
- Riefler: Well, you'd desterilize all of the gold that's come in to date and continue until you got your limit.
- Taylor: Until you got your limit.
- H.M.Jr: I don't hear you.
- Taylor: You'd ....

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- Harrison: I think you're right on that, Mr. Secretary. I'd just do nothing at the moment.
- H.W.Jr: Well, you going to accumulate it? Well, as a matter of fact, it is not being sterilized; it is being accumulated in the Stabilization Fund, isn't it?
- Lochhead: Yes, it is not appearing on the inactive gold account.
- H.W.Jr: Wayne, what you do - on the 31st we take a look at it, and we'd clear the fund once every three months. That's what it would amount to.
- Lochhead: Yes, if we continue to take everything into the Stabilization.
- H.W.Jr: Yes. As a matter of fact, we're taking this now, aren't we, and we're taking in gold in the Stabilization Fund. And then about the 31st we'd look the thing over and - I mean this is one way to do it - and if we had 90 million dollars, then on the 31st we'd deposit 90 million dollars with the Fed. Or would we do it as we go along?
- Lochhead: Well, I <sup>was</sup> thinking of one point just now.
- H.W.Jr: There would be two ways to do it.
- Lochhead: Supposing France ...
- H.W.Jr: There would be two ways to do it.
- Taylor: Have to do it once a month, otherwise, it seems to me - at the end of the month.
- Lochhead: Supposing we're optimistic and France gained 25 million dollars of gold from us this month and asked us to ship it to France. Where would we take that 25 million out?
- Gaston: Inactive.
- Lochhead: Inactive. All right. Then if we take that out of the inactive, supposing, on the other hand, we get 25 million of gold in from Japan, which I have taken

in the stabilization account. Now, what would you say - just those two transactions - now, what is the net result going to be? Am I going to put in 25 million worth of gold certificates for the gold we got in from Japan, or am I simply going to offset that against the 25 million we have shipped to France?

Harrison: Your initial mistake is putting that Japanese gold in the stabilization account.

Lochhead: Well, I was going to say, is that where we put it or do we simply deposit gold certificates? That's the point. If I put it in the Stabilization, it doesn't show up in the gold certificate fund, and you're not having any excess reserves created.

Eccles: Why don't you ....

Lochhead: In other words, what I'm trying to find out, are we going to issue gold certificates for imports up to a hundred million dollars, regardless of what we take out of the inactive account for gold losses?

H.M.Jr: See if I can do it. Let's say this is the first of January. I mean I'm thinking out loud. This is the first of January. And in order to get the effect of this thing, as we acquired gold, wherever it came from, as we bought gold, each day we'd deposit those certificates with the Federal Reserve, and we go along on that basis; let's say we reached this point, and now we have deposited 30 million dollars; having got in that much, we deposited 30 million dollars as of the 11th of February, because as the gold came in we deposited it. Well, tomorrow France takes out 10. Well, I would say that that 10 would come out of the inactive fund, wouldn't it?

Lochhead: Under the present policy.

H.M.Jr: But I'm just thinking out loud. And what we might find is that we had to deposit a little extra with the Fed, see?

Eccles: It seems to me ....

H.M.Jr: We might deposit a little bit extra, and then we might have to make the adjustment next quarter or

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something like that.

Eccles: Why wouldn't ...

H.M.Jr: But to get the effect we ought to deposit the gold with the Fed as it comes in.

Eccles: What seems to me is the thing - if any new acquisitions of gold would be immediately turned over to the Federal up until we had received in new acquisitions of gold a hundred million within any quarter, that any gold that may go out is a thing apart. That gold that goes out - you would take the cash that you get from that gold and either reduce the debt or you would - you would reduce the amount that you'd otherwise have to borrow. Either reduce the debt or you would have ....

H.M.Jr: Well, which fund would it come out of? It would come out of the inactive.

Eccles: Yes, that would come out of the inactive.

H.M.Jr: Well, this would be much more effective.

Lochhead: Well, let me say, then, talking about net - we must say the gross.

Eccles: Yes, that's the gross. That's my thought. You'd say the gross, and it would do one thing; it would be notice to the country that ...

H.M.Jr: This is much better.

Eccles: ... that you were not going to borrow any money in order to buy gold, up to an amount of 400 million, or unless gold coming in exceeded 400 million. Or, assuming that no gold went out and gold coming in did not exceed 400 million, you would have to borrow no money whatever. Now, if - if gold goes out, then you're that much better off. You've not only got the 400 million, ...

Now, the thing that I - I don't like to appear to be just arbitrary. I may appear that way sometime. But, speaking of the discontinuance of sterilization,

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I know that I'd have a tough job to - in the first place, I'm not converted to it myself, and I've tried to look at it from every standpoint and I've tried to be as open-minded as I could on it; and I know that very few others - in fact I don't believe any of the others on the Board or on the staff are converted; even if I was, I'd have one hell of a job converting the rest of them. So that I mean that ...

H.M.Jr: Well, we understand that.

Boales: Now we get to the ... What this accomplishes, it seems to me, is to give certainly to the Reserve System a possibility of getting up to 400 million dollars.

H.M.Jr: Yes, that's right.

Boales: Now, it's not likely to exceed that, in any circumstances, and it is a notice to the country that we're controlling the amount - a hundred million a quarter, which is a substantial amount - and that we can continue it as long as we feel that it is necessary or we can discontinue it when necessary; and any gold that goes out is not going to influence or affect in any way the inflationary effect of that 400 million we're going to put in during the year.

H.M.Jr: That's right. And it takes care of your position.

Boales: Yes.

Harrison: Puts a roof on your responsibility.

H.M.Jr: Don't you agree, Riefler? You for this, Riefler?

Riefler: Yes.

H.M.Jr: I'm surprised.

Riefler: Why?

H.M.Jr: So inflationary.

Taylor: You're cutting out the word "net" entirely.

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- H.M.Jr: Yes. We're trying to explain it to ourselves. When you get through, you people will find out we've got little drawers all around and we've got gold in every pocket - little everywhere.
- From my standpoint, I think this really might have some effect.
- Eccles: Yes. We're getting now down to business.
- H.M.Jr: This would have some effect.
- Gaston: Yes.
- H.M.Jr: How about you back seat ~~drivers~~ there?
- Haas: O.K. with me.
- White: I've got nothing new to say. Everything I said before applies, even though you raise the ante from 75 to 100.
- H.M.Jr: It's much more than that.
- White: 100 a quarter.
- H.M.Jr: Oh, no, on a net basis.
- White: That was always implicit; we always understood that if gold went out, it would go out of the inactive fund.
- Taylor: No, no.
- H.M.Jr: No, might have got nothing. This means that definitely ....
- Eccles: All the domestic gold - that's a certainty.
- White: I'm sorry, I think just the opposite. There has been a possibility that there might have been substantial outflows, and it has always been our understanding that those outflows would come out of the inactive account.
- H.M.Jr: I understand that. You couldn't use the word "net" and get that result.



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- White: I never checked with the word "net." Something was injected later in the situation, see, by which I think everybody else understood we were talking about net.
- Eccles: If you merely announced a discontinuance of sterilization, you possibly wouldn't commence to get the amount of gold released that you'll get this way. You'll really get more excess reserves this way than you will if you announce merely a discontinuance.
- H.M.Jr: Oh yes. And you get it definitely.
- How about you fellows down there? Stewart?
- Stewart: Yes, I think you have increased the magnitude and kept control of it, got better management than in any other plan we have discussed.
- H.M.Jr: Warren?
- Warren: Yes, the sum is approximately double that originally suggested, and the method of feeding it in is, I should say, more calculated to have a psychological effect.
- Golden.: May I say one more word?
- H.M.Jr: Do you mind letting him finish?
- Golden.: Excuse me, I'm sorry.
- Warren: I'm finished.
- H.M.Jr: Go ahead.
- Warren: No, I've completed my ....
- H.M.Jr: Well, I didn't get what you said. I didn't get the end of your sentence.
- Warren: I think the psychological effect will be, because of the use of round numbers, more than it would have been by the proposal to make it on a monthly or weekly basis. A hundred million a quarter sounds like more than the equivalent amount per week.

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McCles: Saying gross instead of net gives some assurance you're going to get it.

H.A.Jr: Now Dr. Goldenweiser?

Warren: I just had one thing. I'm not wholly convinced that too great hopes should be built on the psychological effect of this.

H.A.Jr: I accept that. I don't - I haven't made - I mean the way I feel is this; that is, I've been told again and again in approaching this - and on account of the rules of the game I shut out the other thing which has also been told me: "Well now, you're not getting at the fundamentals," and so forth and so on. Well now, all right, I've shoved that aside. But while we're getting to what the so-called fundamentals are, this thing is going down so damn fast. Now, this is my responsibility, plus the relationship that I have with the Federal Reserve. Now, I want to make sure that as this thing goes down, I fill my responsibility. Now, I am perfectly cognizant and perfectly willing to risk my reputation that this may not be effective. But on the other hand, if I didn't do everything that I could to fulfill my duty, I wouldn't be satisfied.

I realize there are a lot of other things which are not under discussion here today, and we're having trouble enough arriving at that, although we're making great progress. But the very fact that this may not, in the opinion of very learned people and some able people - may not get at the fundamentals, doesn't in my opinion mean that it isn't worth while trying.

Warren: No, quite the contrary.

H.A.Jr: See what I mean? I mean I'm - I know what's going on and I know what people say and what they think. But that doesn't mean that this shouldn't be tried, you agree with me.

Warren: Oh yes, I agree with you.

McCles: This won't be deflationary, certainly.

Warren: Oh no.

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Eccles: If it isn't inflationary, it will certainly be anti-deflationary.

H.W.Jr: What do you (Rentschler) think?

Rentschler: I think it's all right.

H.W.Jr: What?

Rentschler: I think it's a real step in the right direction.

Golden.: Mr. Secretary, I haven't given my little inflationary word yet. I've got a - I'd be perfectly satisfied with that, think it's the best of the plans we have discussed; but I would have liked it better if you could have answered Walter Stewart's question the other way and say that you're going to add a hundred million dollars to our monetary base whether or not it comes in.

Harrison: You've got a much better chance of doing it on this gross basis than on the other.

Golden.: I wouldn't say any amount up to a hundred million; let's say a hundred million. And then if it comes in, all right; if not, I'd make it up.

H.W.Jr: Just a minute. (Receives clippings from Mrs. Betts)

Eccles: I think, taking all the factors into account, we've got nothing ...

H.W.Jr: I want to ask you people ... Could I have your attention just a minute? - This is a very peaceful meeting.

I'm just - let me just get this thought. I mean I'm not trying to stop anybody, but I think that as of - lacking 15 minutes of a three-hour conference, I think we have made real progress.

Now, what I've got to do is - I mean this is different than what I talked with the President when I had lunch with him Tuesday, when I discussed this thing and also this question of taking care of relief. Personally, I think we have traveled far and wisely, considering everything that we have to deal with - I mean a lot of things that we all have in the back of our mind. But, knowing that we have arrived at this, personally

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I am entirely happy, think it's a great improvement.

Now, the English thing is particularly something which the President knows - just what the situation is as of this minute with England.

I'm just wondering - I mean I've got Cabinet this afternoon - I'm just wondering if there is anything more - I mean I can't do anything more this afternoon, down to tomorrow morning, but I don't know whether I want to tie you people up here to talk again tomorrow morning. I mean I'd like to get this from the people who are out of town - the out-of-town people. Do they feel that they have given me everything that they've got on this thing? Are they satisfied as it stands now, see? Let me just look at the out-of-town people.

Rentschler: I'm satisfied.

H.M.Jr: What?

Rentschler: I'm satisfied with this.

H.M.Jr: As it stands now?

Rentschler: Uh-huh.

H.M.Jr: You've been awful quiet. Would you care to say what your best guess is as to what the effect would be?

Rentschler: Oh, I imagine the first thing would be a drop in the dollar on the other side, and I think if we are patient it will be a very short time till we'll come back into a proper equilibrium again. As far as the effect on the market is concerned, that is very difficult to say because of the other complications that come in with it. But it certainly won't be considered as deflationary, and it will probably be considered that - the commodity markets might take a considerable amount of courage from it.

H.M.Jr: But you feel going this - I mean you'd be glad to see us do it.

Rentschler: Yes, I'm very much in favor of it, because every

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step that we can take toward desterilizing, getting rid of the sterilization of gold, I think, is proper. If this move can be made in a way that everybody is happy with it, I think it is a big step in the right direction.

H.M.Jr: Now, how much importance do you attach to waiting to hear from England, as opposed to doing it over this week-end? Because talking to England means a week or ten days.

Rentschler: I don't put as much importance on that, I think, as some of the other gentlemen do. I think if England is told that we plan to do it in the way that you and they have talked to each other in the past - I think you've done all that is necessary.

H.M.Jr: Now you two gentlemen (Stewart and Warren) from out of town. I mean I'm trying - I mean ...

Stewart: There is nothing, I think, Mr. Secretary, that I could add beyond the discussion we have had here.

H.M.Jr: And you feel happy?

Stewart: I feel happy about it.

H.M.Jr: You feel perfectly happy?

Stewart: Yes, sir.

H.M.Jr: Mr. Warren?

Warren: I'm sure that as soon as I get out of the door I'll think of dozens of things I didn't think of while I was here, and one of them that has just come up in connection with the remark just made on the association with England - it was stated that there was a fair probability that this announcement would be followed by a sharp move in sterling exchange. That might become a very sharp move or it might become negligible, but I think it raises a number of questions which were not canvassed at this meeting.

H.M.Jr: Now - but that's where the tripartite comes in, begins to work.

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- Lochhead: May be strengthened, but not necessarily a sharp turn. Any sharp turn will be taken care of.
- Warren: No, not necessarily sharp; but I'm not sure that it shouldn't be considered.
- White: They can determine the rate, put it at any level they want.
- H.M.Jr: Well, let me - if we get on that, I'm more than willing if you gentlemen want to stay here tomorrow and discuss that - the question of sterling, I mean, the rate. I'm more than willing to get in on that. But that doesn't particularly disturb me. And as a matter of fact, if ~~sterling~~ ran up a little bit, I think it would be very nice. So it doesn't - and if this thing that we did would help the franc out temporarily, it would be very nice, because heavens knows they need all the help they can get.
- But, as I say, that is worthy of another day's discussion, isn't it?
- Warren: I think it is.
- H.M.Jr: No, I mean if you're going to get into it. Frankly, from the standpoint of the United States Government, that doesn't worry me. It might worry the British like hell.
- Warren: It worries me from the standpoint of the commodity market.
- H.M.Jr: Well, it's good for the commodity market. It's good. I mean everything ....
- Harrison: Theoretically good if sterling goes up, but the sudden gyrations often happen not to be good. I don't know that they will be - I'm not saying that it's going to make awfully much difference.
- Riefler: None of that would happen if they came along with us.
- H.M.Jr: But that's the only thing you'd think of now.
- Stewart?
- Stewart: Nothing more.

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H.M.Jr: I'm only taking the out-of-town people.

Knoke?

Knoke: Well, I'm almost entirely happy over the new plan, but I feel strongly that the British should be given a chance beforehand, which would only be in the spirit of the tripartite agreement. I think they expect it, and they almost have a right to expect that we talk to them beforehand. We don't have to ask them for their opinion, but we should tell them before and give them a chance to give us their reaction.

H.M.Jr: All right. You (Riefler) are an out-of-towner for the moment, as far as - I mean you can ...

Riefler: I'd feel entirely happy if the British would see their way to come along fairly simultaneously. Otherwise, I would like the long range and be prepared for disappointment on its immediate effect. We do have a group abroad and some here who want to interpret every monetary move coming from Washington in as funny a manner as they can, and it would take the edge off of that entirely if it were a fairly simultaneous thing. I'm quite sure you'd get your effect if it is simultaneous. I'm not dead sure of your immediate effects if it isn't.

H.M.Jr: All right.

George?

Harrison: I agree very strongly with what Mr. Riefler has just said. I've been in favor from the beginning of doing something. I think this is the best plan that's been suggested, and I would do it. But I don't see myself, although I haven't got the information that you have - I don't see myself the impelling reason for acting over the week-end if by doing so you don't give the British an appropriate opportunity to consider and to come along with us if they want to.

H.M.Jr: Well, Marriner, you're here and we can talk; but as this thing is now, how does it sound?

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Eccles: It sounds all right to me. I'd like, of course, to think about it, and I'd like to discuss ....

H.M.Jr: Will you talk to the Board this afternoon?

Eccles: Yes, I'll do that.

H.M.Jr: Will you please?

Eccles: I'll do that. But I feel that this is rather a happy solution of what appeared to be quite - getting into quite a difficult problem.

H.M.Jr: Taking everybody's problems into consideration, I think it is a very happy solution.

Harrison: So do I.

H.M.Jr: Now, can you (Riefler) stay?

Riefler: I'm going to be here tomorrow. I have an engagement. I have a committee meeting of the Social Science Research Council tomorrow. I'll have to be there most of the time, but I could get away for ...

H.M.Jr: I mean if something comes up and this is changed, will Archie know where you are?

Riefler: I'll be at the Hay-Adams.

H.M.Jr: So you're here. And you (Harrison) are staying, aren't you?

Harrison: Yes, I'll be here tomorrow.

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

All right. I think it's a good meeting.



EG

GRAY

Paris

Dated February 10, 1938

Rec'd 3 p.m.

Secretary of State,  
Washington.

222, February 10, 4 p.m. (SECTION ONE)

FROM COCHRAN

Bank of France statement issued this noon for week ended February 3 showed gold loss 3,127,000,000 francs as anticipated in my 189, February 4, 11 a.m. Following statement of Minister of Finance reported in my 200, February 3, 6 p.m. above loss to the stabilization fund has been expected. Consequently the effects have been discounted and there was no unfavorable reaction on today's exchange market. On the contrary the fact that the statement revealed no new borrowing by the Treasury at the bank was a happy surprise to some.

Minister of Finance Marchandau spoke at American Club luncheon today. After mentioning the unhappy lot of a Minister of Finance and the discouraging messages which he constantly receives, he referred in sharp contrast and most appreciatively to the recent statement on the part of Secretary Morgenthau which Marchandau had found so "helpful, timely and indicative of an understanding in the French monetary situation".

BULLITT

CSB

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PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 222  
FROM THE AMERICAN EMBASSY, PARIS, FEBRUARY 10, 1938

I had a private conversation today with Marchandean, Fournier also being present. They indicated their belief that with a little time and considerable compromise they could work out the labor pact, and the present Government would not fall on that issue. I was informed by Fournier that the loan for the Credit National, in the amount of one billion francs, which opened on February 7, is going well. He said the loan was already over sixty percent subscribed, and that within a few days it should be closed. Fournier expressed the opinion that the Credit National loan could be followed by one for the City of Paris or a straight Treasury issue, which will relieve the Government from having to borrow from the Bank of France during the current month.

In the speech of the Minister of Finance he said nothing about definite measures for recovery in the financial field. In a conversation with Fournier and Rueff they told me that tax revision would have to be a slow process. Fournier was emphatic in saying that they still have no idea of re-valuing the gold reserves of the Bank of France.

The financial press today is not too kind to the "shock proof" franc of the Minister of Finance. The press raises again the need for keeping the gold of the Bank of France as a war chest for the country.

END MESSAGE.

EA:LWW

BULLITT.

JR

PLAIN

London

Dated February 10, 1938

Rec'd 3:28 p.m.

Secretary of State,  
Washington.

119, February 10, 8 p.m.

FOR TREASURY FROM BUTTERWORTH.

Referring to the increase in unemployment (see my 113 of February 8, 8 p.m.) the Prime Minister stated in the House of Commons this afternoon that it was largely due to causes of a seasonal character and was not of such a nature as to call for the initiation of measures other than those which the Government was in the course of applying for the stimulation of employment. The preparation of plans for the future was not being overlooked; the Government was now considering what future steps it could take in conjunction particularly with local authorities. Mr. Chamberlain added that at the same time he thought it right to say that too much reliance should not be placed on the possibility of doing more by such plans than contributing in some degree to reducing the fluctuations of trade and unemployment.

JOHNSON

CSB

JBS

GRAY

London

Dated February 11, 1938

Rec'd 3:25 p.m.

Secretary of State,  
Washington.

122, February 11, 7 p.m. ~~122~~

FOR TREASURY FROM BUTTERWORTH.

The strength of the franc in terms of sterling seems to be almost entirely due as far as this country is concerned to foreign exchange dealers covering their positions and not to any repatriation of capital as such. Most dealers, anticipating an adverse movement upon the publication of the reduction in the Bank of France's gold reserve, were short of francs; when no such effect occurred there developed instead a rush to close commitments. The French control allowed the franc to strengthen from 152½ to 151 3/8; it gained substantial quantities <sup>of sterling</sup> during the day. The futures likewise moved in, one month closing at one and one half, three months four three quarters. The Swiss selling of dollars against gold purchases which has been going on for some weeks was importantly evident today.

JOHNSON

GGP:

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 11, 1938, 5 p.m.

NO.: 227

RUSH

FROM COCHRAN.

Franc opened at 152.50 to the pound this morning and rose to 152.30 by 4:30 this afternoon. Forwards also better and rentes higher. Commission on Credit National loan has been reduced from 20 to 8 francs per thousand and issue going well.

I was told by my official contact at 4:45 that the French control had enjoyed its best day for quite a while. He said by that hour it had gained almost 2,000,000 pounds. The recovery he said was due to the following -

(1) The operators were disappointed because they had expected that the announcement of the Bank of France of yesterday would show a rise in the discount rate, and an increase in borrowing from the Bank of France by the Treasury.

(2) International speculators are uneasy; they think conditions reported from Germany warrant a reduction of commitments.

(3) Operators who had contracted sterling heavily just a month ago covered in francs.

-2-

My friend thus believes the recovery is due more to a technical reaction than a basic change in the situation, but nevertheless he is delighted with the development.

Minister of Finance Marchandean's American Club speech was well received by the press and emphasis placed upon Franco-American monetary cooperation. Yesterday afternoon he successfully defended in the Chamber the operation of transferring gold from the bank to the control but the general policy of continuing to surrender "war chest" gold came up in the debate as it has in the press.

BULLITT

EA:DJW

## RE GOLD MOVE

February 11, 1938.  
4:30 p.m.

Present: Mr. Taylor  
Mr. Gaston  
Mr. Lochhead  
Mr. Haas  
Mr. White  
Mr. Riefler  
Mr. Knoke  
Mr. Feis

H.M.Jr: I was waiting for Feis. I won't wait, because what I wanted to know first is, has anybody had any afterthoughts since this morning? I got that note from Warren stressing the angle of importance of cooperation with England. Anybody got any afterthoughts?

Haas: I have one thought. I don't know if it's "after" or not.

H.M.Jr: Well, it's after 4:30 anyway.

Haas: That is, I think if something is going to be done, it would be preferable to do it over this week-end rather than waiting until some time later, because there will be speculation about it - that is, meetings being held - and what is done may be less than they anticipate.

H.M.Jr: Well, the other thing is, the stock market is closed tomorrow, I think.

Taylor: On the English business, I think that we should do them the courtesy of telling them what we're going to do and that's all.

H.M.Jr: You think so? You think that is necessary?

Taylor: What?

H.M.Jr: You think that is necessary?

Taylor: I don't think it's necessary, but I think that - "We're going to do this, for your information," and that's all - if you want to do it at all.

H.M.Jr: I don't think that's necessary, Wayne. Do you think so?

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Taylor: (Nods no)

H.M.Jr: What?

Taylor: I wouldn't put it up to them to give them a chance to comment on it one way or the other.

H.M.Jr: Well, all right. I talked to Butterworth an hour ago and I asked him to put it up to them.

Taylor: Huh?

H.M.Jr: I asked Butterworth to put it up to them an hour ago. I thought I'd get him at 4:30, but I got him earlier. That's what I'm sending for Herbert Feis for, to keep him posted, to tell him just what we were proposing to do. I told Butterworth to get up just as high in the British Treasury as possible; that I didn't say I wouldn't do it if they didn't go along, but (1) if they could do something of a similar nature at about the same time, I thought it would be helpful; or, lacking that, if they could give it a good send-off from their side; that takes care of Bob Warren's thing, see? And that I would talk to him again at 9:15 tomorrow morning.

So I was just kidding you, Wayne. Little late in the day, I know. Little late in the week. But, having just been told that due to Aubrey Williams' performance on the Hill I have to go up tomorrow and make a fight on the 250 million, I needed to cry; be silly, so I thought it better to be silly. I mean coming on top of everything else - pretty late in the day, after having been told I wasn't needed. Called just now and told me.

Well, I spoke to the President; only had about - not more than 60 seconds. His comment was that he'd been thinking about this a lot. He thought the \$15,000,000 was an awful piddling amount and this sounded good to him. So after all - that's all he said, so .... But I thought - I mean I just wanted to have you fellows say, "Well now, Mr. Morgenthau, I've got this or the other thing that I thought of during the day, and before you move you'd better think this or that." And this is a sort of second breath thing.



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Incidentally, you better draft it along this line. Have somebody in Oliphant's office take it tonight and have it ready tomorrow morning.

Gaston: Yes.

H.M.Jr: I may see the President about ten, and I want it with all the necessary initials by not later than ten o'clock tomorrow morning.

Gaston: All right.

H.M.Jr: Please.

Gaston: All right.

I'm still a little bit worried about this gross proposition. It might work one way and it might work another way. If there should happen to be considerable movements inward from, say, Japan, for instance, and considerable movement outward to Europe, without any net reduction in the gold stock, you would get a very sharp reduction in your inactive.

Taylor: That's right.

Gaston: And I'm inclined to still think that it would be better to put it on the net basis or else say flatly, "We'll stop sterilizing all acquisitions."

H.M.Jr: You (Lochhead) take him on.

Lochhead: Why, I think that was all argued out in the meeting this morning. I think the main thing is, though, that we got the Board to agree that it was the - that anything that came in was to go into the System, while anything that went out was to come out of the inactive. As long as that was agreed, I'm perfectly satisfied.

Gaston: This might work a very sharp reduction in the inactive gold.

Haas: All right.

Lochhead: All right.

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H.W.Jr: You fellows argue. If you don't mind, I'd like to coast a little bit.

Gaston: All right.

H.W.Jr: Go ahead.

Gaston: I think it's just - it might be regarded as a little bit deceitful. What on the face of it is a declaration that we're going to put into the working balance and free of sterilization all acquisitions of gold up to so much a quarter - that's what it appears to be on the face of it, but in fact it might work out to accomplish ~~very~~ very considerable net reduction of the existing stock of inactive gold without any corresponding change in the gold - in the entire gold stock.

Riefler: Take this position. Suppose that if ....

Gaston: If you had corresponding inflow and outflow.

Riefler: Suppose we got a billion dollars from Japan and we got - just assume a billion dollars inflow from Japan and a billion dollars outflow to England, so there is no change in the gold at all.

Gaston: We would have reduced our ....

Riefler: We would have desterilized a billion dollars gold going to England, taken out of the inactive account, and we would put into the inactive account 900 million of the billion coming from Japan. Leaves a net increase of 100 million, which is exactly what we want to increase.

Gaston: That's right, a net increase of up to a hundred million a quarter; over the year it could amount to more than 400 million dollars of the present stock.

White: I don't know why the whole question of letting gold go out of the inactive account was raised at all. The practice we were following was under the assumption that gold coming in goes into the inactive account; any substantial amounts of gold going out which didn't go out in the same amount or within the range that

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Archie wants to operate, goes out of the inactive account. That's what it was. That was perfectly satisfactory. Now we're raising a new issue: Shall we sterilize any additions to the gold? That was settled one way or another. I don't know why that other was interfered with at all. Instead of getting a concession, we got a possible reduction ...

Knoke: Gold hasn't gone out of the inactive account recently.

White: It so happened, but if it had happened ....

Gaston: Harry, there's two wholly separate propositions....

White: And you have tied them together, unfortunately.

Gaston: ... under both of which any net outflow would be deducted; but under this proposition which we have tentatively agreed upon, the gross outflow will be a deduction from the inactive, and there may be corresponding inflows within that limit which will not go into the inactive, so that you may have - although your monetary gold stock is stationary, virtually no change, you may have a net reduction in your inactive account of up to a hundred million in a quarter.

White: That's right.

Gaston: So we may come out at the end of a year with just exactly the same amount of monetary stock of gold, but with our inactive fund reduced by 400 million dollars.

Lochhead: But then, as a practical matter, if you're having a heavy outflow of gold, you're not likely to be having a heavy inflow, and vice versa.

Gaston: I think as a practical matter that is true.

White: Only happens in case of Japan.

Gaston: I was just afraid somebody might detect something tricky in the arrangement.

d.W.Jr: Of course, there is. There is, there is.

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Gaston: Well, as I said, I was afraid they'd detect it.

H.M.Jr: Well, what do you think it is?

Gaston: What?

H.M.Jr: What do you think it is?

Gaston: The trick is that the - the statement says that we are not going to sterilize gold acquisitions unless they exceed a hundred million dollars a month, but the trick is that as a matter of fact we may in effect not only free the new gold acquired from sterilization, but we may desterilize up to a hundred million in the quarter.

White: Sure, that's right.

Riefler: Why not state that we're going to take gross outflows from the inactive account?

Lochhead: No need to.

White: Why do you have to say that?

Lochhead: Just following a permanent policy.

H.M.Jr: Well ...

Gaston: All right.

H.M.Jr: It's all right anyway.

Lochhead: Are you mentioning "gross" at all in that? Don't have to mention it.

Gaston: No, no, what I am saying is that the "Secretary of the Treasury, after consultation with the Board of Governors of the Federal Reserve System, announces that gold acquired by the mints and assay offices on and after January 1, 1933, to an amount not to exceed \$100,000,000 in any one quarterly period, will be transferred from the inactive gold account to the working balance of the Treasury, and deposits in an equal amount will be made in the Federal Reserve Banks by means of credits to the gold certificate

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fund. Acquisitions of gold in excess of \$100,000,000 in any quarter will remain in the inactive gold account."

Lochhead: It wouldn't be transferred from the inactive.

Gaston: I'll change that, make it that it goes into the working balance, not inactive account.

Taylor: Won't clear through that account at all.

Gaston: Could, but not necessarily.

H.M.Jr: You people better get together right after this, just to go over this. Do it in Taylor's room.

Let's go back to the first of January, this year, '38. What will happen will be this. How much? - have you (Lochhead) had a chance to look up ....

Lochhead: 30 million.

H.M.Jr: Well then, this thing happens: 30 million dollars will be immediately deposited in the form of gold certificates in the Federal Reserve System. Is that what you call it?

Lochhead: Yes.

H.M.Jr: And that will increase their reserves about that amount. Is that right?

Lochhead: That's right.

H.M.Jr: Will there be any change in the inactive account?

Lochhead: No, because that gold came into the Stabilization. I'll deposit that out of the Stabilization Fund.

H.M.Jr: What's that?

Lochhead: I'll deposit that out of the Stabilization Fund.

H.M.Jr: Still I don't get it.

Lochhead: It didn't go into the inactive account, it went into the Stabilization, so there will be no change shown in the inactive account.

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- H.M.Jr: But gold that has been going out of the country, you have been taking from the sterilization fund, so there is no change in that any gold that actually left the country ....
- Lochhead: ... was taken out of the sterilization fund. That's right.
- H.M.Jr: So we just continue that policy as is. Is that right?
- Lochhead: That's right.
- H.M.Jr: Now, what about changing your earmarking?
- White: Treat it the same as export or import.
- Lochhead: We haven't been doing so much. But I presume that we would.
- H.M.Jr: I want to mention - we have not up to date - when we transferred \$50,000,000 for Holland, you did not take it out of the inactive. What would you do in the future on that?
- Lochhead: Well, I would say we would take it out of the inactive.  
(Feis comes in)
- H.M.Jr: I'm sorry, we've gone ....
- Feis: No, I'm sorry; I have no one to blame but myself. Got tangled up with an Argentine and just forgot.
- H.M.Jr: well, pick up the threads as they are, and if you haven't got it all, Wayne will give you what you don't get. But I do want you to get this.
- Lochhead: Any gold sold, I think, should come out of the inactive account, first of all, to accomplish the purpose we're trying to do, to work it down, and secondly, as a practical matter, because if I don't take any more gold into the stabilization account I won't have any to take out and I necessarily will have to go to the inactive account.
- H.M.Jr: Since the first of January have we de-earmarked anything? That Holland and Swiss ....

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Lochheads: That's right, and just a small amount for Mexico, and that's all. That's all.

H.M.Jr: But any further de-earmarking would come out of the inactive.

I'll try to state to you ....

Feis: I'm very sorry.

H.M.Jr: I'll try to put it - if you don't mind, get it from me first, then you take anybody here that would like to talk. We had a three-hour conference this morning, and I didn't know how it would end; now it's getting into contacting England, and I want you to know about it, want Mr. Hull to know about it.

What we're proposing to do here - we hope to do it over the week-end - is to announce that, effective January 1, '38, on a quarterly basis, any gold that we acquire up to \$100,000,000 will be deposited with Federal Reserve System, and increase their excess reserves by that amount; anything over and above \$100,000,000 will be sterilized; any gold that we sell for export will be taken out of the inactive account. Which means that if we should each quarter sell up to \$100,000,000 worth of gold, the excess reserves over a period of a year would be increased by \$400,000,000.

Feis: Would you say that last again?

H.M.Jr: We'll put it this way, that over a period of twelve months, as a maximum the excess reserves might be increased by \$400,000,000.

Feis: Uh-huh. Yes.

H.M.Jr: Now, I called up Butterworth about an hour ago. Thought I'd get him 4:30; I got him earlier. And I told him what we were thinking of doing, that this was a move on the part of the Administration to undo some of the deflationary things we've done the last 18 months, that we were hopeful that it might have a beneficial effect domestically and in the world market on commodity prices; that we would like the British

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Treasury to consider one of two things: either that they might do something of a similar nature, or at least on the announcement that they would give it a good send-off. And that I would call him at 9:15 tomorrow morning, and that he should try his best to see somebody just as high up in the British Treasury as possible and get his reaction, and I would talk to him tomorrow morning.

But I knew that the British were more commodity-minded than we were, and we felt that this was important and we'd like to have their cooperation.

Feis: All sounds all right to me. ↵

H.M.Jr: What?

Feis: All sounds all right to me.

H.M.Jr: That's the result of a lot of work, so forth and so on. The President approved it. And these boys know all about it. And incidentally, it is a joint action with the Federal Reserve Board, a joint announcement with the Fed. And I'll call up Eccles now, see if I can get him.

(On phone) Chairman Eccles please.

And you'd be interested that this morning we had down Walter Stewart and Bob Warren and Goldenweiser, so we had ...

Feis: Everybody's in agreement?

H.M.Jr: Well, the only disagreement is, there are a group who would like us to stop sterilizing entirely; that's the only ... But that, from the standpoint of the Federal Reserve System, is impossible, because it leaves an open-ended thing. That's why we sterilized. And they simply can't go along. It leaves them at the mercy of the rest of the world; therefore, they don't want to go along. When Mr. Eccles left this morning, he was, I'd say, quite happy about it. Wouldn't you (Riefler)?

Riefler: (Nods yes)



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Feis: Is it everyone's guess that one of the immediate effects probably would be to draw some gold?

H.M.Jr: Draw some what?

Feis: Draw some gold into this country.

Lochhead: Temporary effect might be the reverse.

H.M.Jr: Reverse.

Feis: I was wondering.

H.M.Jr: That would be my guess.

Lochhead: Be interpreted possibly as slightly inflationary.

Taylor: Can't tell. You might get some movements this way into equities, whatever you want to call it, here, which would produce an inflow. You can't tell.

Lochhead: Go into commodities in other markets, though.

H.M.Jr: (On phone) Tell Mr. Oliphant not to go home until Mr. Gaston sees him. Please.

Gaston: Should I go to work on that right now?

H.M.Jr: I think you better, and I think you better take Archie with you, don't you think so?

Lochhead: Right.

Gaston: Archie can wait a minute until I draft something.

H.M.Jr: And then show it to Harry and Taylor, if he's here. Will you please? What?

Gaston: Yes, I'll show it to all of them.

H.M.Jr: Please. (Gaston leaves)

How does it hit you (Feis), first blush?

Feis: All right.

H.M.Jr: What?

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Feis: Distinctly all right.

H.M.Jr: I mean taking it awful fast, but - huh?

Feis: Good.

H.M.Jr: You'd be interested, while we're waiting - we started with a different idea. We were just going to do it on domestically-mined gold. And then Walter Stewart and Warren immediately said the reaction would be there was going to be a two-price system for gold, and none of us had thought of that.

Taylor: Yes, Harry ...

White: It was in that memo.

H.M.Jr: I beg your pardon, it is not in that memo.

White: Let me have it and I'll point it out to you.

H.M.Jr: All right, you can see the memorandum. It is not in the memorandum.

Taylor: Doesn't call it a two-price system, but he ...

White: It's there.

H.M.Jr: I'd like to see it.

White: Well, if you have it, I'd ...

H.M.Jr: I particularly had it read for that purpose, to see if anybody did put it in.

White: Well, where do we leave it? Do we leave it - shall I get it or drop it, which?

H.M.Jr: No, I'd like to see it.

Klotz: I'll bring it in. (Leaves)

H.M.Jr: I'd like to see it. Because the second that Walter Stewart and Warren heard it, it just rang a bell like that. I thought it was impossible; I thought it was impossible, I mean, the minute they said it.

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Taylor: Harry and George both talked to me about that possibility and I thought it was in the memorandum. It was implied in there.

H.M.Jr: If it is, I'd be very glad to have it.

(On phone) Hello. (Conversation with Eccles follows:)

February 11, 1938.  
4:55 p.m.

H.M.Jr: Hello.

Operator: Chairman Eccles.

H.M.Jr: Hello.

Marriner  
Eccles: Hello.

H.M.Jr: Hello, Marriner?

E: Oh, yes.

H.M.Jr: I thought you'd like to know how we're getting along on this.

E: Yes.

H.M.Jr: I had about sixty seconds with the President on it, and he likes it.

E: He likes it better than the other.

H.M.Jr: Much better.

E: Why does he like it better?

H.M.Jr: Because he said the fifteen million was a piddling amount. Use his own language.

E: Yes.

H.M.Jr: And didn't think it would have effect, but he thinks this - well, he didn't - that's as far as he commented. He thought this was much better. He didn't - that's all he said, see?

E: Yes. Well, does he think this will have an effect? I mean, he doesn't know yet.

H.M.Jr:

E: I see. You said you only had sixty seconds.

H.M.Jr: That's the top. I don't think I had more than sixty seconds.

E: Oh, oh, I see. Oh, I misunderstood you.

H.M.Jr: I think I had sixty seconds.

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E: Yes, well -

H.M.Jr: It may have been ninety.

E: Yes.

H.M.Jr: Now, the other thing is, I called up Butterworth, in London, told him what we were doing, try to contact the British Treasury and I'd call - speak to him tomorrow morning at nine fifteen, our time, and try to have their reaction by then.

E: Uh-huh.

H.M.Jr: See?

E: Uh-huh. Well now -

H.M.Jr: Unfortunately, Duffield they can get and so forth and so on, and they could come pretty close to guessing what we're doing.

E: How did they do that?

H.M.Jr: I don't know. He hangs right outside my door.

E: Well, it beats - it beats the Dutch. I notice on the ticker here that they - they found we were at a meeting.

H.M.Jr: I don't know how they do it.

E: And found that we went out at the back door, they said.

H.M.Jr: Uh-huh. I don't know where they hang.

E: Huh?

H.M.Jr: I don't know where they hang.

E: Well, what have they said? Have they - have they kinda - have they got it sized up?

H.M.Jr: Well they think it's something on sterilization.

E: Oh, yes.

H.M.Jr: Yes.

- E: Well, I've discussed the matter with the Board pro and con, and reviewed the developments this morning.
- H.H.Jr: Yes.
- E: Had Goldenweiser and we had an executive session with Goldenweiser and Gardner only present.
- H.H.Jr: Yes.
- E: The first one because he's had the - I want him there to consider the press aspect of it, and we've been discussing it here and pro and con, because it - as you know, this morning, there was a lot of aspects, and I tried to give them the picture the best I could.
- H.H.Jr: Yes.
- E: And the developments. And they - they concur in it, I mean there's no - no enthusiasm about it one way or the other. I mean they don't - they don't think that pure monetary - from the monetary standpoint only that it's going to amount to much, but I should say that was the exception of McKee.
- H.H.Jr: Yes.
- E: And I don't know what John's view is. He - of course John has always been against, as you know, any increase in reserves, even the first one in - he's - he's always got the point of view of the little country bank and with the idea that they should never have any of their money locked up, any time, see?
- H.H.Jr: What would he do?
- E: Well, I don't know. That's what I asked him. I said, "What's your alternative", see? And I said, "I'll tell the Secretary that you're the only one that - that doesn't - I shouldn't say that he doesn't concur - he doesn't concur, but he's - he doesn't agree, but he won't take the position of disagreeing, you see?"
- H.H.Jr: Well, now Murriner -
- E: Now, what I have said, he said he'd be glad to talk to you if you - if you wanted to talk to him.

H.M.Jr: Oh, I'll let Wayne Taylor talk to him.

E: See?

H.M.Jr: I'm - I'm talked out.

E: Yes. Well, I just - I just wanted to tell you that, that if you wanted to talk to him, he said that he'd be glad to talk to you.

H.M.Jr: Well, I'm afraid I can't -

E: I have this idea, that he - what he might have in the back of his head is to decrease reserve requirements, but of course -

H.M.Jr: Unless <sup>you</sup> people, between now and tomorrow, think of something new, unless the English say something, I'm very much inclined to do it over the weekend.

E: Yes. Well especially if you get a favorable response from London.

H.M.Jr: Well, I'm going to talk to him at nine fifteen. If you care to drop in at that time I'll be delighted.

E: Well I don't know that that makes any difference. I- I'll - I'm only interested in getting what the result is.

H.M.Jr: Well I'll call you as soon as I'm through talking to them.

E: Well, that's fine.

H.M.Jr: All right.

E: Now. There's - there's one other thing that the Board mentioned in connection with this, and I said that it was my understanding that - that any press release would be submitted, and we'd have a chance to comment so that we'd - the Board's - the Board's interposing no objection or concurring and so was based upon the interpretation that's put upon it, and -with the public, which, of course, is a matter of covering the press release, and I have said that you had assured me that -

H.M.Jr: Oh, absolutely.

E: Yes.

H.M.Jr: Not only would you see it, but I want you at my press conference.

E: Yes. Yes. Well, I - I - it's all right as far as I'm concerned, but what I'm - what I'm speaking of is having the Board see it.

H.M.Jr: Well, if they'll meet tomorrow morning, they can see it by ten o'clock.

E: Yes.

H.M.Jr: How's that?

E: Well, that's all right. You won't be - it won't be finished tonight, will it?

H.M.Jr: If it is, I'll tell Gaston - Well, I won't see it tonight, that's the trouble.

E: Yes.

H.M.Jr: But if there's a preliminary draft, I'll get it over to Thurston. How's that?

E: Yes. Why don't - how would this be? Let me, - would it - would you tell Gaston?

H.M.Jr: Yes.

E: See. Then I'll have Thurston get in touch with him.

H.M.Jr: Yes.

E: And I - I - if possible, I - it would save a good deal of time maybe, if Thurston and he could collaborate now, so that when ten o'clock comes in the morning, why the preliminary would be more or less - been done.

H.M.Jr: Well, if Thurston can come over now, they - they're going to work on it, in about five minutes.

E: All right, sir. I'll have - I'll - will you tell Gaston, I'll have him come over now.

H.M.Jr: Yes.

E: And then I'll get in touch with you again in - and you call me again in the morning after you get through talking to London.



H.M.Jr: That's right.  
E: All right. Well, thank you.  
H.M.Jr: Thank you very much.  
E: Goodbye.

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- H.M.Jr: Will you (Taylor) tell that to Herbert, that Thurston is coming over?
- White: (Looking at memorandum on gold) You're right; it's implicit, not explicit.
- H.M.Jr: Implicit?
- Haas: Between the lines.
- H.M.Jr: Come on, Harry, old man, let's see it. The reason - not only I read it for that, but I had somebody else read it, and that's why I was moderately sure.
- White: Well, there are two places. One is this here: "In recent weeks possible still further depreciation of the dollar has appeared, and desteralization would be another point in that direction." Expectation of further devaluation, depreciation. The only significant part of that point is that they were afraid that the dollar would be fully devalued, depreciated.
- H.M.Jr: But no two prices.
- White: No, but the significance of the two prices lies exclusively in the depreciation of the dollar.
- And look at this statement here.
- H.M.Jr: All right.
- White: I won't push you too far.
- Taylor: You're not making your best case in there, because you've got one paragraph ....
- H.M.Jr: Have you got something better than that?
- White: I think so, but I'm not sure.
- "It should possibly be emphasized, however ..." - we close on this note.
- H.M.Jr: "We close on this note." May I just tell this story before you go on. You must read the New Yorker, this fellow called the "Roving Reporter." They had another

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meeting of small business men, and the fellow goes up to the chairman after the meeting and says, "I'm a reporter, and could I get a statement from you?"

"Sure. Shall I write it down for you?"

"No. I'll take it in shorthand."

"All right, take this: Paragraph." That's the way he starts.

So this is: "Paragraph."

White: Paragraph.

"It should possibly be emphasized, however, that the less made of the difference between newly-mined domestic gold and imported gold in press conferences or public statements, the more effective will the step be as a trial balloon."

I'd prefer to stand on the other.

Taylor: That last one is the only one that's any good.

H.M.Jr: Yes, I think the last one. All right, it's all in the day's work.

(Gaston returns)

Herbert, Mr. Elliot Thurston is on the way over to collaborate.

Gaston: Huh! Huh! Huh!

(Hearty laughter)

H.M.Jr: This crowd is good today.

Haas: That's for the help.

H.M.Jr: This is a tough crowd. Want to start something, Herbert (reis)?

Klotz: You (Gaston) sounded like an actor then.

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H.M.Jr: "The Secretary of the Treasury, after consulting with Herbert Feis (after consultation with the Board of Governors of the Federal Reserve System), announces that gold acquired by the mints and assay offices on and after January 1, 1938, to an amount not to exceed \$100,000,000 in any one quarterly period, will be included in the working balance of the Treasury, and deposits in an equal amount will be made in the Federal Reserve Banks by means of credits to the gold certificate fund. If the acquisitions in any one quarter should exceed \$100,000,000, the excess balance will be held in the Inactive Gold account."

I think you're going to have too much arguing, Herbert; and you don't say anything about the gold leaving the country.

Gaston: That's as is.

White: Should remain untouched.

Gaston: That's as is.

White: Nothing said about it.

H.M.Jr: If you fellows would jointly and singly go to Mr. Taylor's office, I think it could be improved before Mr. - the collaborator arrives. I don't know.

Gaston: We could add "Foreign exports of gold would be deducted from the inactive gold." We could do that now.

H.M.Jr: I think you fellows go and look at it, and if you could be back here at 9:15 tomorrow morning, then you could have the statement.

Taylor: We going to be in my room until then?

Gaston: Not if I can help it.

H.M.Jr: All right.

February 11, 1938.  
3:33 p.m.

H.M.Jr: Hello. Hello.

Butterworth: Hello. Good evening, sir.

H.M.Jr: How are you? Are you at home?

B: Yes I am, sir.

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

B: Yes, sir.

H.M.Jr: All right. Now Butterworth - Hello.

B: Yes, sir.

H.M.Jr: Are you ready?

B: Yes, I'm ready.

H.M.Jr: This is extra, extra confidential.

B: Yes, sir.

H.M.Jr: Extra, extra confidential.

B: Yes, sir.

H.M.Jr: Now, we are thinking very seriously here.

B: I didn't hear that, sir.

H.M.Jr: We are thinking.

B: Yes.

H.M.Jr: Very seriously here.

B: Yes.

H.M.Jr: - Of changing our policy, in regard to sterilizing of gold.

B: Yes, sir.

H.M.Jr: What we are thinking of doing is this. On any gold that we acquire during any three months -

B: On any gold that you acquire during any three months.

H.M.Jr: Yes. We will deposit that with the Federal Reserve. Hello.

B: Yes.

H.M.Jr: Up to an amount equal to one hundred million dollars.

B: Yes, sir.

H.M.Jr: Hello.

B: Yes, sir.

H.M.Jr: On any gold that leaves the country.

B: Yes.

H.M.Jr: We will take that out of the sterilization fund.

B: Yes, sir.

H.M.Jr: Now, I'll say it once more.

B: Yes, sir.

H.M.Jr: Gold that we acquire, during any three month period, up to one hundred million dollars -

B: Yes.

H.M.Jr: Will be deposited with the Federal Reserve and will increase their excess reserve by that amount. In regard to gold which should leave the country, that we will take out of our sterilization fund.

B: Quite. I see.

H.M.Jr: Now, do you get the point?

B: I get the point. It's a one-way traffic.

H.M.Jr: Yes. Now, the thought that we have in mind is that we are desirous of letting the world know that we want to loosen some of the deflationary brakes, which we have applied during the last eighteen months.

B: Yes, sir.

- 3 -

H.M.Jr: You see?

B: Yes, sir.

H.M.Jr: And we are hopeful that it will have a strengthening effect on both domestic and world commodity prices.

B: Quite.

H.M.Jr: Now, we don't know but we feel that this will give gold a chance to go to work.

B: Yes, sir.

H.M.Jr: And we are hopeful that it might have a beneficial effect on commodity prices.

B: Now, when you say some of the deflationary brakes, I take it that means that there are others that you're thinking of as well.

H.M.Jr: Well, not - well - you know what they are as well as I do, but this is the only step that we have in mind for the moment.

B: That's what I wanted to know, sir.

H.M.Jr: We - we only are thinking of this for the moment.

B: Right, sir.

H.M.Jr: But the reason I am calling you is this. I would like you to get in touch with just as high an official in the British Treasury as possible.

B: Yes, sir.

H.M.Jr: And - we'd like to get their reaction.

B: Yes.

H.M.Jr: Now we know that they're just as much interested in commodity prices as we are.

B: Yes, sir.

H.M.Jr: And of course they're even more commodity minded than most people are over here.

B: Quite.

H.M.Jr: Now. If they could take some action, possibly along the same lines, at about the same time or subsequently, or have a good word to say if we do do this, why I think it would help - be helpful in getting the results that we are after, see?

B: Yes, I do, sir.

H.M.Jr: You see?

B: I do indeed.

H.M.Jr: Now, I mean - supposing we did this over the weekend.

B: Yes.

H.M.Jr: Now, if the British reaction, this is good, this is fine, why, it would show we're moving in the same direction and have the same objective.

B: Quite.

H.M.Jr: Now they might even consider wanting to do something along the same lines, but, I'd like you to put it up to them.

B: I w - yes.

H.M.Jr: And get their reaction. Now do you suppose you could see somebody tomorrow morning?

B: Oh, yes.

H.M.Jr: Or do you suppose they've all gone?

B: No, I think I could get hold of somebody tomorrow morning. At least I will try tonight to see whether I can make an appointment for tomorrow morning.

H.M.Jr: Right. And I will call you again at nine fifteen, Washington time.

B: Nine fifteen, Washington time, tomorrow.

H.M.Jr: That gives you all morning to work on it.

B: Good. That's fine, sir.



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W.M.Jr: Now, you want - now if you don't understand it, ask me anything that you want.

B: No, I do understand it. There's a - I should like you to repeat. I want to get a word, rather carefully. If you'd be good enough to repeat that first sentence over again.

H.M.Jr: You mean in regard as to how we're going to handle it.

B: That's right, sir.

H.M.Jr: Well, there's two things. Any gold that we acquire -

B: Yes.

H.M.Jr: Up to one hundred million dollars.

B: That's right.

H.M.Jr: Will go directly into the Federal Reserve System.

B: That's right.

H.M.Jr: And will increase their excess reserves by exact amounts, you see? Equal up to one hundred million dollars.

B: That is one hundred million dollars per a three month period.

H.M.Jr: Yes. If - if we acquire the gold.

B: If you acquire it.

H.M.Jr: I mean - it's only if - if we buy that much.

B: By dollars and cents.

H.M.Jr: You see what I mean?

B: I understand.

H.M.Jr: Anything that we acquire over the hundred million dollars.

B: Yes.

H.M.Jr: We would sterilize it.

B: Quite.

H.M.Jr: Now, if any gold should move out of the country.  
B: Quite.  
H.M.Jr: We would take - we would deesterilize that gold.  
B: Quite.  
H.M.Jr: You see?  
B: Yes, sir. I understand.  
H.M.Jr: It's a sort of a double barrel action.  
B: Yes, I understand perfectly, sir.  
H.M.Jr: And the other thing is, if we do it, we are going to do this as of January 1st.  
B: As of January 1st.  
H.M.Jr: So that this would apply to this quarter.  
B: Good.  
H.M.Jr: You see?  
B: Good.  
H.M.Jr: Hello.  
B: Yes.  
H.M.Jr: You - I mean it would apply to this quarter.  
B: Yes, I understand.  
H.M.Jr: So any gold that we've applied since the first of January.  
B: Yes.  
H.M.Jr: Would be immediately deposited with the Federal Reserve.  
B: Right. When do you plan to announce this?  
H.M.Jr: Well we're rather anxious to do it right away, but if our friends over there have any good reason

why they'd like us to wait a day or two.

B: Yes.

H.M.Jr: Why - and have a good reason, I'd be glad to consider it.

B: Quite. - .

H.M.Jr: But we've made up our minds, we've consulted a number of people and I'm always fearful of leaks, you see?

B: Yes, I understand.

H.M.Jr: Now, but we think the sooner we do it the better.

B: Good.

H.M.Jr: Now - hello.

B: I think I understand that quite clearly.

H.M.Jr: Now the other thing, I believe for the last three days. England has been selling our stocks, of securities.

B: Well now I don't know about that.

H.M.Jr: Well, we get the figures every day, and I was just curious if there was any explanation because for months now they've been buyers, you see?

B: Yes.

H.M.Jr: And I just wondered why, if there was any explanation, I mean the two things have no connection, just because I happened to be calling you on the phone, you see?

B: I understand.

H.M.Jr: And I was just curious if there was any reason that anybody knew why they were - had turned to be sellers of our securities. Not that it worries me, but I'm curious.

B: No, I know.

H.M.Jr: You see?

B: I'll - I'll nose about, and see what I can pick up, up there.

H.M.Jr: Yes. Now I lay great - hello.

B: Yes, sir.

H.M.Jr: Oh, this move - of course, seventy five per cent is psychological.

B: I understand.

H.M.Jr: Hello.

B: Yes, sir.

H.M.Jr: I mean the effect that the question of getting - the psychological effect, you see?

B: I understand, sir.

H.M.Jr: And if we could stop this downward spiral why it'd be quite a good days work.

B: I should think it would be.

H.M.Jr: Now I'm not saying it will, but it - it might be helpful. Hello.

B: Well I shall - I shall put it up to them as soon as I can tomorrow morning and let you know when you call me at nine thirty, your time.

H.M.Jr: Nine fifteen.

B: Nine fifteen.

H.M.Jr: Right. And get just as high up in the Treasury as you can, will you?

B: I will indeed, sir.

H.M.Jr: All right. How are you?

B: I'm very well indeed, thank you, sir. And you?

H.M.Jr: I'm fine. Goodbye.

B: Goodnight.

February 11, 1938

I had about 60 seconds after Cabinet to explain to the President the proposed change in how we were going to handle gold. When I explained it to him he said, "That sounds fine. I have been thinking a lot about it since we discussed it on Tuesday and it seemed to me that \$15,000,000 a month was only a piddling amount."

I told him I was going to put it up to England and that we ought to have some kind of an answer and that I would like to see him again tomorrow.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 11, 1938

TO Secretary Morgenthau  
FROM Herman Oliphant

For your information.

I was in a conference with S.F.C. this morning from 9:30 until 11:30 on the Genesee matter with Mr. White, President of the Genesee Company, Mr. Lendis, attorney for the Company, and Mr. Kline, attorney for the trustee for the bondholders. A cooperative spirit was manifested by everyone with no evidence of bargaining nor bickering. The time was spent acquainting these gentlemen with the tentative plan we had worked out and with considering minor difficulties which the discussion developed. The discussion will continue this afternoon, and I am to be advised as to the next step.

*AO*

*MS*

Feb 11, 1938 38.

Authorizations dated December 9 and December 10, 1937  
to purchase December Tax dated January bills. . . .

\$ 75,000,000

Purchased December 9:

Delvy. Dec. 10 - Bills due	Dec. 20 @ 0.14%	- \$ 3,000,000
" " " " " "	Dec. 17 @ 0.10%	- 5,000,000
" " " " " "	Dec. 16 @ 0.15%	- 7,500,000
" " " " " "	Dec. 18 @ 0.15%	- 2,000,000
" " " " " "	Dec. 16 @ 0.10%	- 4,500,000
" " " " " "	Dec. 18 @ 0.10%	- 11,000,000
Delvy. Dec. 13 - " "	Dec. 16 @ 0.14%	- 4,000,000
" " " " " "	Dec. 17 @ 0.14%	- 6,000,000
		<u>\$43,000,000</u>

Purchased December 10:

Delvy. Dec. 10 - Bills due	Dec. 17 @ 0.05%	- \$ 3,000,000
" " " " " "	Dec. 18 @ 0.05%	- 16,900,000
" " " " " "	Dec. 20 @ 0.05%	- 2,100,000
Delvy. Dec. 13 - " "	Dec. 18 @ 0.05%	- 5,000,000
" " " " " "	Dec. 20 @ 0.05%	- 5,000,000
		<u>\$32,000,000</u>

Total Purchased . . . \$ 75,000,000

The following sales of 2-1/2% Treasury bonds of 1945 were made today  
for account Federal Deposit Insurance Corporation, delivery  
December 15th:

\$ 1,000,000 @ 101 27/32  
 2,000,000 @ 101 28/32  
\$ 3,000,000

This leaves a balance of \$2,335,000 of the bonds acquired on an  
exchange subscription to be sold.

Closing quote: 101 27/32 - 29/32

*M. A. Harris*

February 11, 1938

Excerpt from Mr. Oliphant's weekly report of February 11, 1938:

Genesee Valley Gas Company, Inc. Mr. Smith of the SEC reports that he had a satisfactory talk with Mr. Maltbie of the New York State Public Service Commission. We understand that Mr. Maltbie now takes the position that he is not interested in the transfer of the item of \$196,000 by Pavilion Natural Gas Company from Depreciation to Surplus Earnings, and that his Commission would concern itself only with the establishment of a fair valuation for and the issuance of securities of the new operating company. We are conferring with the SEC to agree upon a tentative plan for reorganization.



## MEMORANDUM OF THE DAY'S ACTIVITIES

February 11, 1938

To: Secretary Morgenthau  
 From: Mr. McGill

1. Tax Bill

The Democratic members of the Ways and Means Committee continued their discussion of the provisions for taxing closely held corporations. When the members finally approached a vote on various suggested amendments, the Legislative draftsmen and Treasury officials were asked to absent themselves, presumably on the theory of removing any danger of leakage of information regarding the positions of individual members. I was, therefore, amused to see that, as I had anticipated, a full statement of the discussion appeared on the news ticker at noon. Mr. Tarleau telephoned me that Mr. Vinson had seen it too and had told Tarleau that the incident confirmed his belief that it is his colleagues and not the draftsmen who are talking to the newspapers.

I should think that the tax bill will be discussed by the full membership of the Ways and Means Committee in executive session early next week. For some reason the Democrats, at least, seem much less interested in speedy action than they were a month or two ago.

2. Corporation tax burden

I have asked the Division of Research and Statistics to prepare for you memoranda and charts respecting the burden of taxation upon corporations with different incomes, in the various industrial groups. I have asked the Division also to give you its comments as to the fairness of the present corporation tax burden as compared with that imposed upon individuals. We now have, as you know, very complete statistical tables for 1936 from the Statistical Section of the Income Tax Unit, which can be used as the basis for the memoranda.

*Rm*

February 11, 1938.  
5:15 p.m. (?)

H.M.Jr: Hello.

Operator: Mr. Taylor.

H.M.Jr: Hello.

Rep. Ed. T.

Taylor: Hello, Mr. Morgenthau?

H.M.Jr: Talking.

T: Sir?

H.M.Jr: Henry Morgenthau talking.

T: Yes. This is Mr. Taylor, of Colorado.

H.M.Jr: Yes, sir.

T: Say, Mr. Morgenthau, we've been holding here, all day, on this application for two hundred and fifty million dollars.

H.M.Jr: Yes.

T: And Woodrem is down today.

H.M.Jr: Yes.

T: And he's going to drive up, in his automobile, tomorrow.

H.M.Jr: Yes.

T: And he can't get here before half after two or possibly three.

H.M.Jr: Yes.

T: And these minority members of the committee, Woodrem - not Woodrem, I mean -

H.M.Jr: Taber.

T: Taber and Wigglesworth and those fellows, and Bacon. They was - they say they want to have you and Bell come before the committee.

H.M.Jr: Yes.

T: Now, I think that you could come up here tomorrow afternoon for half an hour, why we could close these hearings up, if we don't why it would run over into next week and it will drag out this business for two or three days.

H.M.Jr: Well, what do they want me to say.

T: Oh, they just want to - heckle a little, I think, that's all there is to it. I don't think they've got any system, I think they - they just want to ask a few questions to muddy the waters if they can.

H.M.Jr: Is it a public hearing?

T: No. Oh, no. Oh, no, it's an executive hearing in the committee room, here, adjoining my office.

H.M.Jr: You see, Bell's away. He'll get back tomorrow morning.

T: Well, he could be here by three o'clock tomorrow.

H.M.Jr: Yes.

T: And if you could come up a little - at that time, why I think we could close this up and then we could report by Tuesday.

H.M.Jr: Well.

T: And get it on the Floor of the House.

H.M.Jr: I can - you want Bell and me there at three?

T: Yes. At three o'clock tomorrow afternoon.

H.M.Jr: Three o'clock.

T: Three o'clock.

H.M.Jr: Three o'clock.

T: Yes.

H.M.Jr: All right, now -

T: That'll be time enough.

- 3 -

H.M.Jr: Now, how can I find out what's been going on today, so I can get the background.

T: Well, can give you the latest hearing

H.M.Jr: All right.

T: Well - I - I - of course I don't know whether it would be all printed, well just a minute, wait until I ask  
(aside) He wanted when he can see the hearings, get the background, wanted to see the hearings.  
- Yes - Better come up here and we can tell him.

T: It wouldn't be printed here by that time Mr. Morgenthau.

H.M.Jr: Well, McReynolds -

T: What time could you come up here and and I could tell you what it is.

H.M.Jr: Well -

T: Yes. Come up a little bit ahead of time and we can tell you what the status is.

H.M.Jr: All right. I'll -

T: Or you could talk to Mr. Williams. He's been here all day. Been on the stand all day.

H.M.Jr: Well I'll see him in the morning.

T: Yes.

H.M.Jr: And supposing I come up - half an hour ahead or something.

T: Oh, yes. Yes, but - but that would be all right. If you see Mr. Williams, he'd give you the whole thing.

H.M.Jr: Well -

T: You see him tomorrow morning.

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H.M.Jr: Is - is Williams going to be on the stand tomorrow morning?

T: Well, I don't think so. I think they got through with him. He's here now.

H.M.Jr: Well, I can see Williams tomorrow morning.

T: But he - he's coming back here.

H.M.Jr: When?

T: Tomorrow. Did you want me to tell him that you want to see him.

H.M.Jr: Well he would - I had - yes, if I can see him at - ten o'clock tomorrow morning.

T: Yes. Well I can speak to him right now, or suppose I have him speak to you, if you want to.

H.M.Jr: Could - could I talk to him a minute now?

T: Sure. Yes, hold the phone. (aside) Tell Mr. Williams Is that so.

T: Mr. Marksfield says they're still questioning him, in there. Maybe we'd better wait and have him call you.

H.M.Jr: That's all right.

T: After he gets off the stand.

H.M.Jr: All right. And I'll have - Tell Marksfield I'll have McReynolds get in touch with him and find out what's what.

T: Yes. All right.

H.M.Jr: All right. Three o'clock, then.

T: Three o'clock. Yes, sir.

H.M.Jr: Thank you.

T:

H.M.Jr: Goodbye.