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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 16, 1938, 1 p.m.

NO.: 347

RUSH

FROM COCHRAN.

At 11:45 this morning I visited the Bank of France. At that time I found that the fund had already yielded 892,000 pounds sterling, there being a strong demand for it. London was given instructions to try to stop the rate at 153.25 if possible during the noon hour. As of Tuesday night the stabilization fund contained just a little under 3,500,000,000 francs foreign exchange and gold. It had been the opinion of the Ministry of Finance that the announcement of the closing of the Credit National loan would affect the market favorably, and they wanted the franc strong for the opening of the new loan for the Treasury. It was not found possible for the franc to give a good impression, however, despite the rather vigorous intervention yesterday by the control.

My contact at the Bank said he doubted whether there would be any significant results from the latest American decision regarding gold sterilization.

Reference: my telegram of February 15, 9 p.m., No. 345. I should explain that a better communique had been drafted by Rueff in my presence when I called in mid-afternoon

at

- 2 -

at the Ministry of Finance. While Rueff was trying to get the Minister of Finance's approval of the communique I waited outside. Rueff came out after a half an hour and said that the Minister wanted changes made in the original draft. The Minister said he would have to consult other technical advisers, including Bank of France officials.

END SECTION ONE.

BULLITT.

EA:LWW



13

PARAPHRASE OF SECTIONS TWO, THREE AND  
FOUR OF TELEGRAM NO. 247 OF FEBRUARY 16  
FROM PARIS.

I had a telephone call from Butterworth afterwards, who gave me a report of the British debate in parliament on the matter. Shortly after 8 o'clock Rueff called me to transmit the communique which was incorporated in my telegram No. 245. I reminded Rueff that in the afternoon I had said it was likely ~~some~~ public statement as to the American announcement would be made by the British, and I added that I now knew the substance thereof. I was told by Rueff that he had also been given this information - I presume it came from Monick. Rueff seemed to be unhappy about the matter, believing that before we made the announcement we had consulted the British; I denied that this was so. It is possible he got his impression from the wording of Simon's reply to Attlee, which contained the following sentence:

"I have been informed that it was the intention of the Secretary of the Treasury to make an announcement on those lines".

The final French communique was decided upon and actually given to the press before Rueff notified me of the text thereof. During the meeting of the technicians which preceded the issuance of the communique, both Great Britain and the United States were criticised by one official for

not

not permitting gold to exercise its full influence on the internal price and economic structure, and thus for not playing gold standard rules. Another official took pains to point out that there was no pretense of an international gold standard having been reestablished. This official said that our three countries are working under the Tripartite Agreement rules, and that the French had inspired the Agreement, since they had wanted to save face in their own devaluation. This same official went on to say that the other two parties to the agreement, namely, Great Britain and the United States, had much more cause to criticize France for not taking the domestic measures which would be necessary to hold the franc steady than France had to criticize these two countries for not permitting a runaway inflation because of entry of gold into ~~the~~ these countries. The point was made that in this particular case the United States was actually moving exactly in the direction advocated by the objector.

Divergence of views among French officials can be expected just now, in view of the critical monetary situation, the shortness of the respite last week, and the serious need of the Treasury for <sup>immediate</sup> funds.

This morning at half-past ten I had a telephone conversation with the Swedish BIS economist, Jacobsson,

at

at Basel. I had the exact text of the announcement of Secretary Morgenthau and read it to him. My friend said that it was entirely logical to take this latest step. He mentioned that sterilization had been resorted to in a boom period, and now in a depression period a contrary operation should naturally follow. Consequently the American Treasury had not reversed its policy; the action was simply a normal fulfillment of a system which had been quite close to the recommendation made in 1933 at the London Monetary and Economic Conference on the particular subject of credit policy to which the position of the United States was reserved at that time.

My BIS friend believed that it is through such methods that the United States may eventually determine its excess reserve requirements, that the desired information and tradition can be developed only by time and experience. He is of the opinion that this latest step should help toward an American economic pick-up which he thinks should come by June. The Treasury also saves money by such action.

This morning at 11:00 a.m. I had a talk with President Trip of the Netherlands Bank by telephone. President Trip had had an erroneous report of the statement of the Secretary of the Treasury, and had the impression that the United States was to release immediately one billion dollars. Therefore when I gave him the exact terms of the announce-

ment

ment he was happy. Trip did not think this technical move would have any very significant or lasting effects on the dollar or on the American market. With regard to the first point, the sums involved will not be enough to have a serious effect on the dollar. As to the second point, the American banks he said had already sufficient credit resources for the market. Trip told me that on the Amsterdam market the dollar had become slightly nervous, the first impression of traders being that it was an inflationary move. However, he did not think that this feeling would last. Trip remarked that his people were not selling American securities in the way that Swiss investors were selling them.

Trip, as the Department knows, is perhaps the most conservative of the European central bankers. He does not like provisional arrangements in the monetary field. I got the impression, over the telephone, that he believed the remark made by the President that there should be a rise in prices would be more effective toward that end than the Treasury's technical move. He thought perhaps the position and potential influence of the Treasury towards stability and sound currency policy might have been better if the Treasury had not undertaken responsibility for the announcement.

END MESSAGE.

BULLITT.

TELEGRAM SENT

February 16, 1938

1 p.m.

AMEMBASSY

LONDON (ENGLAND)

70.

FOR BUTTERWORTH FROM THE SECRETARY OF THE TREASURY.

Please accept my thanks for the excellent work you have done the last few days in connection with our action on gold devaluation.

HULL

(HF)

MBo

GRAY

London

Dated February 16, 1938

Rec'd 2:45 p.m.

Secretary of State,  
Washington.

RUSH.

155, February 16, 5 p.m.

FOR THE SECRETARY OF THE TREASURY FROM BUTTERWORTHE.

The following information was given me personally by a high official of the British Treasury under such conditions of secrecy that it is inadvisable for me to send a copy of this telegram to Paris and it is necessary to request that it be treated in strictest confidence in Washington.

About ten days ago the French Ambassador in London requested an interview with Mr. Eden in the course of which he protested against the tone of articles being published in the British press on the French monetary position, particularly Doctor Paul Einzig's remarks in the "Lombard Street" column of the FINANCIAL NEWS, and in turn requested the Foreign Secretary to arrange for him an interview with the Prime Minister.

Accordingly Monsieur Corbin saw Mr. Chamberlain on February 11. In this interview he again protested about  
the

2- No. 133, February 16, from London.

the attitude of the press, dissertated upon the difficulties of the present French financial position and its relation to European political developments and asked that the Prime Minister facilitate a meeting between himself and the Chancellor of the Exchequer. Accordingly Sir John Simon "somewhat mystified" received the French Ambassador this week and was "even more mystified" when Monsieur Corbin again protested about the attitude of the FINANCIAL NEWS, briefly described the difficulties of the French position and asked that Simon authorize his assistants to carry on "conversations" with the French Financial Attache here who would be acting upon instructions from Monsieur Marchandreau. Simon replied as regards Einzig's articles in the FINANCIAL NEWS by mentioning the freedom of the press, et cetera, and adding that the British Treasury did not particularly like Einzig's articles either but that it was not in a position to dictate their contents. As regards the "conversations" he could get no explanatory information from the French Ambassador even though he pointed out that the French Financial Attache was already in general contact with the appropriate officials of the Treasury. Corbin could

3- No. 135, February 16, from London.

could not or at least did not throw any further light on these contemplated discussions. Simon is also said to have asked Corbin what measures if any were to be taken to keep in touch with Washington. The French Financial Attache later informed the British Treasury that M. Marchandeau intended to send for Cochran. In the course of the interview Corbin also asked whether Simon would offer any advice regarding the present French position, having in mind the experience which Great Britain has acquired in surmounting the 1931 crisis.

My informant said that the British Treasury was equally mystified both as regards this extraordinary procedure and what would come out of it; that the British Treasury was of course not in a position to offer any definitive advice for it could only say that "the present political lot should be cleaned out." My informant with no little heat added that after all the position in France seemed to be 99% political; that both capital and labor had been and were behaving abominably; that one could only think that after a few more shocks such as the Austrian crisis the average Frenchman who had a great capacity for pulling himself from the brink of disaster would do so but that in the meantime if the French thought that they through their own ineptitude could commit financial



4- No. 155, February 16, from London.

cial suicide and then find mystical democratic reasons for asking some one else to help put their house in order presumably by means of a huge loan, they were mistaken; that exchange control in France should be avoided by the French not for any mystical reason, democratic or otherwise, but for the very sound and adequate one that it was definitely in France's own interest to do so. X

My informant also stated that the French Financial Attache had an appointment this afternoon at the British Treasury after which he was leaving for Paris. But Monick had given him to understand that the French proposal would not then be made.

It so happened that Monick was to lunch with me tomorrow; he had therefore to explain to me about his trip to Paris and in turn he could not conceal his curiosity as to whether I had learned that anything was afoot. I replied to the effect that I could only assume that he was engaged in attempting to engineer some new move respecting the franc which led to the admission that one was contemplated and that he was returning to Paris to confer with Marchandreau who would probably have a proposal to make to both the British and American monetary authorities shortly. I definitely refrained (repeat refrained)

from

5- No. 133, February 16, from London.

from making any inquiries as to its possible character but Monick did talk in vague terms about the necessity of defeating "once and for all" attempts to impose exchange control in France.

JOHNSON

CSB:

REB

PLAIN

London

Dated February 16, 1938

Rec'd 4:25 p. m.

Secretary of State,  
Washington.

137, February 16, 4 p. m.

FOR TREASURY FROM BUTTERWORTH.

There are transcribed below excerpts from the comment which appeared in this morning's London press on the de-sterilization announcement:

The "Conservative" TIMES: "Non-sterilization of gold imports into the United States at the present moment then is hardly to be construed either as an inflationary or even an anti-deflationary device except in the sense that it marks yet another step towards eliminating the impression which the United States Treasury was so carefully fostering twelve months ago that a further growth of activity or at any rate a further raising of prices would not be welcome. That is the ground on which Sir John Simon expressed cordial agreement with the United States announcement. Meanwhile the problem of gold concentration has been shifted in some measure to this country."

The

REB

2-#137, From London, Feb.16,4p.m.

The "Conservative" DAILY TELEGRAPH: "This move was welcomed in the City as the loosening of a screw which had perhaps been tightened rather too sharply. It was not held to presage any change in monetary policy. Indeed it is reaffirmation of the easy money policy which for ~~some time~~ has been adopted by Britain as well as the United States. Of the immediate effects of this measure on Wall Street no great hopes should be entertained. Other factors are potent. But if developments in other directions are favorable this measure of reinflation may prove helpful to business later on."

The "Liberal" MANCHESTER GUARDIAN: "Mr. Morgenthau's announcement is no doubt as Sir John Simon commented this evening: 'In line with the general policy of easy credits' which Stock Exchange people gave it yesterday as much or as little as the recent increase in relief appropriations or the bill for cheaper housing finance just signed by the President. Its actual effect will depend on whether now that more gold has been made a base for credit the additional credit is taken up."

The "Socialist" DAILY HERALD: "If it had not been for the depressing influence of the news from Austria  
markets

REB

3-#137, From London, Feb. 16, 4p.m.

markets will have been considerably cheered yesterday by the American decision to cease sterilizing gold for the abandonment of gold sterilization is the best omen for world economic prospects we have had for a long time."

The FINANCIAL TIMES: "The low level of actual gold imports in recent months suggests that Monday's move will in the immediate future at least prove to be only very mildly inflationary and that it is dictated as much by considerations of convenience as anything else... Though the practical inflationary effect will be negligible, the Administration probably hopes that the new policy will incidentally give some psychological inflationary stimulus to business. In the light of the reception accorded to the relatively large desterilization of September even this seems unlikely. It is however undeniable that monetary policy has shown a more 'liberal' tendency in recent months. The reduction in discount rates in August and the authorizing of the open market committee to buy short term Government securities should not be forgotten. The naval and relief appropriations too are fresh in our memories. The protagonists of inflation

can

REB

4-#137, From London, Feb. 16, 4p.m.

can legitimately claim to have gained a little ground this winter."

The FINANCIAL NEWS: "Wall Street's indifference to the latest move in American credit policy is hardly surprising; as an attempt to stimulate business the effects seem likely to be small....<sup>at</sup>since/the moment gold is tending to leave the United States rather than to flow in the immediate result of the new policy must be trifling. Indeed it might even be argued that this measure indicates an inflationary tendency in the American variety of managed money. By the setting up of the inactive fund and the raising of reserve requirements something like four thousand millions dollars of credit was extinguished last year. These sweeping measures designed to check the boom are in striking contrast with the timidity of the expansionary steps announced more recently."

JOHNSON

HPD

*Handwritten initials*

ED/6

PLAIN

LONDON

Dated February 16, 1938

Received 4:41 p.m.

Secretary of State

Washington

130, February 16, 8 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. I made occasion to ask at the British Treasury today about a report which appeared in the Financial News some time ago inferring that the recent decline in Indian exports was diminishing India's sterling balances to such an extent as to endanger in due course the value of the rupee. I was told that upon the publication of this article the British Treasury had made inquiries of the India office and had been assured that the decline in Indian exports was merely as compared with last year when they were extraordinarily high; that the export trade was now at a not unsatisfactory level; that India's sterling balances were larger than the article indicated and that the value of the rupee was in no danger.

Two. Mr. Eden stated in the House of Commons this afternoon that in reopening discussions with a view to improving the relationship between Britain and Italy the question of an issue of a loan to Italy would not

form

EDA - 2 - #138, February 16, 8 p.m. from London

form part of those discussions.

Three. Asked in the House of Commons whether he was aware that an increasing number of short term loans are being made to Germany by London financial houses and whether the British Government proposes to take any steps to stop this aid to Germany's rearmament the Chancellor of the Exchequer replied: "No, sir; I believe the trend is the other way to that suggested in the first part of the question and the second part does not therefore arise."

Four. Asked whether he is aware that higher interest rates are paid by London banks on foreign short term deposits than are paid in the other financial centers thereby encouraging the influx of foreign currency to this country and whether in view of the fact that the operations of the exchange equalization fund in sterilizing this influx involves heavy expense to the taxpayer he will take steps to prevent this payment of excessive interest, the Chancellor of the Exchequer answered: "In reply to the first part of the question the rate of interest obtainable is not the only, or even the most important, factor in determining the international location of foreign short term deposits at the present time. The answer to the second part of the question



EDA - 3 - #136, February 16, 8 p.m. from London

question is in the negative." In this connection reference is made to the unsuccessful attempt to put an end to this practice by voluntary agreement among the joint stock banks reported in my 710, November 11, 8 p.m., the practice still continues: as much as 1 1/4% can be obtained from the Midland Bank, most of the other banks giving between 1/2 and one percent.

Five. The franc was offered today except at the close due mainly to the terms of the new French loan; on balance the French fund lost about three-quarters of a million pounds. The dollar is about at gold point and the London market is looking for the appearance of the control in New York. The London Stock Market was decidedly weak today due to the impact of the Austrian crisis at a time when the prospect of trade recession is casting doubts on equity values. Gilt edged securities were correspondingly strong due to switching.

JOHNSON

NPL

PARTIAL  
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 18, 1938, 6 p.m.

NO.: 251

FROM COCHRAN.

Franc strengthened slightly late this afternoon especially after New York opened a seller of dollars and French control began buying a little sterling at 5:00 o'clock at 152.80. Swiss had been principal sellers of dollars earlier in day.

With report coming from London that Bank of England offered 200 bars of gold today there is some curiosity here as to whether this was sold for the account of the British control or for the National Bank of Belgium or for the American stabilization fund considering that the gold import point to London from New York has been almost reached.

French attention devoted largely to disturbing international developments, particularly in Austria. At home labor situation and high cost of state borrowing, as revealed by new loan issue, cause much worry.

Today at luncheon Professor Rist told Ambassador Bullitt that the wise decision of the United States regarding gold pleased him.

BULLITT.

EA:LWW

February 16, 1938.  
9:28 a.m.

H.M.Jr: Hello.

Operator: Mr. Macdonald.

H.M.Jr: Hello.

Stewart  
Macdonald: Hello Mr. Secretary, how are you today?

H.M.Jr: Fine. Now look Stewart.

M: Yes.

H.M.Jr: I talked to Jimmy Roosevelt yesterday, see?

M: Yes.

H.M.Jr: And, I thought I might as well go direct.

M: Yes.

H.M.Jr: And I told him how I felt.

M: Yes.

H.M.Jr: And I may make a suggestion to you and let it be your own, see?

M: Yes, yes.

H.M.Jr: I would, if I were you, call up Farley.

M: Yes.

H.M.Jr: And tell him you're sorry -

M: Jim Farley?

H.M.Jr: Yes.

M: Yes.

H.M.Jr: And then later today I'll call him.

M: O. K.

H.M.Jr: See?

M: I've got to go and see him in about - not - the first man you spoke of, in about - 11:30.

- 2 -

H.H.Jr: Well.

M: Straus and myself have an appointment with him.

H.H.Jr: Who?

M: Straus.

H.H.Jr: Right.

M: United States housing authority.

H.H.Jr: Right. Well -

M: I understand he and the chief, that is - had a meeting yesterday on the same subject, and they've got a new scheme now.

H.H.Jr: Straus?

M: No.

H.H.Jr: You mean the President?

M: Yes.

H.H.Jr: I take it you have people there.

M: Yes. That's right.

H.H.Jr: Well I don't know what it is but I want to see that you get a break and get a chance. There's time enough for people to be thinking about how to help housing after you say that you can't do it.

M: Yes.

H.H.Jr: When you throw up the sponge.

M: Yes.

H.H.Jr: But in the meantime you ought to have a break.

M: I should think so.

H.H.Jr: Now, my suggestion to you is, as I say, that you call Farley, and give me a ring this afternoon, and let me know how you're getting along, will you?

M: All right, Mr. Secretary, thank you, I'll be glad to.

- 3 -

H.M.Jr: Call me between three and four.

M: All right, Mr. Secretary.

February 18, 1938.  
10:05 a.m.

H.M.Jr: Hello.

Operator: All right.

H.M.Jr: Go ahead.

O: Go ahead.

Aubrey  
Williams: Hello.

H.M.Jr: Hello.

W: Mr. Secretary?

H.M.Jr: Talking.

W: Yes, this is Aubrey Williams.

H.M.Jr: Yes.

W: Say, how - would it be possible for Colonel Harrington and myself to have that appointment with you and Dan, this afternoon?

H.M.Jr: I think so. Let's see. Three thirty?

W: That'd be fine.

H.M.Jr: Three thirty.

W: And we'll be at your office.

H.M.Jr: What - what are we going to do this afternoon?

W: Well it has to do with these things we talked about, over in the outer office of the President's, that day, about projects and things that - a few changes, I think all of them are really minor ones.

H.M.Jr: Uh-huh.

W: And then it would make it possible for us to do - to move right into this new program with the greatest speed.

H.M.Jr: Uh-huh.

W: You remember?

- 2 -

H.M.Jr: Yes.  
W: Well, we'll be over.  
H.M.Jr: Three thirty.  
W: Thanks so much.

February 18, 1938.  
10:30 a.m.

H.M.Jr: Hello.

Operator: Senator Barkley. Go ahead.

H.M.Jr: Hello.

Sen. Alben  
Barkley: Hello.

H.M.Jr: Hello Alben.

B: Hello Henry.

H.M.Jr: Yes. I called yesterday simply to say that if you could come to a decision on that liquor, I think it would be helpful all around.

B: Well, I've talked with some of the people interested in our viewpoint, and it doesn't seem that this label that they've fixed up is satisfactory.

H.M.Jr: Yes.

B: And I've asked them to give me a memorandum on it, which they are going to do today.

H.M.Jr: Well I don't - I'll look at it, but I think we've gone about as far as we can. You see this delay has brought an awful lot of pressure on me from every - every direction.

B: Well I understand that, but of course -

H.M.Jr: It's going to be very difficult.

B: If this - what this label is purported to do.

H.M.Jr: Yes.

B: Worked out by Alexander who I don't frankly think knows much about it.

H.M.Jr: Yes.

B: Hasn't got much background to qualify him to pass on liquor.

H.M.Jr: Yes.



- 2 -

B: If it's not - if it's not fair to the American liquor interests, the pressure ought not to count.

H.H.Jr: Yes. Well, do you think you'll know in a day or so?

B: Yes.

H.H.Jr: Fine.

B: I'll take it up with you just as soon as I - I want to get it in a concrete form.

H.H.Jr: Good.

B: The further objections to this particular label.

H.H.Jr: All right.

B: Because it doesn't really meet the situation.

H.H.Jr: Well, your statement that you gave out on gold was very helpful.

B: Well, thank you, I was glad to do it.

H.H.Jr: Thank you.

B: Goodbye.

H.H.Jr: Goodbye.

## RE PRICE POLICY STATEMENT

February 16, 1938.  
11:00 a.m.

Present: Mr. Taylor  
Mr. Gaston  
Mr. Haas  
Mr. White  
Mr. Daggitt  
Mr. Viner  
Mr. Wallace  
Mr. Ezekiel  
Mr. Black  
Mr. Currie  
Mr. Lubin  
Mr. Hinrichs

H.M.Jr: Will somebody with a nice loud voice read it out loud.

Haas: Mr. Lubin, you have a nice voice.

Lubin: Viner is the great trouble-maker around here.

H.M.Jr: I see he's running true to form then.

Go ahead. You want to read it?

Lubin: "It has been the policy of this Administration to promote recovery towards full employment and full use of our resources. That continues to be our policy. If we are to be successful in this attempt, we must have a steady increase in the real income produced by and distributed to all our people. The productive power of our workers and our resources can provide and maintain a national income far above any levels we have yet reached.

"In the furtherance of this objective the Administration in its agricultural, industrial and monetary policies has necessarily been concerned with both the relation of the prices of groups of specific commodities to each other and the movement of the general price level. The policy of the Administration in this regard must be flexible. There are times when the situation calls for measures designed to promote a rise in the general level of prices. There are other times when the concern should be lest prices are rising too rapidly or too far. A year ago there was ground for concern lest there occur so rapid a rise in the prices of some commodities as to encourage a

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speculative boom and choke off demand. During the past six months, on the other hand, the general price level has been falling and industrial activity has been declining. Government policy must be directed to reversing this deflationary trend.

"Although the attainment of full industrial activity requires an increase in the general price level, this does not mean that all prices should advance, or that the rise should be rapid. The prices of different groups of products must be brought into balanced relations to one another. Some prices are still too high to promote that balanced relationship between prices that is necessary for sustained recovery. The failure of such prices to reflect the decline in demand is an obstacle to the resumption of recovery. The maintenance of prices not subject to full competitive forces accentuates the deflationary pressure on competitively determined prices. When prices are, through monopolistic practices, maintained at uneconomic levels, it is the obvious duty of the Government to apply those remedies which the law provides.

"What is needed now is to raise the prices that are too low, without raising the prices that are still high. For those industries that operate at a high level of capacity, even in depression, the restoration of profits must come through higher prices. But those industries that have sought profits through curtailment of output should seek the restoration of profits through increased volume rather than through restricted output at high prices. Higher profits will encourage new investment, which is necessary to full recovery.

"I repeat that present conditions require a moderate rise in the general price level, and that this rise need not and must not extend to all prices. The rise must be mainly confined to those classes of commodities, such as most raw materials and some finished products that are sold under highly competitive conditions, whose prices are now too low. The prices of some items, on the contrary, are still at substantially the highest levels reached in 1937; some are even higher than in 1929. In the field of residential construction, for example, in the face of a serious shortage of housing and of unused productive resources of every kind, all the major elements in housing costs advanced so sharply by the Spring of

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1937 as to terminate a promising expansion of activity in this most prostrate of our industries. In other industries the sharp rise in prices encouraged inventory buying, which combined with the reduction in housing, laid much of the ground for the present recession. We must do everything we can to prevent another boost in those prices that are already high enough.

"At the present time, large numbers of producers, as for example the farmers, have suffered large losses of income. It is desirable that incomes for such groups should be restored, partly through rising prices for the goods they sell, before prices or costs of production rise further for the goods they buy. There are industries in which volume remains almost unchanged even in a depression and a recovery of income depends upon a rising price for such products, as an alternative to a correspondingly drastic deflation in other fields."

Now, this last paragraph is just a summation. But we feel very definitely that it is subject to the President's own determination as to what he wants to put in as evidence of what he is doing.

"I believe the farm bill just passed, the housing bill just passed, and the monetary policy being followed by the Treasury and the Board of Governors of the Federal Reserve System will prove helpful toward achieving these objectives."

Wallace: Looks like an excellent statement.

H.M.Jr: I think it's excellent. I got two things I'd like to raise, two points.

You come along and talk about the farmer, which is fine. But can't you say something about the consumer in the city? I mean ...

Wallace: Good point.

H.M.Jr: I mean I think you completely left that out.

Wallace: Good point.

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- H.M.Jr: And as I remember my agricultural economics, as wholesale prices go down, there is always this drag in the distributors' prices. I mean there's always that - isn't there always that drag?
- Ezekiel: Farm prices go down more than wholesale prices, yes. Likewise, on the way up they go up faster.
- H.M.Jr: I mean there's nothing about that.
- Ezekiel: There was a paragraph put in on that, but it was cut out. Some folks thought we were talking too much about the farmer.
- H.M.Jr: I mean city folks.
- White: Speaking of retail prices lagging behind.
- H.M.Jr: I mean something in this whole price thing - the fellow sitting back here trying to work out a budget for a relief family, and first thing - "Well, what does it do to the poor family in the city?" I mean what has the President got in mind for the factory worker?
- Ezekiel: Is your point this, that even though farm prices are low, food prices remain relatively much higher than farm prices?
- H.M.Jr: I'm just using that for an example. Must be something put in here ....
- Wallace: I think you must get the word "consumer" in.
- H.M.Jr: And what has the President got in mind when he's talking about prices for the consumer? Haven't you got a Consumers Section over there with you?
- Wallace: Absolutely.
- Ezekiel: But that fellow isn't ....
- Wallace: But it's easy enough to get a sentence or two in here.
- H.M.Jr: Don't you think so?
- Wallace: It ought to be in.

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- H.W.Jr: The other thing, if I may - it just strikes me - I think we've got to give some examples as you go along. When you're talking about prices controlled through monopoly, I think you ought to list some of those; then we'll talk about those which are affected through a highly competitive situation. I think you've got to illustrate a little bit more.
- White: Pick out the most spectacular ones.
- Viner: You've got to be very cautious, though.
- Lubin: You have this political difficulty. One of the things that are too low is certain food prices. Will not the President be put in the position where he is accused of trying to raise the cost of living?
- H.W.Jr: Well, that's why I'm talking about the consumer.
- Lubin: One of your best examples is food, and immediately - and clothing, and immediately the noller is going to be made that the President wants to increase the price of the two important things in the budget.
- White: Well, we may be able to find some commodity which is not subject to that criticism. We can always pick on gypsum and a few others.
- H.W.Jr: I still think - don't know whether it's possible - I went through it, kept looking through it. Where's the example? I mean after all, the President used copper; there must be others.
- Wallace: Coal is very good.
- White: He doesn't believe copper should go up too high or too fast; apparently he doesn't mind if the other things go up too high or too fast.
- H.W.Jr: Well, just - after all, in this room, I told this to Robert Jackson; I happen to believe in what Robert Jackson was talking about when he made his speech at Syracuse, but I told him - I said, "I don't think there's one percent of the people know what you're talking about," and he agreed. And when I get through, I think that it just - have a few concrete examples.

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Waite: I think it can be done.

Wallace: An illustration.

H.M.Jr: A couple concrete examples.

Wallace: Where the thought is - where you can use an example.

Viner: I don't think you can do it. If you name a commodity and say it's a commodity controlled by monopoly, then it can be said, "Why don't you bring the force of the law against it?"

White: You can phrase it in such a way so that you don't say it's that kind of a commodity, but direct attention ... I think it can be done.

Wallace: Seems to me the place to do it is in paragraph 2 of the second page. Instead of using these rather abstract phrases, you could use the example there. You say, "For those industries that operate at a high level of capacity, even in depression, the restoration of profits must come through higher prices." You could use the example there.

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

Wallace: That sentence won't mean anything to the average person.

H.M.Jr: If I was a newspaper correspondent, the first question I'd ask the President - "Well, Mr. President, what do you mean by monopoly prices?" Then he's going to fish, and he might pull out the wrong thing.

Wallace: Think he better duck. Better tell him to duck. Don't think it's a good thing to come out with an illustration of the monopoly price thing.

Ezekiel: Department of Justice really has to answer that.

H.M.Jr: Waiting a hell of a long time to answer it.

White: "Prices that are too high."

Viner: without saying that it is monopoly?

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- White: Qualify the phrase so that you're not exposing yourself to that kind of question or that kind of criticism.
- H.H.Jr: Well, what other things do you see?
- Wallace: Well, aside from clearing up that second paragraph on page two, it occurred to me that in the second paragraph on page one it might be possible to change the phraseology a little. I was going to suggest reversing the thought there. The degree to which - you see, "in the furtherance of this objective we are concerned with the way in which monetary action affecting the general price level bears on the coordinated productive power of our workers" - something of that sort.
- H.H.Jr: Well, could you say it so the boys could catch it.
- White: I don't know whether the others did. I didn't.
- Hess: Did you get it?
- H.H.Jr: I think I did.
- Wallace: The way this sentence reads now - "In the furtherance of this objective" - that is, the objective of the increased productivity - "In the furtherance of this objective the Administration in its agricultural, industrial and monetary policies has necessarily been concerned with both the relation of the prices of groups of specific commodities to each other and the movement of the general price level." I wondered whether or not it would express the thought more forcefully if we said we were "concerned with the way in which monetary moves that affect the general price level affected the long-time coordinated productive power of our workers."
- White: The thought there was not to attempt to allocate prices exclusively to monetary matters, but to show that other policies have influence on the price structure.
- Haskiel: Would your idea be, Mr. Wallace, to add at the end of that sentence "and with the resultant effects on the ability of our industry to function at high



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capacity and full employment."

Wallace: Oh, I think it is probably all right as it is, but I ....

Askeiel: It doesn't tie those price relations immediately to industrial activity. That's a hole you're trying to fill.

Wallace: It seems to me that any action taken with respect to prices by the monetary route should be taken only with the thought in mind of how it affects this coordinated increased productivity over the long run, and that we oughtn't to have anything in this statement that indicates that we're going to move on prices except in the full consciousness that we know there is danger that when we move on prices by the monetary route - that you are in danger of bringing about unbalance.

Lubin: You avoid that possibility if you just say, "In the furtherance of this objective the Administration in its economic policies has necessarily ...." and leave the word "monetary" out.

Wallace: I don't object seriously to it as it is, but I thought there was a possibility perhaps of strengthening it.

H.M.Jr: Can I just say one thing here now. For heaven's sakes, strike out that title.

White: Well, that wasn't meant to be in there. That's a typographical error.

H.M.Jr: Some typographical error.

White: That was a news item that was mistaken ... That was done just one second before.

H.M.Jr: If the child has to be named, I would call it "General Price Level."

Taylor: That certainly is out.

White: No doubt about that.

H.M.Jr: What?

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Gaston: "Administration Price Policy."

Ezekiel: That was inserted at 1:15 a.m.

H.M.Jr: What?

Ezekiel: Inserted at 1:15 a.m.

Wallace: Why not call it "Price and Productive Policy"?

Ezekiel: "Price and Production Policy."

H.M.Jr: These boys, they've done a swell job, but I think they've got to ~~head~~ it a little better than that.

Wallace: Still, I think "Price Policy" would be all right.

Haas: It is mostly price policy related to the productive policy.

Ezekiel: That's it.

Taylor: That's it. That would be all right. Ready for words?

H.M.Jr: Not quite. You (Wallace) want to run through it, don't you?

Wallace: I'm quite satisfied with it. I was thinking about - let's get this consumers sentence fixed up.

H.M.Jr: I think it's a corking statement.

Wallace: What do you think of it, Al?

Black: I think it's very good. I think that Secretary Morgenthau has suggested the necessity of having some specific prices in there, otherwise it would be too general.

H.M.Jr: I didn't mean prices, I meant commodities.

Black: Well, have to relate prices to commodities.

H.M.Jr: Yes. You do or don't think well of that?

Black: Of the article?

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- H.M.Jr: No, the suggestion.
- Black: No, I think it's very good. I think the statement as it stands is likely to go over the heads of most people.
- H.M.Jr: You think so. That's what I think.
- Exerial: How about the consumer statement? If these policies aim at a rapid increase in employment payrolls and consumer income, even if that increase is accompanied by a slight rise in the cost of some of the elements of the standard of living, consumers will still be very much ahead as a result of greatly increased prices.
- White: Couldn't we take these ideas and work over them after you suggested some changes to be made?
- H.M.Jr: Yes. I told the White House we wouldn't be ready. I was going to suggest, if we just throw this at you - if it was agreeable to you (Wallace), I was going to suggest 8:30 tomorrow morning. Is that all right?
- wallace: (Nods yes)
- H.M.Jr: and then the boys would have another chance to do it. And if the President will see us the way I suggested, after Cabinet tomorrow, it will be all fine.
- wallace: All right.
- H.M.Jr: but I'd like to study this a little bit more now. Huh?
- Gaston: One other factor I think we might look at, and that is this. I think this is excellent as a prepared statement, to be issued as a formal statement. I think possibly the President will want to issue a prepared statement. I think also, though, that he is going to talk informally to the newspapermen at the conference and probably talk from the charts. And I approached the thing from the standpoint of a running discussion, something that he might read himself, possibly to clarify his own thoughts for his informal talk, which is likely to get the heavy

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play, and I worked out a general running idea and also a summary on that basis.

H.M.Jr: Well, let's hear what you've got. You've done one?

Gaston: Yes.

H.M.Jr: Fine, let's hear that.

Gaston: I think probably I'd better read the running discussion first and the summary afterwards.

"Price Policy.

"Recent developments have again stirred up discussion of the Administration's...." - understand, this isn't intended for a release at all; it is simply for the President to read to clarify his own thoughts for the informal discussion.

"Recent developments have again stirred up discussion of the Administration's price policy. I suppose we are likely to read again as we have read in the past that the Administration has no consistent price policy and that I issue conflicting statements about prices.

"I think it may be worth while to review briefly what our price policy has been and what it is now. If there are doubts, I'd like to clear them up; although of course I recognize that neither I nor anybody else can do very much about the sort of misunderstanding of Administration policies that is due to a perverse desire not to understand. There has been more than a little of that in the picture.

"At the outset it is necessary to bear in mind the distinction between what I have said about the general level of prices and what I have said on one or two occasions about specific prices or groups of prices within the price structure.

"Ever since the early days of March, 1933, our objective has been to bring about a rise in the general price level of our domestically produced commodities, and we gave our particular attention to those commodities which were most notably out of line, especially agricultural prices--farm prices on the farm--but we did not neglect other prices. Our objective was a

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general increase in the price level.

"The reasons for that policy should be obvious and were well explained at the time. The depression had brought about a ruinous decline in many prices, especially the prices of raw products, but not all prices had declined equally. A great disparity had been created and that disparity created an insurmountable obstacle to early business recovery so long as it existed. We had before us the prospect of a tremendous liquidation, which would wipe out existing values on a huge scale and bring disastrous consequences which no one could foresee. The only alternative to that terribly deflationary process was to try by some means to bring up the prices that were too low in relation to other prices, and too low in relation to the great bulk of commercial and private debts that had been incurred in the years of higher prices.

"What we did to meet that situation is an old story, but apparently a good many people have forgotten it; at least they seem to have forgotten the reasons that impelled us to take the steps we did take.

"By various means we did bring about an improvement in the price level, but we never at any time fully attained the objective we set out to attain, which was to restore the price relationships on which the fullest business activity could be maintained. Within the last few months we have had a distinct set-back. Price relationships are far less satisfactory than they were..." - this should be - I said six months ago - "than they were in December, 1936" - "but they are a long way from being as badly out of line as they were in 1933.

"Notice that I am speaking, not of any individual prices, but of price relationships and the general price level. This is important because people, and I include the newspapers, are continually allowing themselves to be confused about a relatively simple matter.

"If in a time of falling prices all prices should decline together and uniformly, great damage would

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be done to capital values and a great injustice to debtors, but when prices reached the bottom, business could go ahead. But that is not what happens. What happens is that the most sensitive prices decline precipitously, others in less degree and some very rigid prices not at all. If the deflation is permitted to run its course there is a long and tremendously costly period of adjustment before a correct relationship is established again. Full business activity cannot be attained until a proper relationship is established.

"Corrective influences can be set to work to bring up the prices that are too low. We did set such influences to work and they did achieve results. The prices that were ruinously low began to climb to meet the prices that had not fallen. Then an element of danger appeared. When you are trying to get prices to meet at a proper relationship it is just as dangerous to have some that are already high enough shoot higher as it is to have some of those that are too low go lower.

"That is what was happening in the spring of 1936 when I uttered a warning that prices of some durable goods were being forced above their proper level. That can happen to controlled prices, to prices that are in the grasp of monopoly. It is a stupid business for those who can exercise that sort of control to use it in that way. It is a plain case of killing the goose that lays the golden eggs. But monopolies are often just that stupid. That is one of the reasons why we need to be vigilant to protect ourselves against them.

"The effect of prices that are too high in relation to other prices is to choke off demand, to lessen consumption; and when consumption falls off other lines are affected and a great many little men suffer.

"Prices are too high when exorbitant profits are exacted, when wasteful and inefficient practices are pursued in management, when the advantages of quantity production and distribution are not sought. Prices are too low when they do not provide an adequate living wage for the necessary labor that produces them.

"Our price policy has been directed toward a fair living for all those who toil to produce and a fair

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reward for all those who contribute unique and valuable service to production; toward a fair return to capital invested and to capital risked. It will continue to be so directed. It has been directed against extortionate profits, against restrictive monopoly and against the milking and looting of industry by manipulators of corporate structures. It will continue to be so directed.

"We are seeking to restore a more satisfactory price relationship. Our effort has been and will continue to be primarily to raise the prices that are too low according to the standard I have mentioned. It isn't a standard we have invented, but it is one to which we are trying to give practical application. The prices that are too low according to that standard bulk far larger in our economy than the prices that are too high. That is why I have said that, speaking broadly, the price level is too low.

"The improvement of these prices that are too low does not mean a great increase in the cost of living. On the contrary, it will more surely result in higher wages and better living.

"That is our price policy. It is not new. It is the one we have pursued for nearly five years. It is not an inconsistent policy. It is called inconsistent only by those who don't take the trouble to understand it.

"I am not undertaking today to detail the further methods we shall use in pursuit of it. To do so would mean to recapitulate nearly all that we have done since 1933. But we must bear in mind that we have made great advances since then. We have built foundations that don't need to be altered. One of them is our monetary policy: We don't have to face the monetary chaos of 1933; we have now a system adequate for our needs. Another great accomplishment is our farm price adjustment system, greatly improved by the new Act that I have just signed.

"The approaches to the price problem can not always be direct. They are a part of our general recovery policy, which, in spite of temporary setbacks, we shall continue to forward with all our efforts."

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- Wallace: I think the first part of that is fine, Henry. I was wondering about the part dealing with monopoly, as to whether it would be well for him in this press conference to bring out, along with the rest of the discussion, another blast at monopoly, which would tend to take the headline. I wonder if it isn't - what we are after is to get the maximum recovery. Now, it is true that monopolies interfere with recovery by holding certain prices out of line. But if we come out with another blast against monopoly, it tends to scare other business men as well. I'd be inclined to get him not to say that, rather than to get him to say that at the present time. That's my hunch on that part of it.
- Gaston: Of course, he is being attacked as being inconsistent because of that very thing - that on two separate occasions he has talked about certain prices being too high, and it seems to me he needs to relate that to his general policy to raise the general level of prices, and show that on those particular occasions he was not inconsistent.
- Taylor: I think we can use everything you've got in there except every place where he's defensive and says, "These so-and-so's won't understand," and so on. And if you can cut out that note, it's fine. I think the setting for this whole thing is a very considerate statement and restatement of what the price policy is, and there shouldn't be a word of criticism or defense of anybody in it.
- H.M.Jr: Well, that's very nice, but he won't do that that way. I mean ...
- Taylor: Well then, I wouldn't feed him any meat.
- Gaston: Don't worry, he'll do it anyway.
- H.M.Jr: He wants to take what he said in April and show how they twisted it, and he's going to do it - just the way yesterday at his press conference, couldn't wait until we got through and shot it. And that's all



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right. After all, he's the boss. That's all right. But he's going to do it.

The thing that I got, Herbert, was this. These gentlemen brought in a thing which was about the maximum length that the President will take. He won't take anything that is any longer than that. And I think they ought to take that and see if there is anything in there which they've overlooked. But he won't take anything much longer than that.

Gaston: Was it your thought that he'd put out a formal statement?

H.M.Jr: Very definitely. Oh yes, definitely.

Gaston: Of course, he will talk for half an hour.

H.M.Jr: Yes, and my thought is this. I think we ought to go over there, the group that's worked on this thing, and then, if he would permit it, to do what you people did to me before my press conference; to fire questions at him.

Gaston: I put that whole thing into a page. There is that whole thing in summary.

H.M.Jr: I mean what I did before our gold thing for half an hour. I had half a dozen boys in here. They just shot questions. If anybody didn't like the way I answered the question, we had an argument about it. I don't know whether the President would permit that or not. Or he might reverse it. He might shoot questions at us. But if we could thrash the thing out and try it, why, I think ....

Hallace: Here's the thing I feel the need for emphasizing, Henry, as I listened to Mr. Gaston's statement. It seems to me that we want to get the consumer in there very much more definitely. In addition, I think we want to get in very much more definitely that this higher price policy in certain segments of our economy is not a scarcity policy. I think that is brought out very clearly. Bring in this farm bill in that connection. And I think it is just as well to bring out also clearly that we are not anti-profit.

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- H.M.Jr: I think that's all to the good.
- Haas: That's in there.
- H.W.Jr: It's in there. I don't know who put that in there. Didn't know we had any of these profit boys around. That's all right.
- Gaston: Most of those statements are in my outline.
- H.M.Jr: The one thing I'd ask the President ....
- Wallace: But if you boil it down - you want certain things to stand out strongly instead of having a lot of reasoning about why he was right in the past. Why not forget about trying to reconcile what's said in the past and go forward in the future? And these are things that ought to stand out. You want the consumer thing to stand out; that this higher price policy in certain segments is not a policy of scarcity; and we are not against profit.
- H.W.Jr: There is one question I'd ask him when he talks about the flexible policy. I'd say, "Well, Mr. President, does this mean we are going to have a commodity dollar?" I mean that's what I'd ask him. Is that what you fellows got?
- White: Would you like us to write out a series of questions and answers that we might suggest?
- H.M.Jr: Yes. I'd ask that, for instance. "Does that mean ...?" Just at that point bring it in - "Well, Mr. President, does this mean that this group is recommending a commodity dollar?"
- Gaston: Well, one point that would be connected with that is - that is, the first assumption, first guess - is, we may intend further devaluation.
- H.M.Jr: I think the courteous way would be just to list a lot of questions which we think ...
- White: And just answer them.
- H.M.Jr: Yes. You've done it for me. And what this group thinks the answer should be. Let him take this. If he runs through that, then he can read the question.

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"I agree with this. Why do you answer it this way?" If we could get him to give us an hour and have a kind of seminar there, it would be fine. If he'd do that.

White: Well, we'll do that anyhow.

Wallace: Of course, what they'll ask him is, "What action do you intend to take to bring up those low prices, and what action do you intend to take to bring down the high prices?"

H.M.Jr: We'll let the boys write the answer to that one.

White: We'll put that down.

Gaston: That's in here.

H.M.Jr: You say you have the answer?

Gaston: I have an answer to that question in this.

H.M.Jr: What was it, Herbert? Here, do you want to read it from here?

Gaston: No, it's not - I think it's in there, but very briefly.

"I am not undertaking today to detail the further methods we shall use in pursuit of it. To do so would mean to recapitulate nearly all that we have done since 1933. But we must bear in mind that we have made great advances since then." And so on. And then: "The approaches to the price problem can not always be direct. They are a part of our general recovery policy, which, in spite of temporary setbacks, we shall continue to forward with all our efforts."

H.M.Jr: My question is, "What is the present recovery policy?"

Wallace: That's a good way to handle it.

H.M.Jr: You mean to put these questions?

Wallace; Yes. But I mean that's a very good answer to the particular one.

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- H.M.Jr: I am most pleased with this thing. I didn't think you'd have anything nearly as good as this by today.
- Lubin: Neither did we, Mr. Secretary.
- White: It's a good thing you didn't catch us a quarter of an hour sooner.
- Wallace: I'd like to ask if Jacob Viner is satisfied with it.
- Viner: It depends on what it is. I am not satisfied with it as a frank survey of the situation, but under the circumstances I think it is better than I had anticipated it would be.
- H.M.Jr: That's a very bullish statement, coming from Jake, you know.
- Wallace: Positively enthusiastic, glowing.
- H.M.Jr: Yes. I mean from Jake that's a very ...
- Viner: And I'd say it would be very dangerous to move in the direction of making it more specific, of naming commodities, of getting into rows as to whether the facts are correct about particular commodities, or of specifying what the President is going to do about it. This is a statement of the sort of price system he wants this to be. The question is to ...
- Wallace: You would have him put this out and then duck at every stage of the game, duck every question practically.
- Viner: I'd say duck it by saying that he has been and intends to continue working at it, that this sort of system can't be produced over night and a large part of it rests on cooperation of the public. I mean the Government can't do all this. A lot of this isn't that the Government is going to do so and so, but that the price system must operate in this way. In other words, part of this is really an appeal to persons who have been maintaining rigid prices to stop doing it.
- Wallace: I'm inclined to agree with Jake on that, rather than go into illustrations.

- Taylor: Got the building thing in there. That's really about all you need.
- Viner: I'd say if you have illustrations - then I'd say make it "Commodity A" and "Commodity B," but don't specify what they are. Take your price index and say, "Here are examples, Commodity A and Commodity B, which have operated this way. There are examples, Commodity C and Commodity D, which have operated in this other way."
- H.M. Jr: Well now, the President - I remember he said, "Bill came down to see me and told me such and such a thing about a factory down in Pennsylvania, and Tom came down and told me so and so about this business up in Vermont." Then they asked, "Who was Bill and who was Tom?"
- Gaston: I think if you include any mention of specific commodities or articles, that is going to be the news lead of the story. This general aspect won't get the lead. The lead will be the prices that are too high, if he names them.
- Haas: And even if we carefully select them, the press will ask, "How about steel, for example?"
- Viner: I think it will be pretty good if the statement doesn't have any definite lead, if it is a thoughtful consideration of the problem facing the country.
- Wallace: And if it is followed up.
- Ezekiel: If it isn't spectacular, seems to be soberly thought out.
- Viner: Not directed to trying to find flashy statements or trying to catch a headline. It isn't an easy problem. I think he ought to say so. One of the things we ought to put in there is, "This is not an easy problem. There aren't any formulae that answer all these questions off-hand. It requires constant thought, constant vigilance. The Government has perhaps made some mistakes, and will continue to make some."
- Gaston: The lead is not going to be on the prepared statement.

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The lead is going to be on what he says in his informal talk to the newspapermen. This sort of prepared statement - it is excellent; it is not going to be the lead of the story.

- Viner: But is the lead the important thing? The public reads the leads, the captions, for a day, then the world forgets about them.
- Gaston: No, on the contrary, the only impression that ninety-nine out of a hundred people get is the stuff that's printed in the headline and the lead of the story.
- Viner: Yes, but I don't know whether these statements are made for ninety-nine out of a hundred.
- White: How about the editorial comments?
- Viner: Editorial comments, and statements and speeches made two months later.
- Gaston: Those will - as far as the editorial comments, they will nearly all be hostile, and they will pick out the apparent inconsistencies of the President; those are the things they'll harp on editorially for ....
- Eskeiel: Most of the people never read the whole story, just read the leads.
- Wallace: I'd be inclined, supplementary to this, to have him issue some kind of statement reconciling the inconsistencies - supplementary to this, issue it.
- Dubin: I do think this is true. If he would take this as a prepared statement and give 30 minutes to reading Gaston's summary - I mean, after all, Gaston wrote it for his information and not for the press's information.
- Gaston: Not to give that time to it at the press conference.
- Dubin: Study it up so he'll absorb the details of what we have in it.
- Wallace: I would want to read it to him; otherwise, his enthusiasm will get the best of him and he'll come out with something that will totally obscure this.

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- H.M.Jr: I think as far as preparing it in the best way to present it to him, if you take this statement and we finally agree on it, and then if you men could put down questions and answers for him as you think they'll be directed, I think that would be an awful good way to present it. I find it very useful to myself. And he'll do that. And take Gaston's statement and incorporate it into questions and answers. Now, we had a demonstration of the other way recently and it didn't work so good. But anyway, I think that something which he could - he's got a marvelous memory and if he had these questions and answers and poked them at us, and we'd be on the defense rather than putting him on the defense, - and he'd enjoy that and he'd soak it in and he'd have it for next morning. He'd absolutely have it. And I'm tremendously encouraged, first, that this group could agree on anything, and then second - I mean I think - I'm serious about that - and then secondly, if we could agree with the President, I really think it is one of the most constructive steps that's been taken here since - in the six months.
- Wallace: Let's get some strong consumer stuff in it.
- H.M.Jr: So if they'll get questions and answers and consumer stuff, we'll meet at 3:30. We've gone as far as we can, don't you think so?
- Wallace: The consumer stuff is all we need on this three-page statement.
- H.M.Jr: That's right.
- Wallace: We're dropping the example thought?
- H.M.Jr: I'm willing to drop it.
- Wallace: But we want the consumer thought.
- H.M.Jr: Anything else?
- Zeckiel: You want the thought of higher price policy, not a scarcity policy.
- Wallace: Yes, I think that would be good.

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- Lubin: Comes under consumers, doesn't it?
- Viner: Under volume. We want volume. Stress the fact that we want volume.
- H.M.Jr: I've got one other thing that I question. Can you hang this whole recession on the housing thing?
- Haas: No.
- Lubin: And inventories.
- Viner: We say that housing and inventories ....
- White: ... laid much of the ground.
- Viner: Still leaves lots of space.
- White: Laid some of the ground, we could say.
- H.M.Jr: Well, I just raise that point.
- Wallace: That could be in the question and answer thing.
- White: we left room for some other ground, for some of the credit policies.
- H.M.Jr: I might just - think it's interesting to point out, we seem to be after two days having a trend here which I think is very interesting, and that is that we're getting a general rise in commodities, a strong Government bond market, and a falling in the stock market. And gold is up to a point where - in the case of Switzerland, that they ought to be taking gold right now from us. But I think it's rather - I mean gold is almost up to the export point; it is in the case of Switzerland. High Government bond market, a good commodity market, and falling stocks. Sort of a queer combination.
- Lubin: I think that's quite typical of what you ought to expect.
- H.M.Jr: As far as I'm concerned, I'm tickled to death with it. I don't know how you feel. I'm perfectly satisfied. The thing I hate to see is a quick rise



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in the stock market.

- Lubin: I have a feeling that the stock market will not just the reverse of the way it should.
- White: In other words, if we can't explain it, we can fall back on that explanation.
- Isakiel: Do you want to talk about the charts at all? That was one of the subjects yesterday.
- H.G.Jr: I don't personally. I don't know ...
- Isakiel: wondered if you wanted to see the chart that we suggested as the best single chart for him to use.
- H.G.Jr: Yes, I thought it would be worth a while.
- But I think they ought to have that, Herbert - the group ought to have that, what you've done. I think they ought to have everything you've done.
- Wallace: If this longer statement is to be given, I would like to see the consumer segment in and cut out the anti-monopoly thing.
- Taylor: I'd like to say over again what I said before. Then I don't think we ought to feed him anything, with that type of thing in there. Now, if he feels he has to do it, why, O.K., but I don't think it's necessary.
- Gaston: I feel sure that most of his talk to the newspapermen will be devoted to reconciling his policy, explaining that the various things he's done are consistent.
- Wallace: I'd like to see him do it in an amicable way.
- Taylor: Very tactful way.
- Haggitt: We had this chart prepared, which seemed to summarize the situation about as well as any chart we could get together. It's the B.L.S. index of finished prices related with the index of raw materials, going back to '29. Then over at the side we have given - we have stretched out the last two years to show the monthly figures in more detail. The gradual increase in disparity between the two, starting in '29 and going up until the beginning of '33, stands out as

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a factor accentuating the decline in business.

H.W.Jr: I get that all right. Don't know whether Mr. Wallace wants to ask anything. I think it's a good chart. I'll take it over to the White House.

And I'd like to take a look at two more, if I could, tomorrow. I don't know what the Department of Agriculture runs on farmer's purchasing dollar. Have you got that?

Haes: Un-huh.

Daggit: Yes, we have one chart.

H.W.Jr: I'm still a little farm-minded, Henry.

Daggit: That pretty much parallels ....

H.W.Jr: Well, so far - that is, prices recede; that's bad. That's the thing. I mean this part of it looks bad.

Now, have you got something on the consumer?

Haes: He means the ratio between those two curves.

H.W.Jr: Well, something for the city fellow.

White: We haven't, but ....

Wallace: Take payrolls there and what the payrolls would buy; or payrolls relative to the cost of living would be the chart you're asking for.

White: That would be comparable to that. But I don't think we have done that. We can do it.

H.W.Jr: I think if you take this plus that and then something ...

Eubin: It wouldn't be comparable. They have the actual price. In the case of city workers ....

Wallace: No, it's the income.

Eubin: That wouldn't be income. Yours shows prices paid.

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- Ezekiel: We have other charts of city workers' income per worker employed, and cost of living.
- Lubin: That's not comparable to yours.
- Wallace: You can get a chart on farmers' income and relative ...
- Viner: Getting into farmers' costs; it's a pretty difficult concept.
- Ezekiel: We can show farmer income above costs; we have an estimate of net - I mean the net income after paying out-of-pocket costs, which go up much more rapidly than price goes up, and down much more rapidly than price goes down.
- Viner: The question is, what is its significance? You've got that problem of the city laborer - the city laborer has simple cash income and outlay.
- Ezekiel: But that net income of cash - for the farmers, the food they consume is comparable to the city workers' cash income.
- H.M.Jr: Don't take over anything that - you haven't got anything for farmers or city folks, prices in relation to employment?
- Lubin: Well, we have a chart showing the ratio.
- Ezekiel: This is employment.
- H.M.Jr: Pardon me?
- Ezekiel: This is employment on that chart.
- H.M.Jr: Yes, but breaking it down as between city and country.
- Ezekiel: Well, country employment goes up in depressions. They can't eat in the city, so they go home to eat.
- H.M.Jr: Would you just take this one over?
- Ezekiel: Employment.
- H.M.Jr: Just take this one? What do you people think?
- White: We can get one that looks ....

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H.M.Jr: The farmers' one. That's the one you (Wallace) always run, the one you go by so much. That's the one, isn't it, you're sort of ...

Wallace: What?

H.M.Jr: Known as the scissors chart?

Wallace: That was 1932, Henry.

H.M.Jr: Well, we don't want to get back there.

Haas: And one more, Mr. Secretary, you want, on the consumer element. Three.

H.M.Jr: Those three. Then if anybody has any bright ideas, and I'm sure they will between now and 8:30 tomorrow ...

Daggit: Could send him one on building materials.

Haas: raises the question of examples.

Daggit: Yes. This is the way it would look. We have it prepared here.

H.M.Jr: Are you (Wallace) in a hurry?

wallace: I have to go.

H.M.Jr: Well, we might just as well stop.

Government Aim to Check Deflation

It has been the policy of this Administration to promote recovery towards full employment and full use of our resources. That continues to be our policy. If we are to be successful in this attempt, we must have a steady increase in the real income produced by and distributed to all our people. The productive power of our workers and our resources can provide and maintain a national income far above any levels we have yet reached.

In the furtherance of this objective the Administration in its agricultural, industrial and monetary policies has necessarily been concerned with both the relation of the prices of groups of specific commodities to each other and the movement of the general price level. The policy of the Administration in this regard must be flexible. There are times when the situation calls for measures designed to promote a rise in the general level of prices. There are other times when the concern should be lest prices are rising too rapidly or too far. A year ago there was ground for concern lest there occur so rapid a rise in the prices of some commodities as to encourage a speculative boom and choke off demand. During the past six months, on the other hand, the general price level has been falling and industrial activity has been declining. Government policy must be directed to reversing this deflationary trend.

Although the attainment of full industrial activity requires an increase in the general price level, this does not mean that all prices should advance, or that the rise should be rapid. The prices of different groups of products must be brought into balanced relations to one another. Some prices are still too high to promote that balanced relationship between prices that is necessary for sustained recovery. The failure of such prices to reflect the decline in demand is an obstacle to the resumption of recovery. The maintenance of prices not subject to full competitive forces accentuates the deflationary pressure on competitively determined prices. When prices are, through monopolistic practices, maintained at uneconomic levels, it is the obvious duty of the Government to apply those remedies which the law provides

What is needed now is to raise the prices that are too low, without raising the prices that are still high. For those industries that operate at a high level of capacity, even in depression, the restoration of profits must come through higher prices. But those industries that have sought profits through curtailment of output should seek the restoration of profits through increased volume rather than through restricted output at high prices. Higher profits will encourage new investment which is necessary to full recovery

I repeat that present conditions require a moderate rise in the general price level, and <sup>that</sup> this rise need not and must not extend to all prices. The rise must be mainly confined to those classes of commodities, such as most raw materials and some finished products that are sold under highly competitive conditions, whose prices are now too low.

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The prices of some items, on the contrary, are still at substantially the highest levels reached in 1937; some are even higher than in 1929. In the field of residential construction, for example, in the face of a serious shortage of housing and of unused productive resources of every kind, all the major elements in housing costs advanced so sharply by the Spring of 1937 as to terminate a promising expansion of activity in this most prostrate of our industries. In other industries the sharp rise in prices encouraged inventory buying, which combined with the reduction in housing, laid much of the ground for the present recession. We must do everything we can to prevent another boost in those prices that are already high enough.

At the present time, large numbers of producers, as for example the farmers, have suffered large losses of income. It is desirable that incomes for such groups should be restored, partly through rising prices for the goods they sell, before prices or costs of production rise further for the goods they buy. There are industries in which volume remains almost unchanged even in a depression and a recovery of income depends upon a rising price for such products, as an alternative to a correspondingly drastic deflation in other fields.

I believe the farm bill just passed, the housing bill just passed, and the monetary policy being followed by the Treasury and the Board of Governors of the Federal Reserve ~~Board~~ <sup>System</sup> will prove helpful toward achieving these objectives.

PRICE POLICY

Recent developments have again stirred up discussion of the Administration's price policy. I suppose we are likely to read again as we have read in the past that the Administration has no consistent price policy and that I issue conflicting statements about prices.

I think it may be worth while to review briefly what our price policy has been and what it is now. If there are doubts, I'd like to clear them up; although of course I recognize that neither I nor anybody else can do very much about the sort of misunderstanding of Administration policies that is due to a perverse desire not to understand. There has been more than a little of that in the picture.

At the outset it is necessary to bear in mind the distinction between what I have said about the general level of prices and what I have said on one or two occasions about specific prices or groups of prices within the price structure.

Ever since the early days of March, 1933, our objective has been to bring about a rise in the general price level of our domestically produced commodities, and we gave our particular attention to those commodities which were most notably out of line, especially agricultural prices—farm prices on the farm—but we did not neglect other prices. Our objective was a general increase in the price level.

The reasons for that policy should be obvious and were well explained at the time. The depression had brought about a ruinous



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decline in many prices, especially the prices of raw products, but not all prices had declined equally. A great disparity had been created and that disparity created an insurmountable obstacle to early business recovery so long as it existed. We had before us the prospect of a tremendous liquidation, which would wipe out existing values on a huge scale and bring disastrous consequences which no one could foresee. The only alternative to that terribly deflationary process was to try by some means to bring up the prices that were too low in relation to other prices, and too low in relation to the great bulk of commercial and private debts that had been incurred in the years of higher prices.

What we did to meet that situation is an old story, but apparently a good many people have forgotten it; at least they seem to have forgotten the reasons that impelled us to take the steps we did take.

By various means we did bring about an improvement in the price level, but we never at any time fully attained the objective we set out to attain, which was to restore the price relationships on which the fullest business activity could be maintained. Within the last few months we have had a distinct set-back. Price relationships are far less satisfactory than they were six months ago, but they are a long way from being as badly out of line as they were in 1933.

Notice that I am speaking, not of any individual prices, but of price relationships and the general price level. This is important because people, and I include the newspapers, are continually allowing themselves to be confused about a relatively simple matter.

If in a time of falling prices all prices should decline together and uniformly, great damage would be done to capital values and a great injustice to debtors, but when prices reached the bottom, business could go ahead. But that is not what happens. What happens is that the most sensitive prices decline precipitously, others in less degree and some very rigid prices not at all. If the deflation is permitted to run its course there is a long and tremendously costly period of adjustment before a correct relationship is established again. Full business activity cannot be attained until a proper relationship is established.

Corrective influences can be set to work to bring up the prices that are too low. We did set such influences to work and they did achieve results. The prices that were ruinously low began to climb to meet the prices that had not fallen. Then an element of danger appeared. When you are trying to get prices to meet at a proper relationship it is just as dangerous to have some that are already high enough shoot higher as it is to have some of those that are too low go lower.

That is what was happening in the spring of 1938 when I uttered a warning that prices of some durable goods were being forced above their proper level. That can happen to controlled prices, to prices that are

in the grasp of monopoly. It is a stupid business for those who can exercise that sort of control to use it in that way. It is a plain case of killing the goose that lays the golden eggs. But monopolies are often just that stupid. That is one of the reasons why we need to be vigilant to protect ourselves against them.

The effect of prices that are too high in relation to other prices is to choke off demand, to lessen consumption; and when consumption falls off other lines are affected and a great many little men suffer.

Prices are too high when exorbitant profits are exacted, when wasteful and inefficient practices are pursued in management, when the advantages of quantity production and distribution are not sought. Prices are too low when they do not provide an adequate living wage for the necessary labor that produces them.

Our price policy has been directed toward a fair living for all those who toil to produce and a fair reward for all those who contribute unique and valuable service to production; toward a fair return to capital invested and to capital risked. It will continue to be so directed. It has been directed against extortionate profits, against restrictive monopoly and against the milking and looting of industry by manipulators of corporate structures. It will continue to be so directed.

We are seeking to restore a more satisfactory price relationship. Our effort has been and will continue to be primarily to raise the prices that are too low according to the standard I have mentioned. It isn't a standard we have invented, but it is one to which we are trying to give practical application. The prices that are too low according to that standard bulk far larger in our economy than the prices that are too high. That is why I have said that, speaking broadly, the price level is too low.

The improvement of these prices that are too low does not mean a great increase in the cost of living. On the contrary, it will more surely result in higher wages and better living.

That is our price policy. It is not new. It is the one we have pursued for nearly five years. It is not an inconsistent policy. It is called inconsistent only by those who don't take the trouble to understand it.

I am not undertaking today to detail the further methods we shall use in pursuit of it. To do so would mean to recapitulate nearly all that we have done since 1933. But we must bear in mind that we have made great advances since then. We have built foundations that don't need to be altered. One of them is our monetary policy: We don't have to face the monetary chaos of 1933; we have now a system adequate for our needs. Another great accomplishment is our farm price adjustment

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system, greatly improved by the new Act that I have just signed.

The approaches to the price problem can not always be direct. They are a part of our general recovery policy, which, in spite of temporary setbacks, we shall continue to forward with all our efforts.

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February 16, 1938.  
3:07 p.m.

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H.H.Jr: Hello, Stewart?  
Stewart  
Macdonald: Yes, Mr. Secretary.  
H.H.Jr: Henry Morgenthau.  
H: Yes.  
H.H.Jr: Well, what's your temperature?  
H: Well I went over there and saw Jim about eleven  
thirty. I never have been able to get a hold of  
Farley, but I don't think it's necessary now.  
H.H.Jr: Oh!  
H: Because he and Straus were ~~up there~~ and he said that  
he and the - he and my father were together last  
night and they came to the conclusion that it was a  
mistake to try to kick up in the states just as we're  
trying to climb the stair.  
H.H.Jr: Uh-huh.  
H: And that they could see that it would be almost  
impossible for these WPA workers to get under way,  
and incidentally to my amazement I found on riding  
up this morning that we'll have seventeen million  
dollars worth of large steel housings which are to -  
either the steam shovels are with it right now or  
they will be within the next two weeks if the  
President signs the bill.  
H.H.Jr: Grand.  
H: Just think of that.  
H.H.Jr: Well -  
H: That's more than Tugwell did all the time he was in  
business.  
H.H.Jr: Well, I think I'll just take a little credit for  
this.  
H: Well, I'll bet you do. You just toss them up and  
change their mind. Now they have another plan  
whereby they want me to - to put on a more or less  
the same kind of a campaign that we - you and I  
helped work out before, do you remember it, on

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those eight thousand Community Chairman campaigns?

H.M.Jr: Oh, yes.

M: Well they want me to re-institute that, and I think that may be a good idea.

H.M.Jr: Yes.

M: And I'm working on that right now. And also they want to have an idea of - on these large scale housings, when a man hasn't got enough equity in there, that maybe to comply with our eighty per cent mortgage requirements that the RFC work up some secondary money loans for him.

H.M.Jr: Well I -

M: Jesse went in to see him after I did, and I haven't been able to see Jesse as to how that came out, but we've definitely killed the WPA thing, I think.

H.M.Jr: Well, I want to know particularly because Aubrey Williams and Colonel Harrington are due here in twenty minutes.

M: Yes, well that's definitely out. Now we told them that where we do make these overboard loans, and where Straus does too, and incidentally I may be able to help Straus some, through this National Mortgage Association. I'm not sure, but I think I can. Now, - why we would recommend that the builder use all the WPA wages of men he can and get his rolls from the WPA people, as far as possible.

H.M.Jr: For which?

M: What?

H.M.Jr: On what?

M: On - on any work going ahead. Instead of just simply advertising for people that he try to take them off the WPA rolls.

H.M.Jr: Oh - oh, yes, but pay them.

M: Pay - oh, certainly pay them, but I mean to say that if I'm building a -

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

M: A two million dollar project out here in Queens, instead of just advertising for men.

H.M.Jr: Yes.

M: That I work with the WPA men, and say send me over ten common laborers, and send me over fifteen of this and twenty five of that.

H.M.Jr: That's all. Well, they'd go the U. S. unemployment service for that.

M: Yes, that's right. Well I think you did a swell job, Mr. Secretary, and I

H.M.Jr: Well, are - are you all right?

M: What?

H.M.Jr: You're all right now?

M: I'm all right, yes.

H.M.Jr: Are you on your way?

M: I'm on my way, you bet.

H.M.Jr: Well, I'm - I was worried, you know, and I spoke to Jimmy at seven last night, you know

M: Yes.

H.M.Jr: Did you know that?

M: No, I didn't.

H.M.Jr: Oh, yes.

M: He didn't tell me that.

H.M.Jr: Well, that's - that's what happened, I called him on the phone.

M: Yes.

H.M.Jr: So I called him up and I called up Aubrey Williams and told him what I thought.

M: Yes.



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H.M.Jr: So I called Jimmy last night.  
M: Yes.  
H.M.Jr: So - if you want anything more, let me know.  
M: I'll certainly work closely with you.  
H.M.Jr: Because I'm putting my money on you.  
M: Good for you. Thank you ever so much.  
H.M.Jr: All right. Goodbye.

February 16, 1938

Mr. Cliphant

Mr. Foley

Attached is an outline of a proposed public and private housing program to meet some of the objectives outlined by Col. Roosevelt at the housing meeting I attended last Monday afternoon.

In accordance with our conversation yesterday afternoon, I am setting forth some of the arguments which occur to me may be employed for and against such a program:

F O R

1. It can be started without the delays incident to the FHA and USHA programs because it contemplates direct Federal loans, purchase of materials in large quantities and WPA construction.
2. It requires no appropriation or enabling legislation.
3. It is self-liquidating and should return substantially the entire outlay within 50 years.
4. It reaches an income group above the former slum dwellers which are subsidized by USHA and below the groups which can be served by FHA.
5. It affords an outlet for WPA labor on useful projects of enduring value.
6. It offers to industry an opportunity to build needed homes for employees and to public and private owners of unimproved land an opportunity to put such land to beneficial use without substantial risk of loss or prospect of excessive profits.

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AGAINST

1. The USMA and FMA programs are adequate to meet present unemployment situation and should be given an opportunity to demonstrate this fact.
2. It will compete with private real estate interests and impair the confidence of substantial financial and business interests.
3. The security to be acquired by the Federal Government would be inadequate to assure it against substantial loss if the program were to accomplish the purposes outlined.
4. It utilizes funds which otherwise can be employed to retire the public debt and throws the budget further out of balance.

KHFJr/met

Special Emergency Housing Program for Construction of  
Houses not Exceeding \$2,600 per Unit.

Essential Terms

Private or public owner supplies land, Federal Government supplies total building costs. Owner's risk and profit to be limited. Special appeal to be made to industrialists and public housing agencies to build houses for workmen.

1. Federal Government (thru RFC Mortgage Company or similar agency) extends mortgages on approved, building sites.

2. Mortgages to mature in 30 years, if not previously amortized, and interest and amortization to be payable only out of rents.

3. Private owner's profit to be limited to 6 per cent on cost of house plus value of land which will be included at no more than 10 per cent of the cost of house.

4. Owner's building plans to be approved by Government and WPA to purchase materials and build houses at cost, if owner desires.

February 16, 1938

3:30 pm

Present:

Aubrey Williams  
Col. Harrington  
Mr. Bell

Mr. Williams: We may be interrupted once or twice because the fight is on. Sam Rayburn may call us. Cannon just called and said everything looked all right.

HM, Jr: I see the fight is to increase it.

Mr. Williams: Well, they are talking all kinds of ways.

Col. H: Just got our last employment figure. I don't know whether that has come over to you.

HM, Jr: No, it has not.

Col. H: 1,985,000, February 12; an increase of 40,000 in that week.

HM, Jr: Now you gents are not laying any fellows off, are you? You are just going ahead and taking a gamble.

Mr. Williams: We are not laying anybody off and we are getting overboard a little bit, like in Detroit where the President said we could meet that situation.

HM, Jr: I just came from the White House, all out of breath -- I mean Dannie and I.

Well, we are at your service.

Col. H: Well, the first thing I want to talk about is in connection with increasing employment by a half million people. I think we have got to ask some relaxation of certain restrictions that have been imposed upon us by the Bureau of the Budget in accordance with our understanding of the President's instructions. I am going to ask you to visualize one-half million people. That's a lot of people

-2-

and we can't get half a million people on a work project and have every project we do all of permanent and enduring value. In other words, we have got to do some work -- repair, maintenance and stuff of that kind. In my judgment there is no way to avoid it.

HM, Jr: Do you mind looking at this fellow (Mr. Bell) because this is very much his job. I will be very glad to listen, but this is down his alley, so just swing around a little bit and talk to him.

Mr. Williams: Turn the machine gun in that direction.

HM, Jr: Because this is something I don't get in on, but I am more than willing to listen.

Col. H: Well, here is a 2½ page memorandum which your secretary signed, directed to the President, going into the details of one project, \$1900 to put a new roof on a school building in St. Francis County, Missouri. The old roof, it says, is about to fall down and they want us to put a new roof on it. There are other projects in this 2½ page letter. One of \$3,000. One of \$9,800. One of \$2,800 and so on.

Now, it seems to me that in this period of more or less emergency that it would be reasonable to take our determination. We will get the best work we can. I have four men over in my office all of whom had over 25 years of experience in construction work of various kinds, and they go into this stuff right down to the bottom as far as we can. I will tell you frankly we are going to do maintenance and repair or we can't put 500,000 people on the job. I would rather spread it on the table. I don't want to cover it up.

Mr. Bell: That's right. I know you are not.

Col. H: I am trying to do this thing as best we can, but we can't find work for 500,000 people all at once -- on projects we don't include this sort of stuff, and I think in this period of emergency until we can get this loan on -- at any rate, while this flow of projects and applications is going to be heavy on us, that we ought not to be going through this kind of business of Budget to the White

-3-

House, White House to me, me to the White House for the President's approval. It just gums the machinery.

Mr. Bell: Well, I have talked to the President several times about those things and that the kick of your office is about my sending these memoranda. He said, 'Let the kick. You continue to pick these projects because' he said 'I want to look at them.' I realize you are going to have to put these 500,000 people to work and I think probably there should be some relaxation, but I can't see where there is any additional employment by the WPA doing maintenance and repair work in cities and communities that the cities and communities ought to do. That's not additional employment. It's subsidized employment. I know you can argue that they won't do these things, but is something they should do. Whenever the Government takes over maintenance and repairs of municipal plants, then I say we are going a long ways towards the Federal Government getting into local Government activities. I am perfectly willing to get out of it altogether if the President says so, but if he is going to leave the job to me I am going to bring his attention to all maintenance and repair. I think there should be some relaxation in the emergency, but when we get out of that I do not think WPA should do that thing.

Col. H: That's what I am asking for -- over the period of a month or six weeks.

Mr. Bell: I realize you have a job.

Mr. Williams: We have come along pretty well on that whole thing, Dan.

Col. H: I have tried to play the game.

Mr. Williams: I don't think the Colonel disagrees with you fundamentally.

Mr. Bell: I will say this for the Colonel: we have had better cooperation since he has been there than before. We are following the President's instructions. If he wants to change, perfectly all right with me, because I would like to get out from under the job. But, Mr. Secretary, I think you will have to agree, when the Federal Government gets into operation and maintenance of the city, that we are getting pretty far in Government getting into local activities.

-4-

HM, Jr: Frankly, I have not followed it awfully, but I do know I heard the President tell two stories when he came back from the trip out West and he was very much shocked to find out you people were maintaining some ditch out in Idaho and he pointed out -- I don't know whether he did it publicly -- the idea of the Federal Government after building the ditch that we maintain it! Then, the other thing, he was very much shocked to learn, I forget the figures, but he asked us to get them for him -- appropriation for maintenance that the Federal Government, for instance, for the city of New York. Perfectly amazed! I think you got some figures on that. That's the last I have ever heard and of course his time is awfully pressing and I don't know how he feels.

I will be perfectly frank with you people. I have not had a chance to tell you because it happened since we just came back. I understand from Stewart MacDonald he has been the green light and told to go ahead and do the job and that all ideas of using unemployed labor in any way are out.

Col. H: On housing?

HM, Jr: On anything that has to do with FHA. He was told that this morning by Jimmie Roosevelt. I got this just a few minutes ago. So with that out of the way -- I don't know whether you have heard it. Stewart MacDonald told me. He was over there and he was told to go ahead and do his job. He talked to the President last night and he and the President decided that it was out. I did not get it from Jimmie. I got it from Stewart. With that out -- as I told you the other day and I told Stewart and I told Jimmie, I was 100% opposed to it and so was Danny Bell. Now, this other thing is something I have never got in. If you want me to go with you to the President, Dan, all right.

Mr. Bell: I don't think you need to.

HM, Jr: But Dan sits here in a dual capacity. When he has seen you before it was as Assistant to the Secretary; now it's Budget stuff. But if you say to me, Dan, 'see me through this', I will stick with you and if you want me to go to the President with you so we can get these fellows straightened out, O. K. Because I nailed this fellow the other day and asked if he had enough projects to take care of \$250,000,000 and he said yes and the only excuse I could see to put you



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people in Stewart MacDonald's work was that you did not have enough projects.

Col. H: I told you we did. I told you we did not have to go into Housing.

H.H. Jr: You have a tough job. If Dan says he wants me to go with him, I will. I have never gotten into this thing and I would much rather not. I get in when the money is decided. When it is decided, then I am through. Then my job is to raise it. As far as I am concerned, I am out unless Danny Bell says to me he wants me to go over.

Mr. Williams: That's maintenance. Have we all agreed on that?

Col. H: There is something more yet. White collar projects.

Mr. Bell: We have been sending these particular projects to the White House with notes on them calling the President's attention and it has been done under his direction. We have not just taken it up and done it. It has been his directions and I have taken it up with him several times.

Mr. Williams: I have not come here to ask you to renege on something the President asked you to do. The President said he thought we could settle it.

Mr. Bell: I don't want you to come here for that purpose because I would not do that.

But when you come along with these projects, I think I will put a note on them that these are the same kind of projects, but in view of the emergency, just like the white collar projects in the past when you come along with a deadline, there is nothing for these people to do. We have recommended that they go on for a period of 30 or 90 days and I am perfectly willing to put on these projects a memorandum that they are the same kind of projects that have been questioned before and my recommendation is you approve it and let this program get started.

Mr. Williams: That's satisfactory.

Col. H: That's all right. And understand, as far as I am concerned on the construction, I am not in any great difficulty. It's just that this sort of thing involves a good

-6-

deal of work.

Mr. Bell: That's right.

Col. H: Here's a file I have on a \$1400 project. Two references back to the State to find out all about the work that is to be done on that little bit of a job.

Mr. Bell: But it involves a principle.

Col. H: And at this particular juncture, to have a lot of this stuff going on does hamstring us.

Mr. Williams: This ought to go in the record: that the Colonel turns down a good many of these projects coming in.

Col. H: We kill hundreds of them and I do want to emphasize again that I have four men over there handling different types of engineering. Every one has had over 25 years' practical structural experience. They know the job.

Mr. Bell: It's a question of whether it's maintenance of some city's plant.

Col. H: That's a pretty good jumping-off point. I have just gotten the Governor of West Virginia out of my office and I think I kept him from the White House because he's down here to put in, frankly, a maintenance project on the roads in West Virginia.

Mr. Williams: Open and above-board.

Col. H: Absolutely. As a maintenance project. In other words, what he wants to do is continue their regular employment of about 2500 men and maintenance gangs, and have us put on in addition to their 2500, 13,000 additional. Now, he is pretty determined about getting this thing through, to get a definite answer, and he is not going to be satisfied until he gets it cleared from the top. I got him out of my office and out of town without his going to the White House on the promise that we would take a project of this nature and send it along with a full statement of facts.

Mr. Williams: What's his argument?

Col. H: Well, in West Virginia, we are up against

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it for work, because half of our program out there has got beyond the rolls. Now, in West Virginia the set-up is that the State Highway Department handles all roads and they have no County Road Commission and they have great mileage of secondary roads that they built and that they have not kept up and that type of road goes to pieces if ditches are not kept open. And they claim, and I believe it is true, that they haven't money enough to maintain the roads they have in the State.

Mr. Bell: Then they ought to put on an additional tax.

Col. H: They did. One cent.

Mr. Bell: That's my point. These counties and States could put on an additional gasoline tax to maintain these things, and there would not be this cry for WPA funds. They are not going to do it as long as we continue to furnish the money. That is not additional employment. It's subsidized employment.

Col. H: But they are not maintaining their roads and he admits they are not. I wanted to keep him away from the White House and thought there was no point in his coming over to bother you at this juncture, and so I said, Get up the project and we would send it along with a statement of circumstances.

Mr. Bell: I think we will have to send along some projects within the next three months that we recommend against ordinarily, but in view of the emergency we have to send along.

Col. H: Now, on the white collar situation. I don't know the details of that. Did Mrs. Woodward talk to you today?

Mr. Williams: Yes, she did. I want to talk out loud on what our situation is. When Harry left, before he left, Mrs. Woodward was so unhappy about her relationship with these projects over here that he agreed for her to go in and talk to the President. She did go at that time to the President and the President agreed on a six-months' armistice here during which she hoped we could get some of these issues settled. She very much wanted to come over this afternoon, but I said no, I thought she had better not; but I agreed to this: that if you and Dan felt it would clear our

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our situation up to have her come here and present her case, I would ask you if you would agree to do that.

HM, Jr: I don't know how Dan is, but if anybody dumps anything more in my lap, my lap is going to crumble. You are the Acting Administrator.

Mr. Williams: Yes. Her first problem is the \$33,000 a year thing. I am in a good deal of sympathy with cutting down those high-cost projects and I am inclined to feel that the thing we ought to do, in a case like New York, is to frankly take off that 10% and reduce that down to \$95.00 or something that would come down to \$1,000. She is very much opposed to it. She feels that inasmuch as the President has talked for keeping wages up, that for us to make a move of this kind would just cut the ground out from under him.

HM, Jr: That does not hold water.

Mr. Williams: I am inclined to think she is a little too excited on that.

HM, Jr: That does not make sense. It's one thing to talk about the whole Union situation with the whole country involved on the eve of U. S. Steel and C.I.O. coming to or not coming to an agreement. This is entirely different.

Mr. Williams: We are only in trouble in the region, the one up in New York and New England, through there.

Mr. Bell: I think that's where most of it is.

Mr. Williams: What I thought, I would try to get all these things under \$1,000, but I would ask you to go along with me on some that I simply could not get down. I would try to get them all down. It involves my cutting the wages of the most vociferous and articular group we have.

HM, Jr: You mean the theatre?

Mr. Williams: The upper crust of the white collar crowd, research workers. Best organized, most vocal. And I would not be at all surprised if immediately after I do it I won't have a permanent picket over here for a couple of weeks.

HM, Jr: Make yourself into an Embassy and you will

be all right. They can't picket an Embassy.

Mr. Williams: But, as I say, I have a good deal of sympathy with cutting down these high brackets because they over-rate skills. And Harry, I know, feels this way, but we ought to think of whether we should do it at this time or not. I think that's our problem and not have those folks shooting down here, on our necks, etc. Now I am inclined to think it is the thing to do and I ask you, Dan, to agree when I say I can do this, you go along with me. I will lower the whole structure, Mr. Secretary. And then I will stick one up, because it may be something I just can't get down.

H.M., Jr.: But the average will be below.

Mr. Wms: Yes. I will actually amend this thing by getting it down below \$94.00.

Mr. Bell: Don't use this emergency situation now as an excuse to bring a lot of this stuff back into the picture.

Mr. Williams: No.

The second thing has to do with the educational thing, of our putting those people on an eight-months' schedule; only eight months' work but keeping their wages up at the top level.

Mr. Bell: The President turned that down three times.

Mr. Williams: He finally approved it on a nine-months' schedule.

Mr. Bell: Yes, that's right; I guess he did.

Mr. Williams: Some of them, about 500, went over to see La Guardia yesterday and he put them off and said the thing is being worked out.

Col. H.: What was their kick?

Mr. Williams: That they were put on for nine months and would be thrown to the dogs.

Mr. Bell: You give them \$1200 but 9 months' work,

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which is three-fourths.

Mr. Williams: Amounts to about \$800.

Mr. Bell: Well, that's all right.

Mr. Williams: Stick it out along these lines, inasmuch as the President has already approved it and I hate to bother him again. You would just tell them that's what the story is and they have to abide by that.

Mr. Bell: If you get away with it. And keep in mind the President and keep him off the spot.

Mr. Williams: We always do the best we can.

Mr. Bell: Lot of things you do you have to change before it is over with.

Mr. Williams: I think we could, like the higher wage thing better than I think the nine months', I think we can win the \$925 battle; don't know whether I can win that nine months' battle.

Col. H: The one that is hit is the big reclamation project in New York and I understand Mrs. Woodward had talked with Jimmie about that last night.

Mr. Williams: That's because that's the \$1,000 thing. They wanted me to sign a letter to the President this morning, but I wouldn't do it.

Mr. Bell: Where is it now?

Mr. Williams: It's back in WPA from the White House. It went over \$1,000.

Col. H: That was \$1200.

Mr. Williams: I said pending this conference I would not sign any letter to the President at all.

Anything else?

Col. H: That leads up to the thing we have called the normal function of the municipality; question of whether you can put clerks in the county court house to index records or whether you can put matrons in a school where they never

-11-

knew what a matron was before. All kinds of employment of that general type, which is more or less peculiar to the woman thing, the white collar program. We might call that the normal function program.

Mr. Williams: Of course, a whole lot of that thing is not what they would do or do do. These matrons -- in Mississippi it would be 50 years before they would hire a matron.

Mr. Bell: They won't hire one at all. They let the Federal Government do it.

HM, Jr: Does Col. Harrington have white collar workers?

Mr. Williams: Mrs. Woodward handles that.

HM, Jr: Is Mrs. Woodward responsible to him?

Mr. Williams: No. He runs the machinery of project control.

Col. H: She makes recommendations and is responsible to the Administrator directly. My responsibility is on the construction program, but I happen to have charge of the mechanical-clerical unit over there through which all these things flow.

Mr. Williams: Are you inclined to take the same attitude on this stuff until we got on top of the woods?

Mr. Bell: I suppose so. I suppose we will have to be lenient for a couple of months. I feel the Budget Bureau should watch this program because of the principles involved. You are just setting up a machinery that forever after is going to cost the Government a lot of money for municipalities and cities and towns. We are not going to get out of it if we start that once.

Mr. Wms: The only quarrel on that, I think, is you don't assume we have the same feeling about that as you do. Harry just hit the ceiling when he found 700 people working in a New York hospital. He said, 'My God! That stops and it stops this minute!'

Mr. Bell: That's all right, but it was started by somebody in your organization. Harry can't watch all these projects.

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Mr. Williams: We fully agree with you that straight maintenance belongs to the city, is no business of ours, because we have not made any gain on unemployment.

HM, Jr: Are you fellows all right for today?

Mr. Bell: I think we can straighten it out.

HM, Jr: Are you all set? We have another client outside, Dr. Parran. He wants to see us. Are you in the clear?

Mr. Williams: Yes. It only means I have to take a drastic step on this \$1,000 a thing thing.

Only one thing we have not said anything about: sponsors' contributions.

Mr. Bell: Don't bring up that subject!

Col. H: We are all right on sponsors' contributions. 22½% was set as the national average and we have 20% national contributions.

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February 16, 1938

My dear Mr. President:

After giving careful consideration to the offer of the Hungarian Government to pay its indebtedness to the United States on terms outlined in the attached Aide Mémoire of the Hungarian Minister, dated February 7, 1938, we feel that under all the circumstances the offer should be accepted, and we recommend that you authorize the Secretary of the Treasury to negotiate on this basis the terms of a formal agreement for submission to the Congress.

Faithfully yours,

The President,

The White House.

WTR:ELH  
February 16, 1938

WTR

## TREASURY DEPARTMENT

WASHINGTON

February 16, 1938



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Faithfully yours,

*M. M. Quinn*

*Correll Hall*

The President,

The White House.

*Approved*

*Feb. 16<sup>th</sup> 1938*

*Franklin D. Roosevelt*

ALLEGED DEBT 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 \$468,466.32 which the Hungarian Government paid during these years, only \$73,995.50 was applied to reduction of principal, the other \$393,717.78 being charged as interest. Thus the nominal unpaid principal of the Hungarian debt now stands at a

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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 decree 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 with a 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 accruals thereunder.

The forms 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:

(a) 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).

(b) 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.

(c) The sum total of these annuities shall be equal to this reduced 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

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for the discharge of a relief indebtedness of the same character and referring to a country whose capacity to pay can 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 obligation within the present generation.

(Signed) JOHN PELENTI

Washington, D. C.

February 7, 1938.

February 16, 1938.

Mr. Harold N. Graves,  
Assistant to the Secretary,  
Office.

My dear Mr. Graves:

While you are in Los Angeles, I would like you, as my representative, to inform our people fully of the purposes and objectives of the system which we are establishing there effective on March 1. We want every taxpayer who, after a full presentation of his contentions to the revenue agents, may be dissatisfied with their findings, to be given an impartial hearing by the new group. We want all cases to be closed as expeditiously as may be consistent with fairness to taxpayers and to the Government. Above everything else you should have it understood that our intention is to provide one, single, unified agency to exercise on the ground, for the Commissioner, all the authority which the Department, of any of its branches, may have under the law, in the review of protested income-tax determinations made by the revenue agents, in the settlement of contested cases, and in the defense of such cases, when necessary, before the Board of Tax Appeals. Please point out clearly the necessity for complete and friendly cooperation among the Treasury branches concerned, to the end that these objects may be surely accomplished.

Sincerely,

(Signed) H. MORGENTHAU, JR.

HNG/mff

Secretary of the Treasury.

(A copy of this letter was given Mr. Gaston by Mr. Graves.)

February 16, 1938.

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Assistant to the Secretary,  
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Sincerely,

(Signed) H. MORGENTHAU, JR.

HMG/aff

Secretary of the Treasury.

(A copy of this letter was given Mr. Ganton by Mr. Graves.)



EMPLOYMENT ON WPA PROJECTS, BY STATE

UNITED STATES AND TERRITORIES

Weeks Ending February 12 and February 5, 1938

(Partly Estimated - Subject to Revision)

State	Number of Persons Employed		Increase or Decrease
	Week Ending February 12	Week Ending February 5	
<i>Week Ending Feb 9th</i>	<i>2,809,042</i>		<i>23,636</i>
GRAND TOTAL	2,809,042	1,945,317	240,100
CONTINENTAL UNITED STATES	1,932,916	1,942,310	240,106
Alabama	29,387	28,750	+ 637
Arizona	7,600	7,886	- 286
Arkansas	26,214	27,631	- 987
California	81,070	79,952	+ 2,018
Northern	43,672	42,369	+ 1,303
Southern	38,298	37,533	+ 715
Colorado	24,552	24,142	+ 410
Connecticut	20,297	20,545	- 248
Delaware	2,550	2,529	+ 21
District of Columbia	6,899	6,791	+ 108
Florida	28,215	28,363	- 148
Georgia	32,492	32,130	+ 362
Idaho	10,873	10,560	+ 313
Illinois	141,591	135,934	+ 5,657
Indiana	60,395	57,420	+ 2,975
Iowa	22,503	21,519	+ 984
Kansas	32,570	31,022	+ 1,548
Kentucky	42,952	42,043	+ 909
Louisiana	29,156	28,295	+ 861
Maine	8,056	7,971	+ 85
Maryland	11,140	11,060	+ 80
Massachusetts	52,343	51,021	+ 1,322
Michigan	72,925	69,747	+ 3,178
Minnesota	45,148	45,559	- 111
Mississippi	25,276	24,275	+ 1,001
Missouri	61,976	61,362	+ 614
Montana	16,413	16,313	+ 100
Nebraska	24,842	24,192	+ 650
Nevada	2,536	2,426	+ 110
New Hampshire	7,444	7,431	+ 13
New Jersey	71,727	71,769	- 42
New Mexico	7,568	7,407	+ 161
New York City	141,911	139,834	+ 2,077
New York (Excl. N.Y.C.)	52,781	53,154	- 373
North Carolina	27,857	26,961	+ 896
North Dakota	14,538	14,302	+ 236
Ohio	129,423	121,729	+ 7,694
Oklahoma	54,066	53,923	+ 143
Oregon	15,684	15,327	+ 357
Pennsylvania	193,945	192,035	+ 1,910
Rhode Island	12,894	13,023	- 129
South Carolina	27,277	27,382	- 105
South Dakota	16,982	16,693	+ 289
Tennessee	27,915	27,521	+ 394
Texas	68,247	66,665	+ 1,582
Utah	8,382	8,476	- 94
Vermont	4,870	4,825	+ 45
Virginia	20,981	20,596	+ 385
Washington	39,380	39,385	- 505
West Virginia	35,184	34,969	+ 215
Wisconsin	48,605	45,765	+ 2,840
Wyoming	3,654	3,518	+ 136
Hawaii	2,501	2,507	- 6

February 16, 1938

Present:

Dr. Parran  
Mr. McReynolds  
Mr. Bell

HM, Jr.: Have you sent me the memorandum?

Dr. Parran: I have not sent it. I had hoped for an opportunity to see if you interpret it to be what the President's attitude was.

HM, Jr.: (reading draft of memo) No. There is only one thing. "In other words, the President seemed to think three years would not be of value." He did not say that. You said that.

Dr. Parran: Yes, that's right. I did.

HM, Jr.: He shook his head. He did not agree with you. You said a three-year program takes so long to get it started, and everything else.

Dr. Parran: He talked in terms of a resolution and said something like this: I would say that whereas this is a national problem and whereas -- one or two where-ases, the exact language of which I don't recall.

HM, Jr.: I will take your word against mine on this that we will do it for three years and if you do a good job that he was sure Congress would continue it.

Dr. Parran: "He seemed to think a program of longer than three years would be needed." Would that be a fair statement?

HM, Jr.: Yes, that would be all right.

I would put in there: depending upon the success of the program.

Dr. Parran: Is the last sentence all right? We call attention, you may recall, to the fact that I have said at the top of page 2 that if the appropriation which he suggested was authorized, he could not get the States

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to come forward and do their part because they would be left 'holding the bag'.

HM, Jr: You were both talking so and at such odds, I just could not get it. I could not swear to what he said after three years. I did not get it. It was not clear to me. If you say that's what he said, it's all right with me.

Dr. Farran: This is my understanding: that he approved of an authorization for some appropriations, depending upon the State of the Treasury and the needs of the situation.

HM, Jr: Yes, that's about right.

Dr. Farran: I just wanted to talk with you and revise it in line with that.

HM, Jr: It's unheard of. I have never heard of a case being done like that, but if he wants to do it....

Mr. Bell: Oh, it can be done! They once in a while release appropriations of not to exceed a certain sum for three years and then such sums as Congress may appropriate. I think if you get up to \$5,000,000 or \$7,000,000, that's pretty steep. I think we are granting too much money for the States for every purpose. That's the way I feel about grants. We are centralizing in Washington and the States are not assuming any responsibility for some things they should assume and we are perfectly willing to see Public Health get money for educational purposes in the States and supervise that, but when it comes to authorizing money for grants to the States you are sinking the Federal Government. We have one under Social Security that's going to cost us \$4,000,000 or \$5,000,000 for the next six years and I don't see how we are going to get out of it. We now have an obligation which we just can't get away from.

Why don't they do this job under central direction?

Dr. Farran: On communicable diseases it does not do much good to have one or two States do the job if the others don't.

Mr. Bell: I am afraid grants to States are growing so fast we are going to have a problem on our hands financing

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them in a few years. They are running close to a billion now.

oOo-oOo

Note: Dr. Parran's revised memorandum is dated February 14th and is filed under that date in the diary.

## RE PRICE POLICY STATEMENT

February 17, 1938.  
8:30 a.m.

Present: Mr. Taylor  
Mr. White  
Mr. Daggit  
Mr. Lubin  
Mr. Hinrichs  
Mr. Wallace  
Mr. Ezekiel  
Mr. Currie  
Mr. Keim

H.M.Jr: Well, let Mr. Wallace and myself see the statement. Who's got it?

Hinrichs: I have my carbon copy. I'm sorry I don't have a supply.

Daggit: I think Mr. White has it.

H.M.Jr: Where is White?

Daggit: He went back to get some ...

H.M.Jr: Well, let's - why not let's start? Shall I read it, Wallace?

Wallace: Yes.

Ezekiel: Is that the revised?

Daggit: This is the revised.

Ezekiel: There have been a few slight changes that Goldenweiser suggested in the material. Very slight.

(Taylor comes in)

H.M.Jr: Good morning. Did you see Harry White anywhere?

Taylor: He was out in the hall.

(White and Keim come in)

H.M.Jr: Go ahead, Harry. Read it out loud.

White: "This administration has from the beginning pursued a policy designed to promote full employment of our human

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and material resources. That continues to be our policy. The productive power of our workers and our resources, if fully utilized, can provide and maintain a national income far above any levels we have yet reached.

"An important factor that determines whether we shall succeed or be blocked in our endeavor to attain full employment and a high level of income is the behavior of prices. In this connection careful attention must be given to: (1) the relations existing among the prices of various groups of commodities; (2) the relations between commodity price levels and the levels of debt burdens and costs; (3) the direction and rate of movement of the general price level.

"To promote its broad objective the Administration has, therefore, in its agricultural, industrial, and monetary policies necessarily been concerned with both the relation of the prices of groups of specific commodities to each other and the movement of the general price level. In conformity with this policy, the measures we employ at any given time must fit the needs of that time. A year ago there was ground for concern that a too rapid rise in the prices of some commodities would encourage a speculative boom and choke off demand. During the past six months, on the other hand, the general price level and industrial activity have been declining. Government policy must be directed to reversing this deflationary trend.

"Although the attainment of full industrial activity requires an increase in the general price level, this does not mean that all prices should advance, nor that the rise should be rapid. The prices of different groups of products must be brought into balanced relations to one another. Some prices are still too high to promote that balanced relationship between prices that is necessary for sustained recovery. The maintenance of prices not subject to full competitive forces accentuates the deflationary pressure on competitively determined prices. Those industries that have maintained prices and curtailed output should seek the restoration of profits through increased volume rather than through restricted output. When prices are

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controlled through monopolistic practices, it is the obvious duty of government to apply those remedies that the law provides.

"The prices of some items are still at substantially the highest levels reached in 1937; some are even higher than in 1929. There is real danger when high prices sharply curtail sales. In the field of residential construction, for example, in the face of a serious shortage of housing and of unused productive resources of every kind, all the major elements in housing costs advanced so sharply by the Spring of 1937 as to terminate a promising expansion of activity in this most prostrate of our industries.

"For industries that operate at a high level of capacity even in a depression, such as agriculture, the restoration of profits must come primarily through higher prices.

"The higher profits that will emerge from proper adjustments of prices will encourage investment in replacement and expansion of equipment. This is necessary to full recovery, especially in the heavy durable goods industry.

"This is a policy of abundance, not of restriction. When prices are out of line, production and consumption break down. What we are aiming at is such a balanced system of prices as will promote a balanced expansion in production.

"The successful execution of this program by increasing production and employment will increase the real income of consumers. (What they gain from increased employment and more continuous income will much more than offset any reduction in what each dollar can buy."

Wallace: What does that mean?

White: It means that everything within the parentheses we thought might better be cut out, but we wanted to leave it to your choice. Or did you have reference to the statement?

Wallace: I was wondering - "offset any reduction in what each dollar will buy."

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White: Well, when prices rise, the dollar will buy less.

Wallace: Yes.

White: "Retail prices do not fall so far nor rise so high as do wholesale prices. Therefore, the moderate rise in the general wholesale price level that the current situation calls for will have little effect on the purchasing power of the consumer's dollar. Each of the consumer's dollars will buy almost as much; at the same time, he will have more dollars to spend as a consequence of increasing business activity.)

"I repeat that present conditions require a moderate rise in the general price level, and that this rise need not and should not extend to all prices. The rise must be mainly confined to those classes of commodities, such as raw materials and finished products that are sold under highly competitive conditions, whose prices are now too low. In many industries last year we experienced a sharp rise in prices that encouraged inventory buying, which combined with the reduction in housing, laid much of the ground for the present recession. We must do everything we can to prevent a recurrence of this development in the future.

"I believe the farm bill just passed, the housing bill just passed, and the monetary and credit policies of the Treasury and the Federal Reserve System will prove helpful toward achieving these objectives."

Wallace: Say "the farm and housing bills which I have recently signed"?

White: You could. There are several minor changes that we didn't have an opportunity to make, but they're all ready. Want to add the word "speculative inventory buying"?

W.S.Jr: I'd like to ask - I don't quite get this sentence in the middle of paragraph two, page two. "The maintenance of prices not subject to full competitive forces accentuates the deflationary pressure on competitively determined prices."



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- White: Well, the higher you keep prices that are controlled, the larger the number of such prices that are controlled, the more does it operate to depress the other prices by constituting an obstacle to recovery.
- H.S.Jr: Well, if you don't mind, I'm going to question that. Anybody other than an economist couldn't understand it.
- Beckel: Means the maintenance at unduly high levels.
- White: I think I can change that. Is that thought all right?
- H.S.Jr: The thought is all right, but I think it would take a highly-trained economist knowing about it to understand it.
- Wallace: Well, why not - doesn't do any harm to have a few such statements in.
- H.S.Jr: But it won't get by the President.
- Wallace: It might slip by.
- H.S.Jr: I think he's going - the nearer it would be to being right, the more chance that he will accept it. And not take it home and rewrite it. That's happened before.
- Wallace: Well, it'd be fun just to follow the experimental process and see whether or not this particular one does get by, and whether or not this is the one ....
- H.S.Jr: well, there can't be any objection to trying to make it just a little bit more understandable.
- White: No, as a matter of fact there already were some suggestions to modify that, but they came too late to make a new copy.
- H.S.Jr: This constant reference - "so that the man in the street can understand it" - I've heard it so long, I'm kind of impressed with it.
- Wallace: Of course, if you wanted to put it in really provocative form, you could say, "The more coal prices and railroad rates are held up, the harder it is on the

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farmer." I don't think that would get by, Henry.

Currie: Another good illustration is in building. "The more the monopoly prices are maintained, the more lumber and other prices will have to fall if building costs are reduced."

H.W.Jr: I like very much what you boys have said on the question of Government and the control of prices. I think that last sentence there is fine.

Currie: We spent a long time over that sentence.

H.W.Jr: I think it's fine.

White: You don't get the impression, do you, of there being too much spoken of pushing some prices down?

H.W.Jr: No.

White: Sufficiently well-balanced.

H.W.Jr: Slightly repetitious. He may cut it out, but it - I can understand it.

"Why will high prices ... - oh, I see.

I'd just like - if Mr. Wallace would like that - that paragraph on policy of abundance, don't you think that ...

Wallace: I think that's a good paragraph.

H.W.Jr: I think that's a swell paragraph. I think it's wonderful.

White: Just the way that might read now - little stronger - "When prices are out of line, production and consumption break down." Begin with that. "What we are aiming at is such a balanced system of prices as will promote a balanced expansion in production. This is a policy of abundance, not of restriction." Think probably ....

Wallace: Change first sentence to the last sentence?

White: That's right. Gives it a little more force.

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- Backiel: Then drop the first sentence of the next paragraph.
- Wallace: I'd drop the whole paragraph.
- H.A.Jr: Where are you, Henry? What page?
- Wallace: Page three. I'd like to make that sentence, "This is a policy of abundance, not of restriction" - I'd like to have that stand out. If you do hook up the last paragraph on that page with it, all right. I'd leave that "This is a policy of abundance, not of restriction" by itself if you don't hook the next paragraph on, so as to give it the prominent play.
- Lubin: We could leave the first sentence in paragraph three as it is and omit the next two sentences and say, "Such a moderate rise in wholesale prices as the current situation calls for will have little effect on the purchasing power of the consumer's dollar. Each of his dollars will buy almost as much."
- White: I think we can improve that slightly.
- Wallace: "As a matter of fact, over a period of time it will buy more." Each of his dollars will buy more.
- H.A.Jr: Are you on that sentence - "buy almost as much"?
- White: Not as prices rise.
- Wallace: But over a time it will buy more, because you're saying that this policy will bring about increased production; if it does bring about increased production, the net effect over a period of time will be to buy more.
- White: Not necessarily. It will increase their incomes, but prices won't fall. He'll have more dollars as time goes on, which is the significant thing.
- Wallace: But over the long period of time he will buy more.
- White: But not with the same number of dollars. They'll have more dollars. In other words, national income will rise in terms of money.

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- Wallace: If we're going to get more products per person, why raise the issue then?
- White: In order to answer the question, "If you/<sup>are</sup>raising price, .....
- Wallace: To some extent, you're setting up a straw man to knock down, and why get into it?
- White: It's all right with us. It's your straw men, though.
- Wallace: Yes, that's right.
- White: That's right.
- Taylor: I think just make the statement and not explain it. It's perfectly... Just say that successful execution and so on will increase the real income of consumers, and not argue about what that means.
- White: There is an argument in the fact that a rise in wholesale prices will be followed by a rise in retail prices, and therefore presumably a man of the same income will be able to buy less. But the thing we wanted to stress is that he'll have a larger income and therefore he will probably be able to buy more.
- Wallace: He will be more continuously employed, and the rise in prices in itself will tend to bring about increased productivity.
- White: That's right.
- Greene: Of course, there is an important point that, even though wholesale prices do come up some, that will have little effect on cost of living, since cost of living and retail prices do not rise with wholesale.
- Wallace: Your straw man becomes increasingly straw.
- Currie: "The successful execution of this program by increasing production and employment will increase the real income of consumers. They will gain from increased employment and more continuous income."
- Taylor: All right.

- Lubin: Yes.
- H.M.Jr: What did he do?
- White: You want that read again?
- H.M.Jr: I was on the next page.
- Wallace: It would be interesting to start with "This is a policy of abundance, not of restriction," see how it goes.
- Currie: "This is a policy of abundance, not of restriction. When prices are out of line, production and consumption break down. What we are aiming at is such a balanced system of prices as will promote a balanced expansion in production.
- "The successful execution of this program by increasing production and employment will increase the real income of consumers. They will gain from increased employment and more continuous income."
- Lubin: Now, I suggest that you throw that "policy of abundance" right there.
- White: Standing by itself as a paragraph.
- Wallace: Yes, yes, yes. And then cut out the remainder of that next paragraph that's in the parentheses. I think that's O.K.
- Lubin: That summarizes. That last sentence really summarizes both top and bottom.
- Taylor: If you substitute real national income instead of income of consumers, don't you get away from these special groups?
- Lubin: Might increase your national income without distributing it in such a way that the masses get it.
- White: Masses presumably that suffer from the rising costs.
- Taylor: You always - I mean certain groups in here of consumers that you can hurt a little bit.

- Willace: Yes, there are certain groups. In the long run, they aren't hurt.
- Taylor: No, but it's a complete statement.
- Regeiel: National income means relatively little to most people, whereas consumers - most people regard themselves as consumers.
- Willace: I'd almost be inclined to say all classes of consumers in the long run will benefit from such policy. I'd like to get the word "consumers" in.
- Taylor: I think that the - that in the long run all classes of consumers will benefit.
- Willace: Well, you've got it here. I think it's all right.
- H.M.Jr: Has Mr. Eccles had a chance to see this, Currie?
- Currie: Yes, I gave him a copy of it last evening. He's busy at the moment. But I gave him a telephone message; said he'd call back if there was anything, but he didn't call.
- H.M.Jr: As we keep changing it, will you keep shooting it to him?
- Currie: Yes.
- Taylor: Very minor ones - or shall I give them to the boys?
- H.M.Jr: (Nods yes)
- White: Do you have any definite ideas as to the last paragraph? Leave it out or leave it as it is?
- H.M.Jr: The only thing I was thinking about was this. I wonder if the President wants to endorse the Treasury's and Federal Reserve System's action for the last 18 months.
- White: I should think he must.
- Taylor: I think it's a better statement without it.
- White: This implies ....

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Special: Of course, you could say "our present monetary policies," not mention the Treasury and Federal Reserve.

Currie: I think with Mr. Taylor the statement would be stronger on its own feet; rather anti-climactic, coming at the end.

Wallace: I'd be inclined to leave it out.

H.M.Jr: I don't think it adds particularly. Hun?

Wallace: No.

H.M.Jr: Well, what will you close on?

Taylor: Got a swell closing paragraph.

H.M.Jr: He'll say, "Now, where's my 'snapper'?"

Historian: I don't have a copy in front of me, but can't this paragraph move up one, and the "abundance" chapter come down at the end?

Wallace: Yes, why not do that?

White: Just the phrase itself.

Wallace: The one Currie just read.

White: I see.

H.M.Jr: That would make a good snapper.

Wallace: "They will gain from increased employment and more continuous income."

Special: No, this would be your last sentence. This is your policy.

Currie: Last word would be "restriction."

Wallace: "Not of restriction."

Dubin: Now, what do you want to do about it?

Wallace: I think you could put it this way at the very close.

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- White: Which one?
- Wallace: Immediately after that sentence, then, you say - you have this sentence, "This is a policy not of restriction, but of abundance," and then go on and say, "The new farm bill, the new housing bill, and the monetary and credit policies of the Treasury and Federal Reserve System are all directed toward this end." He states the general thesis and then says, "This is the action - that the farm bill and the housing bill, and the monetary and credit policies of the Treasury and Federal Reserve are all directed toward this end - abundance, not restriction." Don't you think .....
- H.M.Jr: That answers the question, "What the hell you going to do about it?" "I've got these four agencies working on it." That's all right.
- Taylor: I don't think so.
- H.M.Jr: You don't?
- Taylor: How about the others? Are they working against it?
- H.M.Jr: Well now, wait a minute. I'll answer your ....
- Wallace: And you say "all the other agencies of the Government." Just using these as specific cases, and say "all agencies of the Government are directed toward this end."
- H.M.Jr: Now, let me ask you, what other agency is working against these four agencies in carrying out this policy?
- Special: Chances are I.C.C. is or soon will be.
- H.M.Jr: Well, he has no control over them. I mean let's ask ourselves, what other ones is he responsible for that he can say to, "I so direct."
- Wallace: You can say the Guffey Coal.
- Hingrichs: There's a real question on the thing.
- H.M.Jr: I'm just asking - the things that he's responsible for. He isn't responsible for I.C.C. Guffey Coal?



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- Warrrens: Guffey Coal would be a ....
- H. A. Jr: Which way are they working? Educate me.
- Warrrens: On the fixing of coal prices and cutting down of total coal consumption, in favor of alternative fields.
- Currie: Wouldn't that come under our statement of some prices being too low?
- White: Bituminous coal might be included in that as being too low.
- Ezekiel: The situation is to some extent like farm production.
- Wallace: Is it true, Ezekiel, that on a long-term trend basis ...
- Rubin: On a long-term trend basis, prices are below costs of production. Long periods of time where they sell coal at the minimum, due to the competitive situation, at a price which barely pays them to mine it; but it is cheaper to keep going on that basis than to shut down, because your losses are less - maintain your air, maintain your water pumps, so forth.
- H. A. Jr: I want to - I'm rather impressed by what Mr. Wallace said. When we get all through, I don't think in the minds of the public certainly the fact we are meeting here is important, but then, the fact that the President - "Now, this is a price policy; I've got these four agencies behind this thing." The impression ....
- Wallace: He ought to be prepared for his comeback. If somebody does say, "Well, what about Guffey Coal?" he ought to be prepared with a comeback right then and there.
- H. A. Jr: I just want to call Eccles a minute on the phone and just see if he's happy. The fact we're going to mention him - he ought to have a chance at it.
- Doggett: Instead of saying "all other agencies of the Government," you could say "other agencies of the Government."

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- Wallace: I think probably - well, .....
- H.W. Jr: (On phone) Chairman Eccles, please.
- White: "Are and will be." Would it be all right to add the tense for emphasis? "Are and will continue to be."
- Wallace: Yes.
- Taylor: You've got ....
- Wallace: We all ought to be directed toward that end, oughtn't we, Wayne?
- Taylor: Right. I think you've said it in the first paragraph. If you want to restate it in the way you said it in the first paragraph - think it takes care of all of it there, with a couple of minor suggestions that you could make about the wording there in the first paragraph.
- Currie: I feel that if this is a long-term statement of policy, it might be better not to tack it too close to a specific measure or specific bill; to deal with our industrial and agricultural and monetary policies as a whole rather than just tie it to this particular farm bill and housing bill, which are not very much.
- White: Say, "Our agricultural, industrial and monetary policies are and will continue to be directed ....."
- Taylor: That's what you've said in the first paragraph.
- Wallace: Well, it's a good thing to say it again.
- (Secretary talks on phone with Eccles  
away from conference group)
- Taylor: If you say it over again in the last paragraph, but still in general terms, you could spend ....
- White: You don't object to repeating the statement.
- Taylor: Not a bit. You can paraphrase that first paragraph over again. On the first one, I think you've got to say, "This Administration" - instead of "from the

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beginning," simply say "has pursued." I'd cut out "from the beginning" and change "our" to "its."

Beckiel: It's a little more forceful when it's "our."

Taylor: "This Administration" - "its policy."

Beckiel: He's saying it's "our policy." "Our policy" is further away from him. I think "from the beginning" adds something there too, because if you say merely "has pursued," that means the last few months, but "from the beginning" means we were pursuing this policy when he issued this statement a year ago.

Taylor: Well, I think "has pursued" is inclusive.

Beckiel: But since when?

Taylor: "This continues to be ...."

Beckiel: But you say "has pursued." How long? There is a comeback: "Were you pursuing that when you said prices were too high a year ago?" It leaves him a little more open to attack.

Wallace: It seems to me it's a better statement as it stands.

Taylor: All right.

Wallace: It takes a certain amount of punch out, I think, if you - it makes it colorless if you take out "from the beginning."

Taylor: Top of page two, I'd cut out "deflationary," say "Government policy must be directed to reversing this trend."

Beckiel: Oh no, that absolutely takes the punch out of it. If we haven't had a deflationary trend, I don't know what we have had.

Taylor: I don't see any point in using it.

H.M.Jr: Eccles feels pretty good about it. He says he feels it is just what is necessary to clarify the misunderstanding.

Wallace: There's a point at the top of page two; it says,

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"Government policy must be directed to reversing this deflationary trend." Like to take out the word "deflationary."

H.A.Jr: I liked it for this reason. I think it's about time we called a spade a spade. It's just - I mean way not?

Isakiel: The only alternative suggestion in this sentence is to say, "Government policy now must be directed to reversing this deflationary trend."

Wallace: Oh no.

White: No. "They were a little late."

H.A.Jr: Well, I tell you, the way I feel is, I'll accept it. But - just one second - if you fellows want to, you've got from now, most likely, to three, half past three, to fool around with it. I think if you get down to words I'll let you fellows do it; you've done a swell job. I just want to raise one thing; have you got any questions and answers for the President?

White: We've got some, but I don't think we'll be able to present ....

H.A.Jr: Have one for Mr. Wallace?

White: These are - we all feel that they are a flop.

H.A.Jr: Well, if you feel it's a flop, why take the time to read them?

White: Well, that's my - I don't think you should take the time to read them.

Isakiel: Spent a good many hours on them, but they don't show it.

Wallace: I don't know, I think - I don't think it's a flop at all.

H.A.Jr: No, I think it's all right.

White: Well, we can improve these and add to them if we have till two o'clock, if you think they're worth while.

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H.M.Jr: I think it would be fine to have this on his desk.

White: Well, we couldn't - we felt we weren't getting anywhere.

H.M.Jr: And you ought to stick something in on the devilment on railroad rates and coal.

White: We have something ....

Currie: We referred that to the I.C.C.

Ezekiel: We said - there's a question here on railroad rates - "Do you regard freight rates as being one of the prices that are too low?" Answer: "The question of increase in freight rates will have to be decided by the Interstate Commerce Commission, which is at present preparing a decision on the matter."

Wallace: I think it's all right.

H.M.Jr: I think this is all right.

White: And then there is one on coal, which followed the lines that Lubin's answer gave. If it isn't here ....

H.M.Jr: Oh, it's - I don't think that this is - I think he'd get a great kick out of this.

White: Some of the good comebacks we left out, because they were a little impertinent.

Lubin: Some of the answers were, "Says you!"

Taylor: "What's that?"

H.M.Jr: I think this is all right. I think he'll enjoy this.

White: "Oh, does this mean a commodity dollar?" "What's that?"

Wallace: Where's the coal? I didn't see that.

Taylor: Top of page four, "Do you regard freight rates as one of the prices that are too low?" I don't see the coal one.

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Wilcox: Well, I think if you include coal here, why - I think you ought to include coal here, because it will almost surely come up.

White: We can very easily make it longer as well as improve it.

McJr: I would put it in. I think this is fine.

Taylor: You boys apparently won't leave out anything, but I've got a couple more that I'd like to omit. I'll throw them into the hopper here.

"Those industries" and so on, in the middle of page two - "seek the restoration of profits through increased volume." Cut out that "rather than through restricted output." See, you've already got that before - "Those industries that have maintained prices and curtailed output" - see?

(Hinrichs marks sentence)

Over on page 3, I don't think you need that (part or all of third paragraph on page 3).

Hinrichs: We do. It is desirable particularly from ....

Taylor: I know it's true, but I don't think you need it.

Hinrichs: well, I can't argue that out for you.

Taylor: It's true, but I don't think you need that statement.

Hinrichs: Viner particularly is very strong for that.

Taylor: well, I'm not arguing about the statement. I mean I agree with it, naturally, but ....

Hinrichs: Boiling down about two paragraphs.

Were there others?

Taylor: I'd change that to "employed measures" instead of "measures we employ." Cut out the numbers; he never uses them.

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- H.S.Jr: I think you men will be interested in this - what happened here between 3:30 and 4. Dan Bell and Aubrey Williams and Colonel Harrington and myself got together, and as a result of that meeting, when Williams and Harrington left, as a result of Bell loosening up on his regulations - he was acting as Director of the Budget and not as Assistant to me - they made the statement here that they can put two and a half million people to work in March as is. When they left here at four o'clock, they made the statement before a stenographer that they can put two and a half million people to work in March.
- Quinn: That is, with your new \$250,000,000.
- H.S.Jr: Yes.
- Quinn: Did they say how they can do it?
- H.S.Jr: Well, the present activity plus loosening of certain regulations. But that does not mean going into housing.
- Quinn: Well, that's a question, whether or not they can get into housing by March.
- H.S.Jr: They're not going into housing. I want to make - they're not going into housing at present, and I thought you - I know what's been going on here, and Stewart McDonald now says he guarantees to produce.
- Wallace: By a month?
- H.S.Jr: Immediately.
- Wallace: What?
- Quinn: Well, produce in terms that these contracts will be let.
- Wallace: Can't really produce until ....
- H.S.Jr: Oh yes, he is for the first time - he says with this off his neck ...
- Wallace: With what off his ....?

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- H.W.Jr: Off his neck, all this worry; they've been just neckling that fellow. They almost had him down, see?
- Lubin: Giving these fellows a 25 percent subsidy in the form of free utilities, so forth, on a \$2500 house.
- Wallace: Has that been cleared with McDonald?
- Lubin: You'd get - your builder gets a mortgage equal to about 110 percent of his investment.
- H.W.Jr: But for the first time Stewart McDonald is happy. And Colonel Harrington, who is in charge of the projects, and I have the greatest confidence in him, says he can put two and a half million people to work in March.
- Wallace: Well, if it's really that good, Henry, the President would almost be warranted in saying something like this - not in this statement necessarily, but almost be warranted in saying, "We have the power to end the recession. We are going to end it."
- H.W.Jr: No, not that.
- Wallace: If it was that good.
- H.W.Jr: But Harrington, before a stenographer, made that flat statement, see?
- Wallace: Yes. By gosh, one of these days, if this thing really turns out, if you are convinced two or three weeks from now that it's that good, I'd like to see him make a statement like that, because I think he would have the power, and if it turned out to be really that good ....
- Lubin: I think we've got to remember that in the past, when they put people to work in big quantities, they telegraphed out to the districts to put 250,000 or 300,000 people on and the district people said "We can't," and they've said, "Put them on anyway" - so they have them hanging around doing nothing. Putting ....
- H.W.Jr: Wait a minute. That wasn't under Harrington.



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- Lubin: No, of course that was not.
- H.M.Jr: No, that was an entirely different person.
- Currie: C.W.A.
- H.M.Jr: No, Harrington is an entirely different person. But I thought you people would like ....
- Currie: Very encouraging.
- H.M.Jr: What? Oh yes, will you take a look at the charts?
- Wallace: Henry, here's an awful good chart. The ones we were talking about yesterday - three lines: costs, non-farm and farm income per capita. See, they were in balance in here in the late 20's. Got in balance here in '37, but they're all of them low; and now they're spreading out again. Shows we have obtained certain objectives there at times. Doesn't keep - the whole thing wasn't quite up high enough.
- H.M.Jr: I think that's grand. What else have you got, Daggit? Got anything else?
- Daggit: These are the other two. These are the other two charts we mentioned yesterday; made a brief explanation of what they are supposed to show.
- H.M.Jr: And this? That's all right. I think if you take those three - are you men satisfied with those three?
- Lubin: If the President asked any question on what prices are too high, he might enjoy - might like that one.
- Currie: If he wants specific illustrations in the building field, these illustrate two things, the ones that are above '29 and the ones that have been obviously held for long periods. Here's your past differences. That's gypsum.
- H.M.Jr: Where's your '29 line?
- Currie: A hundred.
- H.M.Jr: Oh, I think that's swell.
- Wallace: Is this gypsum?

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Carrie: Yes.

Wallace: Boy! Boy!

H.A.Jr: I think that's good.

Wallace: I think that's just it.

Carrie: Steel - structural steel is 17 percent higher than '29.

H.A.Jr: If they ask him if prices are too high, he can say, "Just look at that, boys. What's your opinion?"

Wallace: If you had another one were of farm prices so you could hold it out here to show the zig-zags - suppose you had cotton and wheat.

White: You could put it on the same chart in red.

Carrie: I'll have a larger one made.

Wallace: I'd be inclined to have another one.

H.A.Jr: I was going to say, I think what you men have done here is one of the most encouraging things that's happened in years.

Wallace: If a statement can compensate them for staying up late at night, we ought to have every statement we can put out.

H.A.Jr: I think it's - no, after all, if coal or anything isn't in line - at least, I feel now if the President will take it and say, "I know where we're going," I know what my job is to get in tune with that, and everybody else is trying to do the same thing. It is most refreshing to me.

Taylor: Statement to end statements on prices.

H.A.Jr: Well now, listen, - now, where are those wings, Wayne?

Wallace: This is the war to end war, Wayne.

H.A.Jr: I think as far as I know, unless there is a change, all you gentlemen will get an invitation to go to the White House.

White: You want this ready about what time?

H.A.Jr: Three o'clock.

February 16, 1938

This administration has from the beginning pursued a policy designed to promote full employment of our human and material resources. That continues to be our policy. The productive power of our workers and our resources, if fully utilized, can provide and maintain a national income far above any levels we have yet reached.

An important factor that determines whether we shall succeed or be blocked in our endeavor to attain full employment and a high level of income is the behavior of prices. In this connection careful attention must be given to: (1) the relations existing among the prices of various groups of commodities; (2) the relations between commodity price levels and the levels of debt burdens and costs; (3) the direction and rate of movement of the general price level.

To promote its broad objective the Administration has, therefore, in its agricultural, industrial, and monetary policies necessarily been concerned with both the relation of the prices of groups of specific commodities to each other and the movement of the general price level. In conformity with this policy, the measures we employ at any given time must fit the needs of that time. A year ago there was ground for concern that a too rapid rise in the prices of some commodities would encourage a speculative boom and choke off

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demand. During the past six months, on the other hand, the general price level and industrial activity have been declining. Government policy must be directed to reversing this deflationary trend.

Although the attainment of full industrial activity requires an increase in the general price level, this does not mean that all prices should advance, nor that the rise should be rapid. The prices of different groups of products must be brought into balanced relations to one another. Some prices are still too high to promote that balanced relationship between prices that is necessary for sustained recovery. The maintenance of prices not subject to full competitive forces accentuates the deflationary pressure on competitively determined prices. Those industries that have maintained prices and curtailed output should seek the restoration of profits through increased volume rather than through restricted output. When prices are controlled through monopolistic practices, it is the obvious duty of government to apply those remedies that the law provides.

The prices of some items are still at substantially the highest levels reached in 1937; some are even higher than in 1929. There is real danger when high prices sharply curtail sales. In the field of residential construction, for example, in the face of a serious shortage of housing and of unused productive resources of every kind, all the major elements

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in housing costs advanced so sharply by the Spring of 1937 as to terminate a promising expansion of activity in this most prostrate of our industries.

For industries that operate at a high level of capacity even in a depression, such as agriculture, the restoration of profits must come primarily through higher prices.

The higher profits that will emerge from proper adjustments of prices will encourage investment in replacement and expansion of equipment. This is necessary to full recovery, especially in the heavy durable goods industry.

This is a policy of abundance, not of restriction. When prices are out of line, production and consumption break down. What we are aiming at is such a balanced system of prices as will promote a balanced expansion in production.

The successful execution of this program by increasing production and employment will increase the real income of consumers. (What they gain from increased employment and more continuous income will much more than offset any reduction in what each dollar can buy. Retail prices do not fall so far nor rise so high as do wholesale prices. Therefore, the moderate rise in the general wholesale price level that the current situation calls for will have little effect on the purchasing power of the consumer's dollar. Each of the consumer's dollars will buy almost as much; at the same time, he will have more dollars to spend as a consequence of increasing business activity.)

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I repeat that present conditions require a moderate rise in the general price level, and that this rise need not and should not extend to all prices. The rise must be mainly confined to those classes of commodities, such as raw materials and finished products that are sold under highly competitive conditions, whose prices are now too low. In many industries last year we experienced a sharp rise in prices that encouraged inventory buying, which combined with the reduction in housing, laid much of the ground for the present recession. We must do everything we can to prevent a recurrence of this development in the future.

I believe the farm bill just passed, the housing bill just passed, and the monetary and credit policies of the Treasury and the Federal Reserve System will prove helpful toward achieving these objectives.

**QUESTION:**

Mr. President, you say in your statement that you want a higher price level, but I didn't get any definite impression of what you plan to do about it. Can you tell us what new steps you have in mind?

Answer: The problem has to be attacked on a good many fronts and the program must be adjusted to changing conditions. Many elements in our whole recovery program have been directed toward a better balance of prices. The new farm bill will help and so will the new housing program when it gets well under way. Our relief program is also helpful and so is unemployment insurance. Anything that raises consumer purchasing power is helpful.

**QUESTION:**

Does this mean you are launching on a policy of inflation?

Answer: No. Our present policy is designed to stimulate moderately rising prices until balance in the price structure is restored.

**QUESTION:**

Does that mean, Mr. President, that we may expect some monetary action, such as another devaluation of the dollar?

Answer: No.

**QUESTION:**

Do you expect anything in the credit field, Mr. President?

Answer: We expect to continue to maintain easy credit conditions. The policies of the Treasurer of the Federal Reserve Board are definitely along that line.

**QUESTION:**

The question is how can anybody tell, Mr. President, whether a price is too high or too low.

**Answer:** There is no simple formula but there are useful general standards by means of which we can study in careful detail the appropriateness of individual prices. There are a variety of factors which would have to be taken into account before it could be determined whether the price of a commodity was too high or too low. Among these factors are the relationship of selling price to the cost of the product; the effect of the given price on the demand for the commodity and the volume of output; the volume of output with the relation of capacity of the industry etc.

**QUESTION:**

How can you get a decline in prices without a decline in wages?

**Answer:** There is enough leeway in some industries to allow for an increase in profits with an increase in output without any reduction in wage rates. This is particularly true in the case of those industries whose prices were advanced far more than conditions justified them by the advance in wages, and also of those situations in which labor costs may be reduced while wage rates themselves are maintained.



**QUESTION:**

How about loans to small industries?

**Answer:** Even before the small business conference held two weeks ago recommended action in this field, I had appointed a special committee to study this problem. That committee is composed of:

After it has completed a study of the problem we will then see how we can put its recommendations into action. In the meantime, if a private credit agency can expand its facilities to take care of the needs of the small business man, it will make it less necessary for the Government to enter this new field.

**QUESTION:**

Was the recent gold move taken in order to increase prices?

**Answer:** That was one of the considerations that led to that decision.

**QUESTION:**

Does this mean a commodity dollar?

**Answer:** What's that?

**QUESTION:**

Does this mean that you are going to crack down on some of the unpoppy prices?

**Answer:** We are not contemplating any such action. The monetary situation today is very different from that which we had in 1933.

**QUESTION:**

Do you regard freight rates as being one of the prices that are too low?

**Answer:** The question of increase in freight rates will have to be decided by the Interstate Commerce Commission which is at present the preparing a decision on the matter.

**QUESTION:**

Aren't you responsible for starting the price decline last Spring with your statement that prices are too high?

**Answer:** No. It is very flattering to me to imply that a mere statement of mine can cause prices to fall -- and I suppose -- to rise. The whole world economic situation and over-buying of specific commodities and in specific industries must be taken into account in an explanation of the price decline.

The prices of some commodities were too high then, just as the prices of certain commodities are too high now. When I said that some prices were too high, I did not refer to the general level of prices; I referred to the prices of certain commodities that were completely out of line with the price structure. The influences that caused the depression were already at work when I issued the warning to which you refer.

**QUESTION:**

What standard of prices do you have in mind? The 1926 level?

Answer: It is not only the standard of prices which is important but the inter-relationship between the different prices and groups of prices which together constitute the general price level. Therefore, the restoration of the present price level to that of any previous year -- be it 1926 or 1929 -- is not enough. If we are to succeed in our objective of reaching full employment and utilization of our resources we must endeavor to attain a balance between the different groups of prices, and the excessive flexibility of some and rigidity of others is one of the most important barriers to this goal.

QUESTION:

Is there any chance of your going back to the gold policy of 1933 in order to raise prices?

Answer: I presume you are referring to the gold purchase policy of that time and to the devaluation of the dollar. The situation in 1933 was entirely different from what it is today. We were only just emerging from the greatest depression in our history. The problems facing us were much greater in scope and seriousness than those facing us now and therefore demanded much more drastic action. It is no small tribute to this Administration that the situation now is no little comparable with the situation then.

February 17, 1937.  
9:04 a.m.

H.M.Jr: Hello

Operator: Chairman Eccles.

H.M.Jr: Hello.

Marriner:  
Eccles: Good morning.

H.M.Jr: Good morning Marriner.

E: How are you this morning?

H.M.Jr: Oh, I feel a little better. Marriner, we're meeting here and going over this statement, and I asked Curry if he'd sent it up to you and he said he had.

E: Yes.

H.M.Jr: And I wondered how you felt about it.

E: Well, I looked it over last night.

H.M.Jr: Yes.

E: And I think that - of course I didn't have the opportunity of discussing it you know, with him - what the purpose was, but it looks to me like it's pretty good.

H.M.Jr: Uh-huh.

E: I - I can't see any - if it would meet my point of view. In the first place, the objective is consistent with what the President has said, and that is that we're willing to have prices go higher than they are.

H.M.Jr: Yes.

E: That it isn't the average price level but it's some prices that have gone - gone too high, while others have gone too low.

H.M.Jr: Yes.

E: Of course he doesn't mention specific prices.

H.M.Jr: No.

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E: But that - when you do that, it's the dickens of a thing to - he infers particularly that though, especially buildings.

H.M.Jr: Yes.

E: And as I see it, I think in view of what was said the other day, and I think there's some misunderstanding said that hereawhile ago the impression was given that he thought prices were too - were too high, you see?

H.M.Jr: Well that's what -

E: Yes, and now again and it's necessary, it seems to me to clarify that impression that's been given.

H.M.Jr: Well that's what we're trying to do for him.

E: Yes.

H.M.Jr: That's just what we are trying to do.

E: When did you want to use this, tomorrow?

H.M.Jr: Tomorrow.

E: Well it looks - it looks to me like it's pretty good.

H.M.Jr: Well, I'll tell Curry - he's here now, that as soon - that they're changing it again, to shoot it right over to you. If you've got anything on your mind, will you give me a ring?

E: Yes.

H.M.Jr: And we'll all see him, including yourself, this afternoon, I think, after Cabinet.

E: This afternoon?

H.M.Jr: Yes, after Cabinet.

E: Do you want me to come over?

H.M.Jr: Yes, I do, very much.

E: Yes. Well all right then, I'll be available.

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H. M. JR:        Fine.    Thanks Marriner.

February 17, 1938.  
9:41 a.m.

H.H.Jr: Herbert?  
Herbert  
Feis: Good morning Henry.  
H.H.Jr: How are you?  
Fe: Good.  
H.H.Jr: Are we going fast enough to suit you on Hungary?  
Fe: I'm in the Secretary's office just now and I haven't yet had a chance to ask him what had happened. It was the next question I was going to ask.  
H.H.Jr: Let me ask you one question.  
Fe: Yes.  
H.H.Jr: Have you ever heard that England said she was willing to pay up to a hundred million dollars a year?  
Fe: Never.  
H.H.Jr: Well, that's what Bell says. Bell says the best he ever heard was ten cents on a dollar.  
Fe: Correct, and that very tentatively.  
H.H.Jr: All right. That's all I want.  
Fe: Right.  
H.H.Jr: Goodbye.  
Fe: May I later perhaps telephone, after I've talked with Mr. Hull?  
H.H.Jr: I think it's permissible seeing it's you.  
Fe: I beg your pardon?  
H.H.Jr: It's permissible.  
Fe: All right, sir.  
H.H.Jr: And when you do telephone, ask me what the Mexican Ambassador wanted to know about you.  
Fe: All right.

H.M.Jr: Yes.

F: I'll call you, if I may, later on in the morning.

H.M.Jr: Yes, she's a little suspicious of you.

F: I know that, very.

H.M.Jr: And I told her she had real reasons to be.

F: I know it.

H.M.Jr: Oh, you know about it.

F: No, I don't know as much as you're going to tell me.

H.M.Jr: All right.

F: Right, sir.

H.M.Jr: Goodbye.

F: Goodbye.



February 17, 1938.  
9:45 a.m.

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H.M.Jr: Hello.

Operator: Mr. Macdonald. Go ahead.

H.M.Jr: Hello.

Stewart  
Macdonald: Good morning Mr. Secretary.

H.M.Jr: How are you?

M: I'm pretty good, thank you.

H.M.Jr: Do you suppose you could have over for me, by one o'clock, on one page, what you think you might be able to do, actually putting - how fast you can get this thing started, and so forth and so on, in case it comes up in Cabinet?

M: All right, I'll be glad to do that.

H.M.Jr: And put it on -

M: There's just one thing that I want to draw your attention to.

H.M.Jr: Yes.

M: The present - we used to allow five per cent interest on the small house mortgages, payable monthly, and half of one per cent additional for service charge.

H.M.Jr: Yes.

M: Which really made five and a half per cent interest.

H.M.Jr: Yes.

M: The President insisted it be cut to five.

H.M.Jr: Right.

M: There's quite a lot of opposition in the West and Southwest on account of that. They'll come along eventually but I'm sorry we did that at the same time we tried to get recovery too, do you see?

H.M.Jr: Yes, but that's water over the dam.

M: Well of course, we could still reinstate the one half of per cent service.

W.M.Jr: How?

M: How? By just simply a circular letter.

W.M.Jr: Oh! Well -

M: You see?

W.M.Jr: Well -

M: I'll talk to you later about that.

W.M.Jr: Yes, but what I want is looking - well let's say - what I want to know is this. You see, I'm on the spot now, see?

M: Yes.

W.M.Jr: Because I'm on your side.

M: That's right.

W.M.Jr: And I want to know, if they say, "Well now, Stewart Macdonald", Wallace was in the office this morning, why he can't put anybody to - get anything until August.

M: What?

W.M.Jr: Till August.

M: Yes.

W.M.Jr: Now I want, right from you, I don't care if it's only a million dollars, when will these things begin to go to work, you see?

M: I'll give it to you at noon.

W.M.Jr: You see what I mean?

M: You bet. I'll have it over by one o'clock.

W.M.Jr: And, because, so in case they started jumping on me, "I want you to say, "Well this is what Stewart Macdonald says."

M: Yes.

W.M.Jr: And I'm going to back him.

M: Yes, I hope I can do something more than Wallace has ever done.

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H.M.Jr: Yes, and listen old man.

H: Yes.

H.M.Jr: Lean on the conservative side.

H: I will.

H.M.Jr: I'd rather - much rather have you understated.

H: Yes. All right.

H.M.Jr: Get it?

H: You bet.

H.M.Jr: Thank you.

H: Goodbye.

February 17, 1938.  
9:53 a.m.

Herbert  
Feis: now what's on, and I'm very glad.

H.M.Jr: Yes.

F: I'm sorry my memory failed me and I kept talking about a hundred.

H.M.Jr: Oh, did you mislead them?

F: I'm afraid I'm the fellow that did.

H.M.Jr: Oh!

F: At least I'm afraid I played a part in it.

H.M.Jr: Well then, maybe the Mexican Ambassadors is right.

F: Well, there's usually something in people's ideas.

H.M.Jr: Yes.

F: However, in this sense, our papers, our documents were right.

H.M.Jr: Oh, now listen old man.

F: No, no, that is right.

H.M.Jr: Oh, yes, the documents are right.

F: No, no, our written memoranda is correct.

H.M.Jr: All right.

F: It was only my verbal statement.

H.M.Jr: I should worry what you tell Mr. Hull.

F: Well, all right. Well, I'm very glad it's moving that quickly.

H.M.Jr: I think so.

F: And I hope it goes through. Are you going to go over there?

H.M.Jr: Yes, in a minute or two.

F: Fine. The Mexican Ambassadors, I think she thinks I'm a devil with horns.

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H.M.Jr: Well, she thinks you're a devil with the women, and I said she - I said - she's absolutely right. She said you have those artistic eyes.

F: She's a sweet dish.

H.M.Jr: And she's a very discerning person.

F: Well, for the most part. Occasionally she mistakes - she makes seventy five into a hundred changing it.

H.M.Jr: Well, if you begin to get a reputation as being a devil, why you know where - who started it.

F: I will.

H.M.Jr: All right.

F: Thank you Henry.

H.M.Jr: Goodbye.

F: Goodbye.

February 17, 1938

The Vice President, Mr. Hull, Mr. Pat Harrison, Mr. Robert Doughton and yours truly saw the President at ten o'clock on the Hungarian debt.

The President presented the facts with the papers attached hereto before him.

The President put on a good sales talk. I thought the Vice President would burst a blood vessel and finally he could not contain himself any longer and he said, 'Mr. President, I just won't go along with you on this. You can't win me over on this.' And, he said, 'While we are on this subject,' he said, 'it's the policy of this Government that we won't fight to collect our debts, but I wish somebody would tell me where the Administration stands. Are we going to fight for trade?' He said, 'After Japan has gobbled up China, what are we going to do about it?' He said, 'I would like somebody to tell me.' And, he said, 'When I sat on the Ways and Means, the Italian Government pleaded poverty and said there were only five people in Italy with over \$100,000 a year and, since pleading that, they have succeeded in building up one of the biggest armies and biggest navies in the world and if you can do that on poverty, what could they do if they had some money?' And, he said, 'I am absolutely opposed to accepting any debt settlement from anybody.' He said, 'I don't want them borrowing money here to build up armaments that some day we may have to go up against.'

(The Vice President was thinking in terms of 12 or 15 years ago and I thought was most unreasonable.)

The President said, 'Well, Jack, suppose the five of us owed you \$1,000,000 and 15 years ago we said we would pay you fifty cents on the dollar and we have not paid you anything. And now we say we can pay you. We want to pay you. We want a new adjustment.' He said, 'Do you want to take a partial payment on your \$1,000,000 or would you rather take nothing?' He said, 'That's the thing you have got to decide.'

I felt the President made a dent, although both Harrison and Doughton were opposed. But they were getting this thing cold and none of them had thought about this thing, certainly in five or ten years.

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The Vice President had Hungary and Austria mixed up and did not seem to realize that Hungary had done very well and even after we told him so he did not seem to believe it.

After the meeting was over, the President and I agreed that we would talk about it together some more, with the possibility of, notwithstanding what these men said, presenting it to Congress.

I told the President, in view of what had happened in Austria, it seemed to me tremendously important to encourage a country like Hungary who wanted to settle her debts, but I was delighted to be present and listen to the intense feeling that these people had against Europe paying the debts because they are fearful that they will come into this market and borrow. That seems to be at the bottom of the whole thing.

cOo-cOo

FUNDED INDEBTEDNESS OF FOREIGN GOVERNMENTS TO THE UNITED STATES ON SAME BASIS AS THE HUNGARIAN PROPOSAL OF FEBRUARY 7, 1938.

Country	Original indebtedness (Principal)	Total amounts received (Principal and Interest)	Percentage of payments received to original indebtedness	Original indebtedness less all payments received	Total indebtedness as of Jan. 31, 1938 (Funded principal and accrued and unpaid interest)	Difference between present indebtedness and indebtedness adjusted to Hungarian proposal	Annual annuity on Hungarian basis (30 years)	Payments due under funding and amortization agreements (Calendar Year 1937)	Approximate average annual payments for next 30 years under funding and amortization agreements
	(Col. 1)	(Col. 2)	(Col. 3) (2 ÷ 1)	(Col. 4) (1 - 2)	(Col. 5)	(Col. 6) (5 - 4)	(Col. 7)	(Col. 8)	(Col. 9)
Austria .....	\$ 24,055,708.98	\$ 862,666.00	3.6	\$ 23,193,042.98	23,193,042.98	\$ 2,812,440.07	\$ 773,101.36	\$ 494,860.23	\$ 695,000
Belgium .....	379,087,300.43	52,191,373.24	13.8	326,895,927.19	440,576,360.97	113,680,433.78	10,995,530.91	15,884,907.78	12,900,000
Czechoslovakia ....	91,979,471.03	20,134,092.28	21.9	71,845,378.75	160,606,603.61	93,913,024.84	2,391,519.29	3,360,323.56	6,100,000
Estonia .....	15,999,148.60	1,248,432.07	8.9	12,750,716.53	18,039,718.13	5,289,004.60	425,023.78	778,700.00	887,000
Finland .....	8,821,926.17	8,101,034.77	81.6	720,891.40	8,350,481.00	5,169,589.60	106,029.71	795,286.00	340,000
France .....	3,404,818,945.01	466,075,691.00	14.3	2,938,743,254.01	4,121,120,302.58	1,202,377,448.58	97,291,435.12	107,620,602.24	134,500,000
Great Britain .....	4,277,000,000.00	2,024,948,817.09	47.3	2,252,051,182.91	2,263,719,066.75	2,011,567,883.82	75,071,706.10	208,541,000.10	180,000,000
Greece .....	27,157,000.00	3,778,364.01	13.9	23,388,635.99	33,668,484.24	10,479,858.25	779,620.23	1,417,114.76	240,000
Hungary .....	1,685,835.61	478,894.48	28.4	1,207,941.13	2,316,868.35	1,108,927.22	40,221.27	88,021.28	79,000
Italy .....	1,648,034,050.90	100,829,980.16	6.1	1,547,204,170.74	2,019,907,005.88	472,702,834.94	51,573,472.36	18,423,126.76	22,000,000
Lithuania .....	5,132,527.14	761,549.07	14.8	4,370,978.07	8,300,896.27	3,930,158.20	145,891.27	323,666.00	290,000
Netherlands .....	4,981,629.05	1,237,956.58	24.8	3,743,672.47	7,429,514.65	3,685,842.18	124,799.00	288,995.56	260,000
Poland .....	139,666,970.39	22,646,297.50	14.2	137,020,672.89	252,159,819.66	115,139,146.77	4,567,323.28	9,632,079.42	8,265,000
Portugal .....	37,011,132.92	4,791,007.33	15.6	32,220,125.59	65,971,892.36	30,851,766.77	1,104,004.86	1,697,500.14	1,250,000
Romania .....	51,758,480.55	2,588,771.89	5.0	49,169,708.66	61,663,515.65	12,493,806.99	1,638,990.50	413,515.63	1,409,000
<b>Total .....</b>	<b>10,135,460,010.70</b>	<b>2,727,874,349.19</b>	<b>26.9</b>	<b>7,407,585,661.51</b>	<b>12,493,087,660.66</b>	<b>5,085,501,999.15</b>	<b>246,929,522.05</b>	<b>247,424,425.90</b>	<b>377,745,000</b>

SECURITY DEPARTMENT  
Accounts and Reports  
February 15, 1938.





Month	Green					DEFENSE INDUSTRIES				Grand Total	
	France	Yugoslavia	Green		Austria	Total	Germany	Belgium	Russia		Total
			(For war purposes)	(4% Loan of 1929)							
Dec. 4, 1928 June 15, 1928	Apr. 29, 1928 June 15, 1928	May 7, 1928 June 15, 1928	May 10, 1929 Jan. 1, 1929	May 10, 1929 Mar 10, 1929	May 6, 1928 Jan. 1, 1928		Unfunded	Unfunded	Unfunded		
---	3,970,000,000.00	10,409,000.00	---	---	---	6,979,328,000.00	---	---	187,729,750.00	187,729,750.00	7,007,114,750.00
75,000,000.00 10,913,159.92	1,027,477,000.00 407,341,145.01	16,175,445.58 24,979,070.99	15,000,000.00 ---	---	---	8,041,095,825.43 0,908,004,001.77	---	431,049.14	408,086.30 3,465,455.07	---	4,381,080,885.40 599,122,733.21 96,260,260.00
---	---	---	---	12,167,000.00	---	83,767,090.33 32,577,371.20	---	---	---	---	507,431.44 12,488,977.22 3,031,500.34 56,086,002.49
37,911,159.22 17,211,155.22	1,434,616,845.01 3,404,616,845.01	41,150,430.55 51,758,450.55	15,000,000.00 15,000,000.00	12,167,000.00 12,167,000.00	24,055,700.22 24,055,700.22	5,284,078,010.70 10,238,460,010.70	11,929,917.49 11,929,917.49	431,049.14 431,049.14	4,871,547.27 187,601,297.27	---	3,925,500.34 19,063,514.00 3,272,389,264.70 10,340,453,074.70
59,116,973.44 5,472,475.10	5,340,516,043.77 894,870,443.17	61,007,094.39 11,919,238.00	15,000,000.00 ---	12,167,000.00 ---	24,055,700.22 2,127,978.67	9,084,238,307.00 1,719,165,034.01	---	---	---	---	9,064,036,303.00 1,719,165,034.01
44,734,461.74 6,151.54	4,020,300,496.89 208,696.89	67,807,117.39 7,115.79	---	---	---	---	---	---	---	---	---
47,88,260,240.43	4,218,600,000.00	27,680,000.00	2,281,300,000.00	12,167,000.00	24,055,700.22	11,071,507,430.50	---	---	---	---	4,768,608.14 11,671,507,430.50
1,798,636.08 760,314.74	84,009,000.00 271,290,407.48	7,771,115.55 408,099.74	3,425.37 1,119,158.34	---	---	---	---	---	---	---	---
7,061,945.76	380,079,079.28	1,263,771.23	1,167,076.01	---	---	671,823,441.43 660,280,270.11	---	---	141,700.28 26,236.48	141,960.28	671,904,290.99 769,007,407.48
2,700,000.00 89,041.46	1,111,250,000.00 30,520,000.00	1,227,200.00 ---	120,000.00 ---	891,000.00 1,635,300.00	882,800.00 ---	475,705,364.06 1,219,916,664.66	---	---	---	---	475,555,364.06 1,219,916,664.66
5,775,021.41 4,791,007.23	300,000,000.00 466,079,491.00	1,127,200.00 2,589,711.49	150,000.00 1,312,076.10	2,466,300.00 ---	882,668.00 ---	1,705,471,630.44 5,727,674,348.19	---	---	---	---	1,705,471,630.44 5,727,674,348.19
3,340.41	3,865,250,000.00	41,600,000.00	31,140,000.00	11,736,000.00	20,260,460.66	11,231,160,339.04	11,909,917.49	399,896.78	192,601,297.27	204,851,113.64	11,436,011,473.68
311,251.83 85,971,897.24	387,470,000.00 4,103,120,000.00	28,215.43 11,568,715.23	72,948.08 30,267,236.08	2,079,346.76 10,015,520.21	25,000.33 25,005,440.79	1,061,937,811.20 11,403,007,560.06	10,745,440.51 20,705,400.00	197,446.40 497,144.28	183,140,817.41 376,749,114.78	194,083,946.12	1,406,011,247.24 15,042,000,780.61
7,000,000.00 456,720.72 4,425,220.72	11,211,400.00 11,879,707.00 17,411,917.40	1,070,000.00 790,516.72	1,750,000.00 43,897.50	2,710,000.00 1,710,872.00	1,240,479.00 ---	207,705,006.00 1,040,704,027.17	11,959,917.49 10,745,440.51	389,896.78 197,446.20	192,601,297.27 183,140,817.41	204,851,113.64 194,083,946.12	712,576,101.70 1,539,750,213.25 124,074,041.00
---	427,669,165.00	1,217,211.00	1,920,200.00	4,225,300.00	2,454,040.00	1,028,305,120.00	22,702,400.00	497,344.28	376,948,114.78	399,850,000.00	1,609,640,121.78
25	25	25	25	25	30	---	---	---	---	---	---
25	(5 yrs. term 16 yrs. 16)	25	25	45	20	---	---	---	---	---	---
25	(5 yrs. 16 10 yrs. 16 10 yrs. 20 10 yrs. 20 10 yrs. 20)	(5 yrs. 16 10 yrs. 16 10 yrs. 20 10 yrs. 20 10 yrs. 20)	25	45	20	---	---	---	---	---	---
25	---	---	---	---	---	---	---	---	---	---	---

*Draft before 140  
submission to President  
on 2-17-38*

February 16, 1938

This administration has from the beginning pursued a policy designed to promote full employment of our human and material resources. That continues to be our policy. The productive power of our workers and our resources, if fully utilized, can provide and maintain a national income far above any levels we have yet reached.

An important factor that determines whether we shall succeed or be blocked in our endeavor to attain full employment and a high level of income is the behavior of prices.

In this connection careful attention must be given to:

(1) the relations existing among the prices of various groups of commodities; (2) the relations between commodity price levels and the levels of debt burdens and costs; (3) the direction and rate of movement of the general price level. To further its broad objective the Administration has, therefore, in its agricultural, industrial, and monetary programs necessarily been concerned both with the relation of the prices of groups of specific commodities to each other and with the movement of the general price level.

In conformity with this policy, the measures employed at any given time must fit the needs of that time. A year ago there was ground for concern that a too rapid rise in the prices of some commodities was encouraging a speculative boom.

- 2 -

During the past six months, on the other hand, the general price level and industrial activity have been declining. Government policy must be directed to reversing this deflationary trend.

~~Although the attainment of full industrial activity requires an increase in the general price level,~~ This does not mean that all prices should advance, nor that the rise should be rapid. Prices of different groups of products must be brought into balanced relations to one another. Some prices and some costs are still too high to promote that balanced relationship between prices that is necessary for sustained recovery. Continued high prices of many of the commodities not subject to <sup>highly</sup> full competitive <sup>market</sup> forces intensifies the downward pressure on all other prices. Those industries that have maintained prices and curtailed output should seek the restoration of profits through increased volume rather than through restricted output.

When prices are controlled through monopolistic practices, it is the obvious duty of government to apply those remedies that the law provides.

The prices of some items are still at the highest levels reached in 1937; some are even higher than in 1929. When high prices sharply curtail sales there is real danger. This is shown by our recent experience with housing. A year ago there was a serious shortage. We had unused productive resources ample to overcome the shortage. Yet all the major elements

- 3 -

in housing costs advanced so sharply by the Spring of 1937 as to kill a promising expansion of activity in an industry whose restoration is vital to continued recovery.

For industries, such as agriculture, that operate at a high level of capacity even in a depression, the restoration of profits must come primarily through higher prices. Higher prices in such industries and increased output in other industries will, by increasing profits, encourage new investment in replacement and expansion of equipment. This is necessary to full recovery.

I repeat that present conditions require a moderate rise in the general price level, and that this rise need not and should not extend to all prices. The rise should take place in and must be mainly confined to classes of commodities whose prices are too low. These include most of the raw materials and finished products produced and sold under highly competitive conditions. The rise must not be so sharp or continue so long as to lead to a repetition of the unhealthy speculative conditions of a year ago. That sharp rise in prices encouraged speculative inventory buying which, combined with the reduction in housing, laid much of the ground for the present recession. We must do everything we can to prevent this from happening again.

Our program seeks a balanced system of prices such as will promote a balanced expansion in production. Our goal

- 4 -

is a constantly increasing national income through increasing production and employment. This is the way to increase the real income of consumers.

This is not a policy of restriction; it is a policy of abundance.

Our agricultural, industrial, housing, and monetary programs have been and will be directed toward this end.

February 17, 1938

This is the copy I gave the President and  
these are his corrections.

February 16, 1938

This Administration has from the beginning pursued a policy designed to promote full employment of our human and material resources. That continues to be our policy. The productive power of our workers and our resources, if fully utilized, can provide and maintain a national income far above any levels we have yet reached.

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Our agricultural, industrial, housing and monetary programs have been and will be directed toward this end.

February 17, 1938

MEMORANDUM FOR COL. MCINTYRE:

If the President decides to hold a conference on prices this afternoon after Cabinet, I suggest that the following be invited to be present:

DEPARTMENT OF AGRICULTURE

Secretary Wallace  
 Dr. Morecai Ezekiel, Economic Adviser  
 Mr. Albert G. Black, Chief, Bureau of  
 Agricultural Economics

DEPARTMENT OF LABOR

Dr. Isador Lubin, Commissioner of Labor △  
 Statistics  
 Mr. A. F. Hinrichs, Chief Economist

FEDERAL RESERVE BOARD

Chairman Harriner S. Eccles  
 Dr. E. A. Goldenweiser, Director, Division  
 of Research and Statistics  
 Dr. Lauchlin Currie, Assistant Director,  
 Division of Research and Statistics

TREASURY DEPARTMENT

Secretary Morgenthau  
 Assistant Secretary Wayne C. Taylor  
 Dr. George C. Haas, Director of Research  
 and Statistics  
 Dr. Harry L. White, Assistant Director of  
 Research and Statistics  
 Mr. Edmund M. Dagratt, Principal Economic  
 Analyst  
 Mr. Herbert E. Gaston, Assistant to the  
 Secretary

*Handwritten signature/initials*

February 17, 1938

This is the material I took to the White House  
today.

FEDERAL HOUSING ADMINISTRATION  
MEMORANDUM

DATE February 17, 1938

TO: Mr. Morgenthau

SUBJECT: Estimated Residential Building 1938

The situation in residential building is at the moment surrounded by uncertainty. Any estimate of what may be expected during the year 1938 is, therefore, subject to error.

The delay in passing the new Housing Act has already curtailed building activities for the first half of 1938. The best estimate that can now be made indicates that the number will probably fall between 125,000 and 150,000 residential units, as compared with about 165,000 built during the first six months of 1937. Approximately 70% of these units probably be single family houses.

Tentatively, the number to be constructed during the last six months of 1938 may be expected to exceed the number constructed in the same six months of 1937, and to fall between 150,000 and 225,000, as compared to 120,000 in the last six months of 1937.

A substantial rise in the cost of building, unfavorable changes in monetary, taxation, or other governmental fiscal policies, or in the general price level and in the index of industrial production may seriously vary this estimate.

Attached is a table indicating the weekly volume of mortgages accepted for appraisal on small homes; also large scale housing projects which have been approved since January 1st. It may be noted that these figures indicate a continuous rise each week since the first of the year.

Stewart McDonald  
Administrator

FEDERAL HOUSING ADMINISTRATION  
MEMORANDUM

DATE February 17, 1938

TO: Dr. Fisher

SUBJECT:

WEEKLY TOTALS OF MORTGAGES SELECTED FOR APPRAISAL

<u>Week Ending:</u>	<u>Number</u>	<u>Amount</u>
Jan 8	1,256	\$5,483,184
15	1,504	6,531,200
22	1,711	7,299,975
29	1,888	8,150,840
Feb 5	1,982	8,571,895
12	1,988	8,787,105

Division of Economics and Statistics  
Operating Statistics Section

FEDERAL HOUSING ADMINISTRATION  
MEMORANDUM

DATE February 17, 1938

Projects in process of construction.

The following projects have been closed within the last week, and are in the process of construction:

			<u>Mortgage Amt.</u>
Wentworth Apartments	Narberth, Pa.	New York Life Ins.Co.	430,000
River Oaks	Houston, Tex.	Prudential Ins. Co.	511,000
Rock Belt	Greenbelt, Md.	RFC Mortgage Co.	35,000

The following projects are in the process of closing, but construction has already started:

Second Garden Bay Manor	Jackson Heights, N.Y.	Union Central Life Ins.Co.	850,000
Third Garden Bay Manor	Jackson Heights, N.Y.	Bowery Savings Bank	1,100,000
Machloy Court	Newark, N. J.	New York Life Ins.Co.	1,035,000
Garth Road (Unit A)	Scarsdale, N.Y.	Prudential Ins.Co.	775,000
Garth Road (Unit B)	Scarsdale, N.Y.	Prudential Ins.Co.	620,000
Clarendon Apts.	Yonkers	RFC Mortgage Co.	1,350,000

The following projects are in the process of closing:

Umpire Court	Richmond	New York Life Ins.Co.	650,000
Park Plaza	Harrisburg	New York Life Ins. Co.	550,000
McFinnigan-Granville	Chicago	Bankers Life Ins. Co.	750,000
Swain Estates	Winston-Salem	Prudential Ins. Co.	435,000
Linwood Colonial Apts.	Indianapolis	Ohio National Life Ins.Co.	258,750
Olen Gardens	Los Angeles	RFC Mortgage Co.	2,550,000
General Kearney	Kearney, N.J.	RFC Mortgage Co.	500,000
Limited Dividend Housing	Atlanta, Ga.	New York Life Ins. Co.	640,000
Armstrong Village	St. Louis	New York Life Ins. Co.	1,600,000
Roseland	Baltimore, Md.	New York Life Ins. Co.	1,480,000
McDermoney	Philadelphia	Lincoln Life Ins. Co.	400,000
			\$17,519,750

M. L. Colean



## Question 1:

You say in your statement that you want a higher price level, but I didn't get any definite impression of what you plan to do about it. Can you tell us what new steps you have in mind?

## Answer:

The problem is being attacked on a good many fronts. Many elements in our recovery program have already been directed toward a better balance of prices. The new farm bill will help and so will the new housing program when it gets well under way. Our expanding relief program is also helpful. And so are the unemployment benefits now being paid.

## Question 2:

Does this mean you are launching on a policy of inflation?

## Answer:

No. Our policy is to help restore balance in the price structure.

## Question 3:

Does that mean that we may expect some monetary action, such as another devaluation of the dollar?

## Answer:

No.

Question 4:

Does that mean that you will desterilize more gold?

Answer:

If conditions warrant it, the Treasury will not hesitate to take appropriate action.

Question 5:

Do you expect anything in the credit field?

Answer:

We expect to continue to maintain easy credit conditions. The policies of the Treasury and the Federal Reserve Board are definitely along that line.

Question 6:

How can anybody tell whether a price is too high or too low?

Answer:

There is no simple formula. There are a variety of factors which would have to be taken into account before it could be determined whether the price of a commodity was too high or too low. Among these factors are the relationship of selling price to the cost of the product; the effect of the given price on the demand for the commodity and the volume of output; the volume of output in relation to the capacity of the industry, etc.

Question 7:

Was the recent gold move taken in order to increase prices?

Answer:

That was one of the considerations that led to that decision.

Question 8:

Does this mean a commodity dollar?

Answer:

What's that?

Question 10:

Is there any chance of your going back to the gold policy of 1933 in order to raise prices?

Answer:

I presume you are referring to the gold purchase policy of that time and to the devaluation of the dollar. The situation in 1933 was entirely different from what it is today. We were only just emerging from the greatest depression in our history. The problems facing us were much greater in scope and seriousness than those facing us now and therefore demanded much more drastic action. It is no small tribute to this Administration that the situation now is so little comparable with the situation then.

Question 11:

Some people are saying that your statement about prices in April of last year caused the recession. Can you comment on that?

Answer:

It seems to me that is a good deal like saying that the man who warns you to slow down at the curve is responsible if you get hurt. I think price dislocations had a good deal to do with the recession. The maladjustments had been developing for some time before I issued my warning that some prices were going too high. Some excessively high prices choked off buying and reacted on competitive prices, forcing them down. The real question is whether the warning should not have been made even sooner.

Question 12:

Does this mean that you are aiming at a 1926 price level?

Answer:

It is not a question of any particular year. We are seeking a balanced relationship among different groups of prices which will promote full employment. Therefore, the restoration of the price level to that of any <sup>year</sup> previous year is not the significant thing.

Question 13:

Do you think that any wages are too high?

Answer:

It is possible that in particular industries some wages, like some commodity prices, are too high. Well managed labor organizations recognize that there are limits to what industry can pay without spoiling the opportunities for employment.

But I want to stress my conviction that economies should be sought only as a last resort through wage rates. I want to emphasize that wage rates and labor costs are not synonymous. A man may cut wages and, in so doing, so affect the morale of his workers as to lower efficiency and raise labor costs. The reverse is also true. By increasing his wage rates many an employer has increased the efficiency of his workers and lowered labor costs. The first place to look for reductions of labor cost is in connection with those practices of labor or management that lower the efficiency of workers. Only as a last resort should we risk the destruction of purchasing power through wage decreases.

-I favor all efforts to stabilize employment that will make it possible to reduce the costly insurance of a high hourly rate on a small number of hours of irregular work, and substitute assured jobs that will produce a much higher annual income.

Question 14:

You have said that prices rose too fast last spring. Did wages rise too fast at that time?

Answer:

There were very few wage increases from 1934 until October 1936. In the next nine months average hourly earnings in manufacturing industries rose from about 57 cents to about 65 cents. We know that many firms were in a position to increase wage rates in 1935 and 1936. I do not think it was healthy for business to have so long postponed wage increases that they had to absorb in a single lump of this size.

I notice that during downswings people speak of the need for flexible wages and feel that wages should fall. During recovery they seem to forget that wages should also be flexible and should rise. They delay wage increases to the last possible moment, and then at the peak of a boom grant wage increases that are small when measured against current profits but at the same time difficult to maintain when volume falls off. If wage increases were not so long delayed but were made as business improved business managers would have a longer period of activity in which to adjust themselves to wage changes.

Question 15:

You have spoken of costs that are too high. Do you mean that wages should fall?

Answer:

The real answer is to be found in increased volume rather than in lower wages. Despite the fact that earnings per hour in manufacturing were 24 percent higher in 1936 than in 1932, labor costs per unit of output were only 6 percent higher. This was due in part to the fact that the productivity of labor increased, but primarily was due to the fact that labor can be used far more efficiently in mass production industries when they operate at high volume. This is further demonstrated by the fact that in the last five months, despite the fact that wages have not increased, shrinking volume forced up labor costs per unit of output as much as they had risen between 1932 and 1937.

Question 9:

Do you regard freight rates as being one of the prices that are too low?

Answer:

The question of increases in freight rates will have to be decided by the Interstate Commerce Commission which is at present ~~the~~ preparing a decision on the matter.

Question 16:

Is the price policy of the Guffey Coal Commission consistent with the policy which you are now announcing?

Answer:

As a matter of fact, prices of coal are not high either when viewed historically or when viewed by the records of the industry. Cut-throat competition has always dominated this industry, and has made it impossible for the industry to pay decent wages and give a profit to the investors in the industry.

The very nature of the bituminous coal industry makes it possible to cut losses by selling below cost, as contrasted with shutting down a mine entirely. Accordingly, the Administration's policy has been directed toward bringing about some measure of stability in the industry by eliminating cut-throat competition that arises from the physical nature of the industry.

Question 17:

How about loans to small industries?

Answer:

Even before the small business conference held two weeks ago recommended action in this field, I had appointed a special committee to study this problem. That committee is composed of representatives of the appropriate agencies. After it has completed a study of the problem we will



then see how we can put its recommendations into action. In the meantime, if private credit agencies can expand their facilities to take care of the needs of small business men, it will make it less necessary for the Government to take additional action.

Question 18:

Could the Government have done anything more than it did a year ago to prevent the speculative boom in prices through the regulation of Government purchases?

Answer:

The Treasury is now working on this problem. We feel that it is possible to withhold more purchases in periods of high prices than we have in the past. We should plan our purchases so that the goods we buy, insofar as possible, will be manufactured during what would otherwise be slack periods of production.

An example of how ill-timed government purchases can contribute to disparity in the price structure is the wool purchases of the War Department early last spring. By placing large orders for woolen products at a time when the industry was working near capacity levels, the Army entered into the market in competition with private buyers and was an effective factor in forcing up the price of certain types of raw wool by as much as 20 percent.

Question 19:

Will the operations of the new farm bill be consistent with this price policy?

Answer:

Farm prices are glaring examples of prices that are now too low. The farm bill provides means for preventing extreme declines in farm prices and for maintaining income of farmers in years of excessively high yields. At the same time by carrying over excessive supplies from years of large crops to years of short crops it will tend to prevent such rapid rises in farm prices due to short crops as occurred in the winter of 1936-37 and which helped to build up the speculative enthusiasm at that time.

Question 20:

Will the commodity loans under the farm bill work contrary to these price policies?

Answer:

No. Those loans will be made only when farm commodities are unusually low in price and high in supply. In periods when crops are short, no loans will be made. Instead part of the stored supply in the ever-normal-granary will be released to prevent undue increases in prices.

Question 21:

Is the concept of legal formulation of the parity prices of farm products consistent with the development of a dynamic balance between prices that you have been discussing?

Answer:

Our farm policy has been working away from the idea of fixed parities for individual prices toward the idea of a parity in income. That is to say in a balance between the income of farmers as a group and of other producers as a group. The provisions of the present bill constitute only a step in that direction.

Question 22:

Are all farm prices too low?

Answer:

No there are a few situations where special bargaining arrangements have given limited groups of farmers prices in some markets that are out of line with other farm products. In some cities milk prices, which were boosted a year or more ago because of short pastures and high feed prices, have remained at the same level since. There is no more justification for monopoly practices by farmers than by manufacturers.

Question 23:

How is your price policy going to affect our export market?

Answer:

It is bound to improve it. Foreign trade always improves when business activity improves. Any measure which helps bring about recovery in the United States also helps to bring about world recovery and serves to increase both our purchases from foreign countries and our sales to foreign countries.

Question: Does this price policy mean that the price of sugar is to be raised?

Answer: No. Our policy with respect to sugar is already fully stated in the Sugar Act of 1937, and there is no reason for changing that policy.

FEDERAL RESERVE BANK  
OF NEW YORK

- 159

OFFICE CORRESPONDENCE

DATE February 17, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.

L. W. Knoke

I called Mr. Bolton at 10:45 a. m. Things were quiet today in Europe and there was no evidence of consistent selling of the dollar at the level reached yesterday. During the last few days the selling had come from a handful of big people who had definitely determined to get out of their dollars and to convert them into Swiss franc, gold and sterling. I mentioned that we definitely knew that some of the European central banks (Sweden) were also converting some of their dollar balances into gold. Generally speaking, Mr. Bolton said, Mr. Morgenthau's announcement last Monday had been taken rather philosophically by the exchange market. Unless economically the situation in the United States got much worse and politically the administration and business pulled further apart, further liquidation of the dollar holdings by foreigners at this level was not expected.

Demand for gold in the London market had been substantial and today the fund had furnished over £1,000,000 of gold, that is practically the whole amount of the 414 bars dealt in. On the other hand it had gained £1,250,000 of Russian gold which had arrived in London last week. This had been the first shipment since last May and would probably prove to be an isolated transaction. At least there were no indications of any more gold on the way or any further shipments contemplated by Russia. The hoarding of gold in London was definitely on the increase and they figure that it amounts to about £2,000,000 a week. This was, of

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 17, 1938.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF ENGLAND

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course, purely a guess, deductively arrived at. The highest estimate of gold now hoarded in London was from £110,000,000 to £120,000,000. I stated the fact that two weeks ago he had mentioned a higher figure but he thought that was an over estimate on his part and that the latest figures were likely to be fairly accurate. I asked whether Belgium was losing gold as a result of the higher gold price in London but Mr. Bolton replied that so far they had managed to keep the London price just below the gold import point from Belgium in spite of the heavy demand for gold in London.

In France the situation was unchanged. The franc had been weak yesterday but firmer today. Over a period Carriguel had lost steadily probably at the rate of about £500,000 a day. The little refugee capital that was still going out of France went primarily into gold.

We discussed briefly capital movements and I mentioned that the outward flow from here continues and had now reached about \$600,000,000 since the first week in October.

*W*

FEDERAL RESERVE BANK  
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE February 17, 1938.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

L. W. Knoke

SWISS NATIONAL BANK IN ZURICH.

I called Mr. Schnorf at 11:10 today. I referred to his cable #10 of yesterday advising that we would receive for their special account \$575,000 value February 18 and asked whether that was to be converted into gold. His reply was in the affirmative, whereupon I pointed out that in accordance with our arrangement they should have made the request for conversion by cable simultaneously with their advice for us to receive. Mr. Schnorf suggested that I take his request over the telephone, which he would subsequently confirm by cable. We have now received this confirmation (Bank Nationale Suisse cable #11).

He spoke of the 1/4% charge which he thought made operating in New York very expensive if transactions ran into large figures. I told him that this 1/4% was a Treasury charge and that nothing could be done about it which he seemed to realize. I inquired about today's foreign exchange market and he replied that after having intervened yesterday for the first time in many weeks further intervention today had become unnecessary as the dollar had turned firmer. I stated that if at any time in the future he wanted to give an order to New York to be in force after the European markets were closed, we would be happy to receive his instructions. Mr. Schnorf thanked me.



Meeting at the White House Feb. 17th

(Dictated February 18, 1938)

When the group of us walked in to see the President yesterday he greeted us as follows: 'Well, this is a new kind of meeting to take place in my office. This seems to be a case where the pupils are going to tell Teacher.'

After leaving the meeting Dr. Lubin said that he considered what we had accomplished with the President was absolutely revolutionary in Government procedure, as this was the first time he knew of four Departments getting together, agreeing on a program and then presenting it to the President.

It took the President sometime to warm up to having us give him this program. He seemed to resent it.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 17, 1938

TO The Secretary

FROM Mr. Taylor

(Memo. of two days' activities)

Yesterday when the French Financial Attaché called he had in mind two things; one, renewed rumors originating on the other side regarding the possibility of further devaluation of the dollar, and two, the manner in which the devaluation announcement would affect the Treasury's statement, with particular reference as to whether all transactions will immediately be reflected as individual items, or whether the Stabilization Fund would still intervene on occasion. After giving him the obvious answer to the first question, I told him that whereas in general the individual items would make their appearance regularly, that that did not necessarily mean that the Stabilization Fund would be completely inactive, or that on occasion we might not find it desirable to handle certain items through the Fund so that the final movements would have the indicated effect. But that it would not be always possible to follow the day to day movements by watching the items on the Treasury Statement. As you know, Archie has had several similar questions from the Federal Reserve Bank in New York as well as from other people, and the answer which I gave Beaulieu conforms to his and my understanding of the answer that you gave to a similar question in your Press Conference today, as well as how we both think the matter should be handled.

The most important other business of <sup>yesterday</sup> today and this morning was the question of opening up the R.F.C. and the possibility of broadening its

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powers so as to take care of any additional types of self-liquidating projects which might prove to be desirable. I gathered from my conversation with Jesse Jones that the President felt that it is desirable to make this move. I share this point of view and feel that the moves already taken combined with this move will remove a major portion of the deflationary psychology which now exists. I also believe that opening up the R.F.C. will forestall a great many other suggestions which would mean new agencies, new activities, etc.

W.L.

Excerpt from Mr. Oliphant's memo of February 17, 1938  
to the Secretary:

REORGANIZATION

Genesee Valley Gas Company, Inc. Mr. Landis, attorney for the debtor, and Mr. Kline, attorney for the first lien bondholders, are considering the tentative plan of reorganization which was submitted to them at the meeting at the SEC last Friday and are to let the SEC know their reactions to it. In the meantime Mr. Smith of the SEC is sending Mr. Maltbie of the New York State Public Service Commission a copy of the proposed plan and will get his criticisms and suggestions of it over the telephone.

February 17, 1938.  
12:50 p.m.

Coakren: Bondet called on me.

W.C. Jr: Yes.

C: Said he had just come from London today.

W.C. Jr: Yes.

C: Earlier in the week, he said he and his Ambassador over there, had talked with your opposite number.

W.C. Jr: Yes.

C: In the presence of Phillips and Waley.

W.C. Jr: Yes.

C: They had interested those three in the idea of opening up some tripartite conversation. The day after he got here, he talked with Marchandau.

W.C. Jr: Yes.

C: And he said that only Marchandau, Chautemps and Deblas know of this matter.

W.C. Jr: Yes.

C: But the Bank of France and the rest are not.

W.C. Jr: Uh-huh.

C: Now Marchandau wants a secret conversation with us tomorrow afternoon at five o'clock to place the question as to whether we would be interested in tripartite conversation on this proposition which they have in mind.

W.C. Jr: Well, what's the proposition?

C: Well, this is as much as would give to me.

W.C. Jr: Uh-huh.

C: That is that it would be a possibility of studying the stabilization of each of the three countries in some international moves. This would be a counter move toward stopping France from possibly going into exchange control. He didn't put it up

- 3 -

quite that specifically.

W.H.Jr:

Yes.

Q:

And I mean I'm not asking you, of course, for any decision now, but I did want to report his visit and the fact that they'd asked me to come over at five o'clock tomorrow evening, to put something up to us.

W.H.Jr:

Well, it's all right. You can go and listen. I say go and listen.

Q:

Yes. I just wanted to let you know because I was afraid you might be leaving town tomorrow afternoon.

W.H.Jr:

I am.

Q:

Well, then I'll report back, whatever is done.

W.H.Jr:

I'm going to leave with the President, tomorrow afternoon. We're going up to the country.

Q:

Good.

W.H.Jr:

And I would go and -

Q:

I can have the Ambassador also present, if desirable from our side.

W.H.Jr:

What's that?

Q:

I say, Monique said that they would like to have Bullitt also present tomorrow afternoon, if it is desirable from our side.

W.H.Jr:

Oh, no, I - Bullitt - of course the Ambassador, but I don't - frankly, don't like to have anything to do that Monique is back of - and I don't care if the French are listening on this phone, and they might just as well hear it.

Q:

That's just it. That's why I called you before I've taken it up with the Ambassador. He's up at the house. You could have been here, but I'm suspicious of the whole thing.

W.H.Jr:

Well you can tell the Ambassador of the conversation.

Q:

Yes.

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- W.H.Jr: Tell him what I said and I wouldn't dignify it by having the Ambassador go.
- Q: That's just it. It makes it purely official and it draws more attention and might be more embarrassing to him in the long run.
- W.H.Jr: And as I say, I'm taking it for granted that the French are listening to this conversation.
- Q: Good. All right.
- W.H.Jr: And I wouldn't dignify it. No. I know something about this already, and I can't say anything more than that.
- Q: That's what - I had an idea that you might, but I wanted to get it right across, what little he let out to me.
- W.H.Jr: Well, you can go and listen and I'd report it in a cable.
- Q: Report it in a cable.
- W.H.Jr: Yes.
- Q: Fine.
- W.H.Jr: And - just a minute. Archie Lochhead will be here.
- Q: Good.
- W.H.Jr: Archie will be here Saturday. You get off a cable Friday night and he'll have it the first thing Saturday morning.
- Q: Good. All right. I'll do it that way, but I just wanted to let you know what had come up.
- W.H.Jr: Well, I'm not going to get in a lather about this.
- Q: Well, I hadn't yet, but I wanted you to know.
- W.H.Jr: Well, I'm glad to know and - just a minute. Hello.
- Q: Hello.
- W.H.Jr: Just wait a minute.
- Q: Good.

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W.H.Jr: Well we'll sit and wait and see what happens.

C: Good. All right. I'll get off a telegram after I come back.

W.H.Jr: And - you see - I wish you would tell the Ambassador and explain to him how I feel about it.

C: Surely.

W.H.Jr: See?

C: All right.

W.H.Jr: And - you know - I can be reached in the country, but I think this thing, put it in a cable and I'll get it Saturday morning.

C: Yes.

W.H.Jr: See?

C: Fine.

W.H.Jr: Have you got it?

C: Yes, absolutely.

W.H.Jr: All right, then.

C: Fine. It's quite here today, no excitement.

W.H.Jr: Good. All right.

C: All right, sir.

W.H.Jr: Goodbye.

C: Goodbye.



JR

GRAY

Paris

Dated February 17, 1938

Rec 'd 2:22 p.m.

Secretary of State,  
Washington.

257, February 17, 6 p.m.

FROM COCHRAN.

Paris exchange market exceptionally quiet. After rate opened at 152.85 control gave some sterling at 95, 153.05, 10 and 20. Market dropped of its own self and Societe Generale came in evidently buying sterling for the control at 89. Bank of France statement as of February 10 showed no changes in gold or in advances to Government. Rentes and shares moving only slightly. Operators awaiting developments in international politics and French labor legislation.

BULLITT

SWS:CSB

REB

PLAIN

London

Dated February 17, 1938

Rec'd 3:35 p. m.

Secretary of State,  
Washington.

141, February 17, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

One. While the amount of business done on the dollar-sterling exchange has not been large the number of nervous inquiries about the dollar which have been received by all types of city financial houses from their continental associates has been very large. There is as yet no corresponding nervousness here for the City understands on the one hand that the flexibility between two rather wide gold points comes into the dollar-pound rate and on the other is not disposed to countenance scare ~~scare~~ to the effect that the slump in America will reach such proportions that a further devaluation will be found to be the easiest way out. But it is also true that the continent does not show in the course of its inquiries any sense of confidence in the stability of sterling. In fact an apprehension of currencies seem to be growing. Gold sovereigns and eagles continue to  
be

REH

2-#141, From London, Feb. 17, 7p.m.

be in demand by the continent and today's gold fixing was the largest since the gold scare of last June.

Two. The 98,000,000 pounds of extra net imports which increased the adverse balance of visible trade last year to 443,000,000 pounds were offset according to the Board of Trade's calculations published today by an increase of no less than 64,000,000 pounds in invisible exports - the net income from shipping services, overseas investments and bankers' commissions. The net deterioration in the final balance of current payments on the previous year is thus limited to 34,000,000 pounds and the actual size of the adverse balance - the deficit for 1936 being 18,000,000 pounds - is 52,000,000. The increase of 45,000,000 pounds in shipping income accounts for over 70% of the total "invisible" gain; and the estimate of the final deficit stands or falls by the Board's assessment of the effect of the rise in freights. Furthermore I am reliably informed that every effort was made by the Board to minimize the adverse balance. Even so the deficit which is the largest since the 51,000,000 pounds

REB

3-#141, From London, Feb. 17, 7p.m.

pounds of 1932 and the 104,000,000 pounds of 1931 sufficiently illustrates the strain which the rearmament program is placing on the financial system in the shape of large imports of raw materials. ~~new~~

JOHNSON

SMS

February 17, 1938.  
5:16 p.m.

W.H.Jr: Hello.

Operator: Secretary Wallace.

W.H.Jr: Thank you.

O: Go ahead.

W.H.Jr: Hello.

W.H.Jr: Hello.

W.H.Jr: Hello, Henry.

W: Yes.

W.H.Jr: Well I felt so good. I wanted to chin, that was all.

W: Well, my gosh, I feel just as good as you do.

W.H.Jr: Lubin said he thought that was a revolutionary procedure in the Government, since we've come to town.

W: (laughs)

W.H.Jr: I didn't know what was going to happen when the - after the way the President greeted us, but he walked up.

W: Yes, I don't know just when the transition took place, but it -

W.H.Jr: It took place, but I'm so happy for the country's sake. I -

W: That's exactly - that's exactly the point.

W.H.Jr: And I've got to a point that I think what's good for the country is - well it can't be exaggerated, and a couple more clarifying carefully prepared statements like this, we can change the whole psychology.

W: We've - we've got all the materials to do it, Henry, and we're - we're - I think morally culpible, if we don't do it.

W.H.Jr: Well I think we are, and I think it's the thing to do is first to sweat it out amongst ourselves and then present it to him.

- 0 -

- W: Now this - this stuff that Eccles is working on, suppose we handle that in the same way and let you take the chairmanship of that, when the time comes.
- H.B.Jr: Well I'd be more than pleased to, if I've got the physical abilities that's left.
- W: Yes.
- H.B.Jr: Right now, I'm shot, but four days from now maybe -
- W: Well, I - I think that - well as a matter of fact, I don't think we ought to tackle him again along this same line, for about two weeks anyway.
- H.B.Jr: Well I think that this - with this now, I think she'll roll.
- W: Yes.
- H.B.Jr: And I think that when they once get across that we can't put two and a half million people to work, that'll be the next thing, and I think you should say something when the un- when the two hundred and fifty million dollar bill passes. I think you should say something then.
- W: Yes.
- H.B.Jr: You know.
- W: Yes.
- H.B.Jr: And that would be next week, and that would be the next statement I would say, off hand, for next week, wouldn't you? For the passage of this un-employment bill.
- W: Yes.
- H.B.Jr: And - but I want to thank you for all the help because I really think it's a milestone.
- W: Well, any - any time there's a chance to rally around something like this, why I'm delighted at anything I can possibly - I can do.
- H.B.Jr: Yes. And - well, I feel so much better. Goodnight.
- W: Zeke is clearing with Gaston on that other point.

- 3 -

H.M.Jr: Fine. Well Gaston - I think he's still over there with Steve Early as far as I know.

W: I see.

H.M.Jr: That's where he is.

W: You - it's your - if you want -

H.M.Jr: No.

W: Bring it in to you.

H.M.Jr: Oh, well, all right, but if he gives it to Herbert, it's all right. The reason I took Herbert over there, you see he's an old shoe and he fits - the President likes him and it makes it easier, you see?

W: Sure.

H.M.Jr: Yes. Well thank you so much.

W: All right, Henry.

H.M.Jr: Goodbye.

February 18, 1938.

To: Mrs. Klotz

From: Mr. White

Attached is a copy of Agenda for discussion at conferences attended by Secretary Wallace and Mr. Ezekiel of the Department of Agriculture, Attorney General Cummings, Chairman Eccles and Mr. Currie of the Federal Reserve Board, Mr. Lubin of the Department of Labor, Mr. Taylor and Mr. White of the Treasury.

At the meeting on Tuesday, February 15th, only some of the topics were touched upon and then only briefly. The discussion was largely confined to the general problem as to the current state of business, the likelihood of an upturn in the spring, and the merits of preparing a program for action.

The Secretary wished to have a copy of this Agenda to take with him over the week-end.

The items listed are not, of course, recommendations agreed upon, but merely topics to be discussed.



Elements of Suggested Program of Action

- - -

- 1. Speeding - supplementary action to get actual construction started in large volume.
  - 2. Relieve - Establish a federal equipment corporation to provide prompt resumption of equipment construction, plus other measures to reorganize and rehabilitate as recommended by special railway committee.
  - 3. Toll projects - Establish a Federal Toll Authority to finance and build toll facilities where needed and justified; including bridges, tunnels (urban and under rivers), roads, etc.
  - 4. Conservation of human resources - Initiate a broad program of work to conserve and rehabilitate human resources of farmers, seamen, unemployed, and the general public.
  - 5. Amend Social Security to work more rapidly by speeding up and liberalizing payments under old-age and dependency provisions.
  - 6. Amend F.P.A. program to check the decline and to fill in the gaps until actual disbursements under the other programs get fully under way.
  - 7. Action is needed to provide adequate credit now and later on capital for future business expansion, for small concerns and those hit by the recession. This problem is being cared for by efforts of several special committees, of F.P.C. and of F.R.C., so it is only referred to here.
- Priority items:

1938

1. Increase F.P.A. and Rural Rehabilitation
2. Provide subsidy to private housing and extend public housing
3. Establish Federal Railroad Equipment Corporation and secure authority to purchase non-cumulative preferred stock of railroads. Begin operations.
4. Establish Federal Toll Authority
5. Increase health and hospital expenditures
6. Amend Social Security Act.

1939

1. Diminish F.P.A.
2. Diminish subsidy to private housing
3. Increase Equipment Corporation's operations
4. Begin Federal Toll Authority operations
5. Increase old-age and invalidity payments
6. Start education grant expenditures
7. Increase health and hospital expenditures.

## Outline of Suggested Program

- - -

## I. Housing -

1. W.P.A. labor to provide utilities and roads on public property adjacent to all new construction.
2. Enlarge U.S.Housing; speed up operations by suspending 10% contribution; authorize direct construction through subsidiary construction corporation (to include building organization developed by W.S.A.); authorize use of available W.S.A. land and W.P.A. labor by this corporation.
- 3 (a) Establish two or more large-scale construction corporations with Federal money, to test practicability of reducing costs by mass-production methods in housing above the subsidized low-cost type; and/or
- 3 (b) Provide a federal contribution (25 to 50%) to the capital of private construction corporations to engage in mass-production of houses, on condition such corporations show:
  - (1) They will limit the return on the private capital to 8%.
  - (2) They will operate with annual-wage agreements for part of their labor, including at least carpenters, bricklayers, and common labor.
  - (3) They will build continuously over a succession of housing units, planned in advance, for a period of at least 18 months.
  - (4) Other appropriate provisions to insure mass-production purchasing and erection.

WHAT WPA CAN DO IMMEDIATELY

WPA is a flexible program. Its projects are operated by check-account and, therefore, it does not need to delay to advertise for bids and award contracts before putting men to work. In one month, November 1935, WPA put to work nearly 1,500,000 persons.

WPA is operating 33,000 separate projects now. Every month some of these projects are completed and new ones started. A large share of these projects are of the type that can be completed in a short time or in a long time, depending upon how long it is desired to keep the people at work on them. A considerable number of workers can be put to work almost immediately finishing present projects ahead of schedule.

WPA is now employing about 2,000,000 workers. With the projects now approved and with new projects coming in at the present rate, it would be possible to increase employment on WPA by about 1,000,000, making total employment 3,000,000, within a period of six weeks to two months. This would result in an increase of approximately \$65 million per month over the present rate of WPA expenditures; that is, with a total employment of 3,000,000 the WPA would be expending about \$200 million per month. Most of this, of course, would go directly to increase consumers' purchasing power.

About 80 percent of WPA funds are expended on construction projects. The balance goes into non-construction work such as the production of clothing for the unemployed, research work, the theatre and art programs, and into other white-collar projects.

## Outline of Suggested Program

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## 7. Social Security.

## Old Age and Invalidism.

1. Advance the date of payment to 1939 instead of 1942.
2. Change formula resulting in increase in average benefits from \$12.50 to \$17.50.
3. Provide benefits for surviving widows and dependent wives (50 per cent supplement)

One, two, and three would result in increased expenditures in 1939 of around \$250 million.

4. Payment of invalidity pensions. This would call for about \$150 million in 1939.

Total under Old Age and Invalidity \$400 million.

## Outline of Suggested Program

- -

III.-sub-5. Establish a broad program of federal support for health and education.

Health

1. Increased expenditures for maternal, child and general public health work provided for in Titles 5 and 6 of the Social Security Act should amount to about 40 million in 1939.
2. Federal grants-in-aid to assist states to provide general medical care to needy poor and to others unable to obtain medical care (otherwise self-sustaining). Immediate 50-100 million. Ultimate 100 million to 150 million. This should be conditioned on an equal sum from state and local bodies.

Points 1 and 2 with state and local 1938-39 - 150 - 250 million;  
1939-40 - 250 million - 350 million.

3. Hospitals. Deficiency of hospital beds now 400,000. At 3,000 a bed this amounts to \$1,200,000,000. In addition, special hospitals for the chronic sick need 1600 million more. In addition, 250 million could be spent on modernization and needed out-patient clinics.

Fiscal 1939 with state and local - 200 million.

Combined program 1938-39 - 350 - 450 million; 1939-40 - 450 - 550 million.

Federal above 1938-39 - 200 - 250 million

1939-40 - 250 - 300 million

Increasing interest in public health indicated by rapid spread of newly voluntary group hospital insurance from 300,000 persons in April 1937 to a million in December 1937.

Education

The Advisory Committee on Education, after over a year's study, will submit its report to the President shortly. It calls for a program of increased federal aid to education, largely through grants to states. They are recommended to start at about 70 million more in the 1939-40 fiscal year, and increasing gradually up to about 200 million in the 1944-45 fiscal year. These carefully developed recommendations might be endorsed as an appropriate part of the long-time program, although their immediate magnitude is not great.

Expenditures on health and education provide increased employment in service occupations, contribute to the welfare and productivity of the general public, yet do not involve any competition with private business. Viewed from the national interest as a whole, they are truly self-liquidating.

## Outline of Suggested Program

- - -

## IV. Conservation of human resources.

- (1) Expand Rural Rehabilitation work, to enlarge lending program to 250 million a year.
- (2) Establish a parallel Miners' Rehabilitation Administration--expending up to        millions a year.
- (3) Authorize W.P.A. to establish a special service to retrain unemployed workers for new industries, and to support them during such retraining.
- (4) Authorize W.P.A. in cooperation with the Federal Vocational Rehabilitation service, to expend funds for physical rehabilitation of unemployed.  
(Operations for hernia, etc.)
- (5) Establish a broad program of federal support for health and education.

February 18, 1938

This is a set of the material we gave the President this morning before his press conference and which he used.

FOR THE PRESS

IMMEDIATE RELEASE

FEBRUARY 18, 1936

STATEMENT READ TO NEWSPAPERMEN WHO ATTEND THE PRESIDENT'S  
CONFERENCE WITH THE PRESS, FRIDAY, FEBRUARY 18:

(Statement in quotes)

This statement was prepared at the President's request by:

Henry Morgenthau, Jr.  
Secretary of the Treasury

Henry A. Wallace,  
Secretary of Agriculture

Frances Perkins,  
Secretary of Labor

Marriner Eccles,  
Chairman of the Board of Governors  
of the Federal Reserve System

and economists of various executive departments.



February 16, 1938

This Administration has from the beginning pursued a policy designed to promote full employment of our human and material resources. That continues to be our policy. The productive power of our workers and our resources, if fully utilized, can provide and maintain a national income far above any levels we have yet reached.

An important factor that determines whether we shall succeed or be blocked in our endeavor to attain full employment and a high level of income is the behavior of prices. In this connection careful attention must be given to: (1) the relations of the prices of various groups of commodities to each other; (2) the relations between commodity price levels and the levels of debt burdens and costs; (3) the direction and rate of movement of the general price level. To further its broad objective the Administration has, therefore, in its agricultural, industrial, and monetary programs necessarily been concerned both with the relation of the prices of groups of specific commodities to each other and with the movement of the general price level.

The measures employed at any given time to further this policy must fit the needs of that time. A year ago there was ground for concern that a too rapid rise in the prices of some commodities was encouraging a speculative boom. During

the past six months, on the other hand, the general price level and industrial activity have been declining. Government policy must be directed to reversing this deflationary trend.

This does not mean that all prices should advance, nor that the rise should be rapid. Prices of different groups of products must be brought into balanced relations to one other. Some prices and some costs are still too high to promote that balanced relationship between prices that is necessary for sustained recovery. Continued high prices of many of the commodities not subject to highly competitive market forces intensifies the downward pressure on all other prices. Those industries that have maintained prices and curtailed output should seek the restoration of profits through increased rather than through restricted output.

The prices of some items are still at the highest levels reached in 1937; some are even higher than in 1929. When high prices sharply curtail sales there is real danger. This is shown by our recent experience with housing. A year ago there was a serious shortage. We had unused productive resources ample to overcome the shortage. Yet all the major elements in housing costs advanced so sharply by the Spring of 1937 as to kill a promising expansion of activity in an industry whose restoration is vital to continued recovery.

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For industries, such as agriculture, that operate at a high level of capacity even when business activity is at low levels, the restoration of profits must come primarily through higher prices. Higher prices in such industries and increased output in other industries will, by increasing profits, encourage new investment in replacement and expansion of equipment. This is necessary to full recovery.

The average family will benefit from the business recovery which a balanced price structure will foster. Increased employment and more continuous income should wash more than offset any increase in the cost of living. Recently wholesale prices have declined markedly, yet that decline has been reflected in the cost of living only to a very slight degree. A moderate rise in wholesale prices at this time should only slightly affect living costs. Income of most families will increase while the cost of what the housewife buys should show little change. The average family will enjoy a higher standard of living. /s

It is clear that in the present situation a moderate rise in the general price level is desirable, and that this rise need not and should not extend to all prices. The rise should take place in and must be mainly confined to classes of commodities whose prices are too low. These include most of those raw materials and finished products which are produced and sold under highly competitive conditions. Such rise must

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not be so sharp or continue so long as to lead to a repetition of the unhealthy speculative conditions of a year ago. That sharp rise in prices encouraged speculative inventory buying which, combined with the decline in housing construction, laid much of the ground for the present recession. We must do everything we can to prevent this from happening again.

Our program seeks a balanced system of prices such as will promote a balanced expansion in production. Our goal is a constantly increasing national income through increasing production and employment. This is the way to increase the real income of consumers.

This is not a policy of restriction; it is a policy of abundance.

Our agricultural, industrial, housing and monetary programs have been and will be directed toward this end.

Topic

Answer

What is to be done?

The problem is being attacked on a good many fronts. Many elements in our recovery program have already been directed toward a better balance of prices. The new farm bill will help and so will the new housing program when it gets well under way. Our expanding relief program is also helpful.

Inflation?

No. Our policy is to help restore balance in the price structure.

Further devaluation?

No.

Was the gold action of Monday a part of the plan to increase prices?

That was one of the considerations.

Did your April price statement cause the recession?

It seems to me that is a good deal like saying that the man who warns you to slow down at the curve is responsible if you get hurt. I think price dislocations had a good deal to do with the recession. Price maladjustments and speculative buying had been developing for some time before I issued my warning that some prices were going too high. The real question is whether the warning should not have been made even sooner.

Credit policy.

We expect to continue to maintain easy credit conditions. The policies of the Treasury and the Federal Reserve Board are definitely along that line.

Topic

Answer

Are you aiming at  
1926 price levels?

It is not a question of restoring the level of any particular year. We are seeking a balanced relationship among different groups of prices which will promote full employment.

Are labor costs too  
high?

The real answer to lower costs of production is to be found in increased volume rather than in lower wages. Despite the fact that earnings per hour in manufacturing were 24 percent higher in 1936 than in 1932, labor costs per unit of output were only 6 percent higher. This was due in part to the fact that the productivity of labor increased, but primarily was due to the fact that labor can be used far more efficiently in mass production industries when they operate at high volume. This is further demonstrated by the fact that in the last five months, despite the fact that wages have not increased, shrinking volume forced up labor costs per unit of output as much as they had risen between 1932 and 1937.

I favor all efforts to stabilize employment that will make it possible to reduce the costly insurance of a high hourly rate on a small number of hours of irregular work, and substitute assured jobs that will produce a much higher annual income.

Did wages rise too  
fast last spring?

There were very few wage increases from 1934 until October 1936. In the next nine months average hourly earnings in manufacturing industries rose from about 57 cents to about 65 cents. We know that many firms were in a position to increase wage rates in 1935 and 1936. I do not think it was healthy for business to have so long postponed wage increases that they had to absorb in a single lump of this size.

TopicTopic

I notice that during downswings people speak of the need for flexible wages and feel that wages should fall. During recovery they seem to forget that wages should also be flexible and should rise. They delay wage increases to the last possible moment, and then at the peak of a boom grant wage increases that are small when measured against current profits but at the same time difficult to maintain when volume falls off. If wage increases were not so long delayed but were made as business improved business managers would have a longer period of activity in which to adjust themselves to wage changes.

## Coal price fixing.

Prices of bituminous coal are not high. Cut-throat competition has always dominated this industry, and has made it impossible for the industry to pay decent wages and give a profit. The purpose of the Guffey Act is to help establish the bituminous coal industry on a sound basis. Prices must not be set so high as to transfer business from efficient mines to competitive fuels, nor to give monopoly profits to coal producers.

## New farm bill.

Farm prices are glaring examples of prices that are now too low. The farm bill provides means for preventing extreme declines in farm prices and for maintaining income of farmers in years of excessively high yields. At the same time by carrying over excessive supplies from years of large crops to years of short crops it will tend to prevent such rapid rises in farm prices due to short crops as occurred in the winter of 1936-37 and added to speculation at that time.

<u>Topic</u>	<u>Answer</u>
Effect on exports.	Foreign trade always improves when business activity improves. Any measure which helps bring about recovery in the United States also helps to bring about world recovery and serves to increase both our purchases from foreign countries and our sales to foreign countries.
Are sugar prices too low?	No. The Sugar Act of 1937 established our sugar policy and there is no reason to change it.



February 18, 1938.  
12:06 p.m.

H.M.Jr:

Listen, that happened yesterday. The President asked me the question, "Were we setting up a reserve, against the one-third increase that takes place in Baby Bonds every ten years." I told him I didn't think so.

Wayne C.  
Taylor:

Yes, we do.

H.M.Jr:

Well, you might have a little memo for me, when I get back.

T:

All right.

H.M.Jr:

Will you please?

T:

Right.

H.M.Jr:

I thank you.

T:

All right.

February 18, 1938.  
12:41 p.m.

Speaker: Yes, sir.

H.M.Jr: Well how are things coming now?

K: Oh, quiet.

P.H.Jr: What effect did the President's statement have?

K: Well Mr. Secretary, I'm sorry I had Mr. Oppen here for the last hour and we've discussed legal matters, but I haven't had a call from anybody.

H.M.Jr: Oh! Well -

K: Will you be around for a few minutes?

S.M.Jr: No. No. It's all right, I've talked to Archie and - you - I see what's happened, but I just thought I'd -

K: Yes. Well I'm awfully sorry.

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

K: He's here at my desk and we have two legal matters of some - and it's taken over an hour now.

H.M.Jr: Judge Oppen?

K: Yes. Judge Oppen

H.M.Jr: Let me talk to the Judge.

K: Right here.

Judge Oppen: Hello.

H.M.Jr: Hello, Judge.

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

H.M.Jr: I haven't seen you since you've been confirmed, baptized and everything else.

K: No, I meant to come in and again express my appreciation to you, but I -

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

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Q: I knew you were terribly tied up and I thought I'd wait a more favorable opportunity.

H.M.Jr: All right. Well, I'll see you next week.

K: Yes. I hope you have a very fine week end.

H.M.Jr: Thank you. Goodbye.

K: Goodbye.

February 18, 1938.

MEMORANDUM FOR THE SECRETARY

Secretary Morgenthau and those who had assisted him on the price study went to the Executive Offices at 3:15 P.M., Thursday, February 17th, for a conference with the President after the Cabinet Meeting. We waited until about 3:50 P.M. before going in to see the President.

Those present were:

Secretary Morgenthau,  
Secretary Wallace,  
Chairman Eccles,  
Dr. Black and Dr. Ezekiel of Agriculture,  
Dr. Lubin and Mr. Hinrichs of Labor,  
Dr. Goldenweiser and Dr. Currie of Federal Reserve; and the following from the Treasury: Assistant Secretary Taylor, Messrs. Haas, White, Daggitt and Gaston.

The President opened the conference by saying: "This is an unusual sort of meeting; the pupils have come to instruct the teacher." Secretary Morgenthau said: "If you will pardon me, Mr. President, I don't think it is quite that. You will recall that you asked me to prepare some material for you on the price situation and the Administration's price policy. So, I called in all these people so that we could get together something on which we all would be united. I think they have done a first-class job.

- 2 -

I think when you read this you will find it is an excellent statement of your position and I think it would be very helpful indeed in the present business situation if it is issued." The President then said, looking around the group: "Where is Herbert, is Herbert here?" After Mr. Gaston had responded, he said: "As a newspaper man, Herbert, what do you think about issuing a formal statement like this?" Mr. Gaston replied: "I think it is a fine statement, Mr. President, and I think it ought to be issued in order to get the best results. It was our thought that you would also wish to answer questions in the conference and at that time you could supplement the statement, explaining your position in simpler words." The President said: "Well, I don't know about a formal statement. That is a very unusual thing. I don't often issue Presidential statements unless it is on a very unusual occasion." Secretary Morgenthau then suggested that the President could form a better opinion after reading the statement, which the President proceeded to do.

The President asked questions about several statements as he read them and explanations were given by various persons in the group, particularly by Secretary Wallace and Chairman Eccles, who talked at some length. The President inserted a few minor corrections to clarify the meaning and resumed the discussion about the usefulness of issuing such a statement. Both Eccles and Wallace warmly endorsed the idea of issuing the statement and the President finally agreed that he would read the statement at the Friday press conference, but indicated that

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he would seek some way to qualify it so as not to make it a direct statement by the President.

Dr. Lubin explained the four price charts which had been selected by the group and explained them to the President. The President showed more enthusiasm about them than he did about the statement itself. He seemed especially interested in the one which showed the rigidity of building material prices, probably because it served to justify his statement of April 2, 1937.

The President also read a series of questions and answers which had been prepared by the group. He objected to one of them as not being a sufficient answer. The President thought the prepared statement was too technical in its language to be widely understood. He said: "If I should call in Pat, or one of the other boys from outside here, do you think they could make anything out of it?" Mr. Taylor replied that he thought any man at the head of a business would understand it readily and that if he couldn't understand it he oughtn't to be the head of a business. The President replied that he thought there were a good many heads of businesses who wouldn't understand it and probably they shouldn't be the heads of businesses. The President thought there ought to be something more definite about the cost of living, particularly addressed to the housewife. The general line of it ought to be that while the housewife might have to pay a little more for the things she buys, her husband's increased earning power in a rising price level should more than make it up. It was agreed that the group would insert a paragraph along these lines.

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As the conference broke up the President asked Gaston to see Steve Early about having the statement mimeographed and about the form it should take and also about whether the questions and answers should be mimeographed. Secretary Morgenthau told the President that the answers had not been given the same careful preparation as the statement and he advised against mimeographing or putting out the answers in the form in which they then were. Following the conference the President was much more cordial toward the idea than he had been at the start. Gaston went to Steve Early's office directly from the President's office with Dr. Lubin and explained the thing to Early. Early called in a stenographer and dictated a form of release which would state that the statement was read by the President at the press conference on Friday and that it was prepared for the President by Secretary Morgenthau and others, naming the heads of the agencies which had cooperated. It was agreed with Early that a revised copy of the statement would be delivered to Hassett at nine o'clock Friday morning, together with a revised copy of the answers and with enough photostat copies of each of the four charts to distribute a set of charts with each mimeograph of the statement.

Messrs. Lubin, White, Daggitt, Ezekiel, Currie and Gaston worked Thursday evening revising the statement and the questions and answers and had 250 photolith copies of the charts prepared in the Treasury. Gaston delivered to Hassett at nine o'clock Friday morning the revised statement, together with the copy for mimeographing, one copy of the revised questions and answers and two copies of an explanation of the

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charts which had been prepared by Daggitt.



NATIONAL RESOURCES BOARD  
INTERIOR BUILDING  
WASHINGTON

209

This is very confidential  
and belongs to F.A.D. - I  
expresses only his personal  
views - not those of the  
Advisory Com of the Resources  
Board. -

F.A.D. - 2/18/38

THE RAILWAY SITUATION

It is pretty generally agreed that the railway situation is serious. Also, it is evident that a majority of the companies must have an advance in rates or go into receivers' hands, yet many believe that an increase of 10% or 15% in rates would do more harm than good by driving away business.

The fundamental trouble with many of the roads is their top-heavy financial structure which can only be cured by drastic methods. Receiverships are too slow in operation and while costly in time as well as from other points of view, have frequently demonstrated that they do not reorganize the business of transportation on a basis that has really survived the test of time. Hence this proposal does not seek to reorganize legalistically in order to restore the "status quo ante", but in order to put the industry on a sound and healthy basis which will survive the test of time.

Among the reforms which have long been considered as desirable, if we are to preserve the citizen ownership and private management of our railways, there are the following:

1. The grouping of the railways into 18 to 20 systems which shall be operated by privately owned corporations under governmental supervision.
2. Putting the financial structure of these railways into such shape that they can survive depression years without financial collapse and receivership.

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3. The grouping of railways should make possible economies such as eliminating the duplication of train service, excessive terminal costs at important geographic centers, etc. It should also make it easier to introduce a far simpler rate structure which will be more convenient to the public as well as the railways themselves.

4. A better coordination of railway transportation with other and now competing transportation agencies, e.g., highway; internal waterways; Great Lakes and coastwise transportation; pipe-lines, and airways.

5. A reorganization of the Interstate Commerce Commission so as to simplify its methods and separate its administrative from its judicial functions. The slowness of arriving at decisions, sometimes very costly to carriers and industry, indicates that those entrusted with these decisions are greatly overburdened; furthermore, the supervisory duties over the operations of carriers which they may be clearly compelled by law to carry out, need not be duplicated by the Interstate Commerce Commission by such costly bureaus as those of Boiler and Signal Inspection. Indeed, why stop there? Why not inspect track and track work, and a hundred other details of operation and maintenance? The duty of the carrier is to live up to the law and the instructions of the I. C. C., and nothing is gained by duplicating detailed supervision.

6. The Government set up the Interstate Commerce Commission some fifty years ago to do away with the evils of destructive competition, and while we have travelled a long way since then, the basic problem is still unsolved, and we still rely very considerably first on the

competition between the railways or between the railways and other competitive forms of transportation, or upon administration rulings of the I.C.C.; on Acts of Congress (vide the long and short haul clause); on costly public works, for example, the Panama Canal, the canalization of the Ohio, federal operation of barges on the lower Mississippi, etc. Should we not study and coordinate our thinking?

Assuming that these reforms and perhaps others are desirable, how shall we proceed to make them effective?

I. In order to carry forward the first and second suggestions, we might, through the agency of the Reconstruction Finance Corporation, working in harmony with the Interstate Commerce Commission, proceed as follows:

(a) Offer the railways and their bondholders in lieu of their prior lien, main line and branch line bonds, and such other of their higher rated bonds or debentures - bonds to be known as the A, B & C System, "consolidated debt" interest at 3% guaranteed by the Federal Government. The condition of this bargain would be that at least 75% of each of the bond issues would have to be turned into the Government and held by the Federal Government thus making these bonds collateral trust bonds, guaranteed as to interest by the Government and amortized in 50 years.

(b) In view of the fact that many railway companies have junior bonds, debentures and notes not rateable as prior liens, the R.F.C., with the consent and approval of the I.C.C. and the Secretary of the Treasury, might very properly bargain for the purchase of the junior

obligations of the carriers, paying only the fair cash value of these securities and using as currency in payment therefor the consolidated debt bonds above referred to.

II. (a) Other conditions might properly be required, e.g., that the new "consolidated debt" bonds would have to be amortized in 50 years by application of sinking fund, depletion or depreciation allowances. The R. F. C. might very properly be given discretionary power (with the approval of the Secretary of the Treasury and the Interstate Commerce Commission) to make advances to the carriers for authorized betterments and improvements, a 1st preferred 4% stock which the carrier might be given the authority of retiring at par at any time on suitable notice. (This procedure is similar to that used in baling out the banks in 1933).

(b) As the purpose of these proposals is to reduce fixed charges and scale down the capital structure of our railway plant, it is suggested that the issuance of added capital or the sale of securities of any kind should be more carefully guarded against than heretofore.

(c) The Interstate Commerce Commission or the R.F.C. should have representation of the Boards of Directors or Executive Committees of these carriers.

III. As any considerable economies can not be effected without reducing the number of employees, suitable retirement allowances must be granted, based on length of service and wages received prior to retirement. At the same time, it is to be expected that economies introduced will permit lower rates and thereby increase business and permit reemployment of competent men.

February 18, 1938

Jesse Jones was here at 8:30 a. m. plus Taylor plus Bell. The purpose of the meeting was for me to O. K. the President's writing Jones a letter which would give back to R. F. C. full authority to make loans. The second paragraph was to approve a plan for Jones to go to Congress to make self-liquidating loans.

I told the crowd that I disapproved the second idea because I wanted to wait for a week or so and see what happened and I thought it was a great mistake for R. F. C. to subject itself to this new pressure. Jones said that after thinking it over he had come to the same conclusion, so we wrote a letter to the President approving the first paragraph.

It seems to me distinctly worth while to wait for a week or ten days and see the effect of what we have done this week. If Jones was given approval to make self-liquidating projects, Heavens only knows what Jimmie Roosevelt and his gang would put through. I also pointed that out to Mr. Jones.

Mr. Jones made one very humorous remark. He said with the President and myself leaving town this afternoon, he thought he would have a good opportunity to hold a press conference and get some attention.

THE WHITE HOUSE  
WASHINGTON

February 17, 1948

Dear Jesse:

While the modifications we have heretofore made in your lending authority since my letter to you of October 18th, permit emergency loans of various character, it is my wish that you make credit available to all deserving borrowers to which you are authorized to lend, especially loans that will maintain or increase employment.

It is also my wish that you ask Congress for authority to make self-liquidating loans, and such other loans as may be necessary to promote the economic stability of the country when credit at prevailing rates for the character of loan applied for is not otherwise available.

Very sincerely yours,

Mr. Jesse H. Jones  
Chairman  
Reconstruction Finance Corporation  
Washington, D. C.

February 13, 1938

Dear Jesse:

While the modifications we have heretofore made in your lending authority since my letter to you of October 18th permit emergency loans of various character, it is my wish that you make credit available to all deserving borrowers to which you are authorized to lend, especially loans that will maintain or increase employment.

Very sincerely yours,

Mr. Jesse Jones,  
Chairman,  
Reconstruction Finance Corporation,  
Washington, D. C.



## GROUP MEETING

February 18, 1938.  
9:30 A. M.

Present: Mr. Oliphant  
Mr. Magill  
Mr. Gaston  
Mr. W. N. Thompson  
Mr. Bell  
Mr. Lochhead  
Mr. Gibbons  
Mr. Upham

H.M.Jr: Who is going to be here Saturday?

(Thompson, Gibbons, Upham, Lochhead, Magill,  
Oliphant.)

H.M.Jr: Who will be here Monday?

(Thompson, Gibbons, and Magill.)

H.M.Jr: Last night at about seven o'clock Jimmy Roosevelt called up and said the Collector of Internal Revenue from Massachusetts is going to be promoted and made a judge and there will be a vacancy, and he wanted to talk to me about it, and I said you were handling those things for me; also the Collector of Customs from Massachusetts. I also said that you were handling that. So if you will get in touch with Mr. James Roosevelt I would appreciate it.

Gibbons: Jimmy has been wanting me to move on the Collector of Customs, but on that situation up there, I thought he'd better be careful. That's the story.

H.M.Jr: Get me a moderately honest person.

Gibbons: I think this fellow - Ireys man seems to think he's all right. He has never had over two thousand dollars income.

H.M.Jr: That he has reported?

Gaston: What is his net worth?

H.M.Jr: All right, that's that.

- 2 -

Sumner Welles, acting for the Secretary of State, had one most important thing yesterday to bring up, and that, it seems, is the Republic of Nicaragua owes us about a dollar tax claim and is willing to settle for seventy thousand, and it's nip and tuck whether Nicaragua can last unless you settle for seventy thousand. If we take the seventy thousand then she can come under the Johnson Act.

- Magill: If Mr. Welles keeps up with what goes on in this town he would know that that stands in his way. He would know that what stands in his way is the Joint Commission on Internal Taxation. In other words, he has got to get a bill.
- H.M.Jr: I told him that Mr. Magill was handling Nicaragua third baskets.
- Magill: We put on a grand show for the sake of the State Department, led by Mr. Wenchel, and the Congressmen turned it down cold, and said if we were going to do it for Nicaragua we had to have a bill.
- H.M.Jr: Who's representing Nicaragua in Washington?
- Magill: That, I don't know, being just a country boy.
- H.M.Jr: It might be interesting to find out, Mr. Magill. Mr. Wenchel might know. They never appeared before me, so I don't know.
- Taylor: They didn't have any legitimate claim against them in the first place.
- H.M.Jr: And the other thing, I have seldom seen the President so enthusiastic about anything the Treasury has done as when I told him about the Los Angeles plan - very enthusiastic. He said that is the best thing he has heard, etc., and so on. - First time I have really heard him spark. It's about time we did something.
- Magill: Let's start the one in Texas pretty soon.
- Gaston: The matter before the Military Affairs Committee - Hester is working on that and he hoped to arrange it so that you won't have to appear at all, if that is satisfactory to you.

H.M.Jr: I don't want to go.

Gaston: He thinks he can arrange it so you won't have to go today.

Bell: So far as Austria is concerned, Logan is having a subcommittee and they have to see Logan today.

H.M.Jr: I don't know whether I will be back Monday because the President is forecasting the heaviest snow storm in Dutchess County in history, so we all expect to be snowed in.

Magill, you were wonderful. For the first time the Republicans are to be allowed to be present to consider the tax bill. It looks as if notwithstanding Jesse Jones' violent efforts that the thing may get reported out of the House one of these days. After spirited discussion on the tax on cotton futures and its affect on farmers and a tax on matches, and having gotten those two subjects in hand, they feel the bill can see the light of day.

Upham: Knocking off the tax on matches, his seven million dollars is an offset to the tax on furs, and they feel those two things balance, and they feel you are in favor of knocking off the tax on furs.

Magill: That's a fact.

Gaston: Bob Allen represented you in that article. Their column said that the tax on furs was going to be knocked off so that Mrs. Gottrocks and Mrs. Morgenthau could go to the opera tax free.

H.M.Jr: Yes, I saw that. Mrs. Morgenthau was away and I made sure the paper was not in the room.

Well, I am glad they are going to take care of the fur people. What else?

Magill: That's all. They made various concessions on closely held corporations.

H.M.Jr: How are they going to make up the seven million dollars on matches?

Magill: That's where they are in the hole.

H.M.Jr: What makes them think I am interested in furs?

Magill: Something you said in the conference with Doughton.  
That's all.

H.M.Jr: Any other good stories?

Magill: Well, I could think up some, given a little time.  
I think that's enough.

Oliphant: That Mr. Harrison, of Lafayette, interested  
in a group of private dealers, telegraphed me  
today, wondering at what time next week you had  
in mind seeing him.

H.M.Jr: What would he do - what would that be - why should  
I see him?

Oliphant: He has been talking to General Wood.

H.M.Jr: Do you think I should take the time?

Oliphant: Well, I think you would be very much interested  
since it avoids public participation.

H.M.Jr: Why do they want to see the Secretary of the  
Treasury?

Oliphant: Do you wanted Ed to see him and digest it, and  
give you a report?

H.M.Jr: I think so. I tell you, I am so awfully down  
on General Wood that if that's the thing, I think  
he's a four-flusher of the worse kind.

Oliphant: It's not his idea; they were consulting me merely  
on collective buying and materials.

H.M.Jr: If he wants to drop in, say next Thursday at  
three o'clock.

Oliphant: Yes.

H.M.Jr: Anything else?

Oliphant: No.

H.M.Jr: Herbert?

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- Gaston: Nothing else.
- Gibbons: Collector Cohn - I talked to Dr. Alexander. He said if he were the President he would call in the Junior Senator down there, Russell, and get him to submit another name. He said that Cohn was absolutely reactionary.
- H.M.Jr: Tell that to McIntyre, will you?
- Gibbons: Yes, and I took the Knoke thing over to Mac and he asked me to leave it until he talked to the President.
- H.M.Jr: Talk to McIntyre. If we can work it this way-how should I know whether Collector Cohn .....
- Gibbons: It's politics, absolutely.
- Did you see the speech "Jefty" O'Connor delivered on you and the Vice President?
- H.M.Jr: It came to the house and I did not have time to read it.
- Gibbons: It isn't worth reading.
- H.M.Jr: I gather that he thinks talking about the Vice President and myself will help him.
- Gibbons: The silliest thing I ever read.
- Gaston: Reminds me that Marshall Diggs told me about a dinner to be held here and other dinners throughout the country and all the National Bank Districts next Friday - on the seventy-fifth anniversary of the Comptroller of the Currency, and he talked to me about a speech that you were to make at the dinner here, and they wanted to make records of it to be sent around the country to be played on radio stations.
- H.M.Jr: What kind of music - hearts and flowers.
- Gaston: I'm surprised you bring a thing like that up.
- H.M.Jr: Could you give Mr. Upham, who is coming up Monday and Tuesday with the Chief Examiner - give me a little something to let me know - I believe it has been resting in your lap for a week or so -

just what my legal position is in relation to the office of the Comptroller.

Oliphant: Wayne has had that.

H.M.Jr: I'm sorry; I knew it was somebody - I got my laps mixed up.

Will you bring that up?

Upham: Surely.

Taylor: I have that, and a picture. I am an Indian giver, because I want that back.

H.M.Jr: Anybody that has anything to do with banks, give it to Dr. Upham; he'll bring it along.

Upham: I'll forgive you.

H.M.Jr: You are a Doctor, aren't you?

Upham: Not to you.

H.M.Jr: Everybody at the meeting yesterday was a Doctor except Wayne and me.

Taylor: We have this letter marked "For Taylor, Oliphant, Upham: This letter does not give me what I want. Please talk to me." It's from Jerome Frank.

H.M.Jr: It's the question of the cost of doing business with S. E. C. I'll get at that next week, and I am waiting for Mr. Oliphant to give me a list of lawyers. Who's got that?

Oliphant: Klaus is working over there - quite a job to dig those records up.

H.M.Jr: Maybe next week?

Incidentally, Griswold is having one hell of a time finding solvent borrowers who want to borrow, and he called up the other day - could he use my name; he thought it would be helpful with the Executive Committee of the Industrial Bankers because he was having great difficulty finding solvent borrowers who wanted to borrow, but he thought maybe by next week he would have something.

- Taylor: Got ~~one~~ other thing, so you won't think nothing is coming along, for next week. We are about to get in a hell of a row with the Home Loan Bank System.
- H.M.Jr: Swell! That's been going on for a long time. All right, next week.
- Gibbons: Incidentally, the Comptroller General is in the Customs Service in New York, and on one entry of an eight thousand dollar importation they found an error of twelve cents. They are checking everything. They do check, but they are going into it now with a microscope.
- H.M.Jr: On account of my criticism of them?
- Gibbons: I imagine so. Harry Durning says this time it looks as though they are turning up the carpet. It's his function to check it, but it's just usually routine.
- H.M.Jr: While we're on that, I didn't get it, but Mr. Diggs informed me that the F. D. I. C. organization had not been audited since its inception, and he thought on the resignation of the Comptroller it would be a good time to have it done, and we should pick the auditors. It seems to me the logical thing would be for the Treasury to audit it.
- Bell: Usually an organization of that kind has an outside agency like Price Waterhouse; I think R. F. C. has Haskins and Sells.
- H.M.Jr: They say in four years it has not been audited.
- Bell: It really should be audited.
- Oliphant: I wonder if the statute covers it.
- H.M.Jr: Would you take a look at it?
- Oliphant: Yes.
- Bell: They can go outside, I am pretty sure, and get auditors.
- H.M.Jr: Anything else, Wayne?

Taylor: No.

H.M.Jr: Dan?

Bell: I haven't anything. Just wondering if you would like to take a memorandum to the farm with you on Social Security, on the work of these Treasury representatives in the field.

H.M.Jr: Is it going all right?

Bell: I thought you might like to see it. Not very long.

H.M.Jr: Are you going to stay away a week?

Bell: A part of the day - got to get my desk cleared up - haven't touched it this week.

H.M.Jr: Anything else?

Bell: No.

Lochhead: Foreign markets and foreign exchange seem to be waiting on the President's conference today. Dollars seem to be weak, but not translated into any buying movement.

Upham: Beginning to get a few letters in opposition to the bank holding bill.

H.M.Jr: That's all right. Does this fellow that you're bringing along - incidentally, I think you can - I think there is a train that leaves Monday at nine o'clock, gets to Beacon where I will have you met - this fellow - does he know at his fingertips the rules and regulations of the Comptroller's, what the banks can own?

Upham: Oh, yes.

H.M.Jr: And if anybody has anything affecting banks, if they will let Mr. Upham have it so he can bring it along.

Thompson: I have nothing.

H.M.Jr: Any signing?



Thompson:

There may be one letter that Mr. Bell has, on the report on the leave bill.

H.M.Jr:

I hope you all have a good week-end; I expect to have one. I want to say I feel better about prospects of business conditions than I have in months, now that Mr. Wallace, Mr. Morgenthau, Mr. Eccles, and Miss Perkins agree. I think that in itself is an accomplishment. I really feel that gold, plus this today - they can all laugh and sneer at the gold and everything else, - but I think it's going to be very helpful. That's the way I feel today.

11.35

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ROOSEVELT SEEKS BALANCE IN PRICE STRUCTURE -  
 SAYS DEFLATIONARY TREND OF LAST 6 MONTHS  
 NEEDS REVERSAL - SAYS ADMINISTRATION  
 INDUSTRIAL AGRICULTURAL AND MONETARY  
 POLICIES WILL BE AIMED AT MODERATE RISE  
 IN GENERAL PRICE LEVEL AND BETTER BALANCE  
 BETWEEN COMPETITIVE PRICES AND ADMINISTERED  
 PRICES

WASHN- PRESIDENT ROOSEVELT DISCUSSED  
 PRICES AT HIS PRESS CONFERENCE TODAY AND SAID  
 THAT THE ADMINISTRATION-S INDUSTRIAL  
 AGRICULTURAL AND MONETARY POLICIES WOULD  
 BE DIRECTED TOWARD A RESTORATION OF BALANCE  
 IN THE COMMODITY PRICE STRUCTURE AND A REVERSAL  
 OF THE DEFLATIONARY TREND OF THE LAST SIX MONTHS.

FEB 18 1938

HE STRESSED THE NECESSITY FOR BETTER  
 PRICE BALANCE AS THE KEY TO FULL EMPLOYMENT  
 AND A HIGHER NATIONAL INCOME- SOME PRICES  
 ARE STILL TOO HIGH HE SAID POINTING TO  
 THE DISPARITY BETWEEN COMPETITIVE PRICES AND  
 ADMINISTERED PRICES - WITH A BALANCED PRICE  
 STRUCTURE HE SAID THE AVERAGE FAMILY INCOME  
 SHOULD TEND TO INCREASE AND THE AVERAGE FAMILY  
 WOULD THUS BENEFIT EVEN IF THE COST OF LIVING  
 IS SLIGHTLY HIGHER

A MODERATE RISE IN THE GENERAL LEVEL OF  
 PRICES IS DESIRABLE THE PRESIDENT SAID BUT  
 ADDED THAT THE RISE SHOULD BE LIMITED TO  
 THE CLASS OF COMMODITIES WHICH ARE TOO LOW-  
 NOR SHOULD THE RISE HE SAID BE SO GREAT OR LONG  
 AS TO ENCOURAGE A SPECULATIVE BOOM

AT THE CONCLUSION OF A PREPARED STATEMENT WHICH THE PRESIDENT READ IN THE FORM OF A REPORT FROM THREE CABINET MEMBERS THE FEDERAL RESERVE BOARD CHAIRMAN AND VARIOUS GOVERNMENT ECONOMISTS PRESIDENT ROOSEVELT DISCUSSED SEVERAL QUESTIONS WHICH HE SAID HE THOUGHT SHOULD HAVE BEEN ASKED AT THE PRESS CONFERENCE

IN REPLY TO A QUESTION AS TO WHAT IS TO BE DONE THE PRESIDENT SAID THE PROBLEM IS BEING ATTACKED ON A GOOD MANY FRONTS - THERE ARE MANY ELEMENTS OF THE RECOVERY PROGRAM BEING DIRECTED TOWARD BETTER BALANCE OF PRICES HE SAID - PRICE BALANCE IS THE KEY TO THE WHOLE THING HE ADDED - THE NEW FARM BILL WILL HELP HE SAID AND SO WILL THE NEW HOUSING PROGRAM AND THE RECENT 250 000 000 DLS ADDITIONAL RELIEF APPROPRIATION - THE PRESIDENT SAID THIS POLICY DOES NOT MEAN INFLATION - IT IS A POLICY HE EXPLAINED TO RESTORE BALANCE IN THE PRICE STRUCTURE

THE POLICY DOES NOT MEAN FURTHER DEVALUATION OF THE DOLLAR HE SAID

MONDAY-S ACTION BY THE TREASURY IN MODIFYING ITS GOLD STERILIZATION PROGRAM WAS RELATED TO THE ADMINISTRATION-S PRICE POLICY PRESIDENT ROOSEVELT SAID - HE ADDED THAT OTHER CONSIDERATIONS ENTERED INTO THE GOLD POLICY CHANGE

THE PRESIDENT ASKED HIMSELF THE QUESTION AS TO HOW TODAY-S STATEMENT WAS RECONCILED WITH HIS WARNING ON HIGH PRICES LAST APRIL AND PROCEEDED TO ANSWER IT BY SAYING THAT THIS QUESTION WAS LIKE HOLDING A MAN RESPONSIBLE FOR ONE-S RUNNING OFF THE ROAD BECAUSE HE WARNED YOU TO GO SLOW AT THE CURVE

THE PRESIDENT CONTINUED BY SAYING THAT EVERYONE AGREED PRICE DISLOCATIONS WERE AMONG THE MAJOR CAUSES OF THE BUSINESS RECESSION - THE ONLY QUESTION ABOUT HIS WARNING LAST APRIL THE PRESIDENT SAID WAS WHETHER IT SHOULDN-T HAVE BEEN ISSUED EARLIER BECAUSE PRICE MALADJUSTMENTS AND SPECULATION TOOK PLACE BEFORE THE WARNING

ON THE QUESTION OF CREDIT AND FINANCIAL POLICIES PRESIDENT ROOSEVELT SAID HE EXPECTS TO CONTINUE TO MAINTAIN EASY CREDIT CONDITIONS AND THAT THE TREASURY AND FEDERAL RESERVE SYSTEM WILL COOPERATE TO THAT END - PRESSED FOR FURTHER COMMENT ON THIS POINT THE PRESIDENT SAID THAT THESE TWO AGENCIES WOULD TAKE WHATEVER STEPS ARE NECESSARY TO MAINTAIN EASY CREDIT

THE PRESIDENT SAID THE ANSWER TO WHETHER THE ADMINISTRATION IS AIMING AT THE 1926 LEVEL OF PRICES IS BOTH YES AND NO - IT IS NOT A QUESTION OF A DEFINITE LEVEL OF A GIVEN YEAR THE CHIEF EXECUTIVE SAID ONCE AGAIN EMPHASIZING THE FACT THAT HE SEEKS BALANCED RELATIONSHIP IN THE PRICE STRUCTURE TO PROMOTE FULL EMPLOYMENT

ADD ROOSEVELT

11.47

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WASHN- BACK N 1933 AND 1934 THERE WAS A GOOD DEAL OF TALK ABOUT THE NECESSITY OF INCREASING PRICES TO BETWEEN 90 AND 100 PC OF THE 1926 AVERAGE MR ROOSEVELT SAID BECAUSE THE 1926 AVERAGE REPRESENTED THE AVERAGE BASIS ON WHICH DOLLARS HAD BEEN LOANED- 1926 DOLLAR WAS THE AVERAGE DOLLAR WHICH WAS OWED HE SAID

SINCE 1933 AND 1934 HOWEVER THERE HAS BEEN A GREAT DEAL OF NEW LOANING IN TERMS OF 1935 1936 AND 1937 DOLLAR PRESIDENT ROOSEVELT EXPLAINED- THIS HAS TO BE CONSIDERED HE ADDED AS A MODIFYING FACTOR ON THE 1926 DOLLAR IDEA AND BY MODIFICATION HE SAID HE MEANT A DOWNWARD REVISION

THE PRESIDENT SAID IT WAS IMPOSSIBLE TO SET A GOAL OF 90 OR 95 IN THE WHOLESALE COMMODITY PRICE INDEX BECAUSE THE GOAL HAS TO BE A VARYING THING

WASHN- DISCUSSING THE QUESTION AS TO WHETHER LABOR COSTS ARE TOO HIGH THE CHIEF EXECUTIVE STATED THAT THE REAL ANSWER TO LOWER PRODUCTION COSTS IS TO BE FOUND IN INCREASED VOLUME RATHER THAN IN LOWER WAGES - HE SAID THAT DESPITE THE FACT THAT EARNINGS PER HOUR IN MANUFACTURING GROUPS WERE 24 PC HIGHER IN 1936 THAN IN 1932 LABOR COST PER UNIT OF OUTPUT WAS ONLY 6 PC HIGHER

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WASHN- THIS WAS DUE IN PART <sup>12 00</sup>  
HE SAID TO INCREASED LABOR EFFICIENCY BUT  
IT WAS PRIMARILY DUE TO THE FACT THAT LABOR  
CAN BE USED MORE EFFICIENTLY IN MASS  
PRODUCTION INDUSTRIES WHEN THOSE INDUSTRIES  
OPERATE AT A HIGH LEVEL OF OUTPUT

A FURTHER DEMONSTRATION OF THIS LABOR  
COST PRINCIPLE HAS TAKEN PLACE IN THE LAST  
FIVE MONTHS THE PRESIDENT SAID - HE POINTED  
OUT THAT DESPITE THE FACT THAT WAGE RATES  
HAVE NOT INCREASED DURING THE LAST FIVE  
MONTHS THE SHRINKAGE IN OUTPUT HAS FORCED  
LABOR COSTS PER UNIT UP AS MUCH AS IT HAD  
RISEN IN THE PREVIOUS FOUR YEARS THAT IS  
ABOUT 6 PC

DISCUSSING THE POSSIBILITY THAT WAGES ROSE  
TOO FAST IN THE SPRING OF 1937 PRESIDENT  
ROOSEVELT SAID THAT INDUSTRY IN GENERAL <sup>12 13</sup>  
POSTPONED WAGE INCREASES IN 1935 AND 1936 AND  
THEN HAD TO ABSORB THEM IN A LARGE LUMP DURING  
THE 9 MONTHS FROM OCT 1936 TO JULY 1 1937

HE SAID THAT THE AUTOMOBILE INDUSTRY  
WAS AN EXAMPLE OF AN INDUSTRY WHICH HAD  
GRANTED WAGE INCREASES AT THE PEAK OF A BOOM  
WHICH WERE SMALL IN COMPARISON WITH PROFITS  
BUT DIFFICULT TO MAINTAIN WHEN VOLUME FALLS  
OFF - THE PRESIDENT SAID THAT HE FAVORED ALL  
EFFORTS TO STABILIZE EMPLOYMENT THAT WOULD  
MAKE IT POSSIBLE TO REDUCE THE COSTLY  
INSURANCE OF A HIGH HOURLY RATE ON A SMALL  
NUMBER OF HOURS OF IRREGULAR WORK AND EFFORTS  
TO SUBSTITUTE ASSURED JOBS THAT WILL PRODUCE  
A MUCH HIGHER ANNUAL INCOME

THE PRESIDENT POINTED OUT THAT PROFIT SHARING WAS BEING INTRODUCED IN A GOOD MANY INDUSTRIES AND HE THOUGHT IT HAD PROVED SUCCESSFUL

EXPLAINING THE GUFFEY COAL LAW IN RELATION TO PRICE POLICIES THE PRESIDENT SAID THAT THE MINE PRICES OF BITUMINOUS COAL ARE NOT HIGH AND THAT THERE HAS BEEN CUT-THROAT COMPETITION IN THIS PART OF THE INDUSTRY - THE GUFFEY ACT IS INTENDED TO ESTABLISH A SOUND BASIS FOR THE INDUSTRY THE CHIEF EXECUTIVE SAID AND EXPLAINED THAT SOFT COAL PRICES MUST NOT BE SET SO HIGH AS TO TRANSFER BUSINESS FROM EFFICIENT MINES TO OTHER FUELS NOR SHOULD MONOPOLY PRICES FOR COAL BE SET - THE NEW FARM BILL IS INTENDED TO PREVENT EXTREME PRICE DECLINES IN YEARS OF LARGE SUPPLY AND ALSO TO PREVENT HIGH PRICES IN SHORT CROP YEARS THE PRESIDENT SAID - HE SAID IT SEEMED TO HIM THAT THE FASTER THE RISE IN ANY GROUP OF COMMODITIES THEN THE MORE THE SPECULATORS TENDED TO COME IN AND MAKE THE RISE EVEN FASTER

WASHN - GENERAL EFFECT OF AGRICULTURAL  
INDUSTRIAL AND MONETARY POLICIES AIMED AT RE-  
STORING PRICE BALANCE OUGHT TO BE GOOD ON  
FOREIGN TRADE MR ROOSEVELT ASSERTED - HE ADD-  
ED THAT RECOVERY IN U S AIDS WORLD RECOVERY

HE SAID THAT THERE WOULD BE NO CHANGE  
IN ADMINISTRATION-S SUGAR POLICY SINCE SUGAR  
WAS IN A DIFFERENT CATEGORY AND A POLICY HAD  
BEEN LAID DOWN IN THE 1937 LAW

WHEN PRESSED FOR FURTHER COMMENT ON RELIEF  
SPENDING THE PRESIDENT SAID HE REFERRED ONLY  
TO THE 250 000 000 DLS RELIEF BILL NOW PEND-  
ING AND INDICATED THAT HE WAS NOT SUGGESTING  
FURTHER OUTLAYS

WASHN - THE PRESIDENT READ

T 110

O HIS PRESS

CONFERENCE WITH EVIDENT APPROVAL A STATEMENT  
PREPARED AT HIS REQUEST BY SECY MORGENTHAU  
SECY WALLACE SECY PERKINS CHAIRMAN ECCLES  
OF RESERVE BOARD AND ECONOMISTS OF VARIOUS  
EXECUTIVE DEPARTMENTS

TEXT OF THIS STATEMENT FOLLOWS-

-THIS ADMINISTRATION HAS FROM THE BEGINNING  
PURSUED A POLICY DESIGNED TO PROMOTE FULL  
EMPLOYMENT OF OUR HUMAN AND MATERIAL RESOURCES-  
THAT CONTINUES TO BE OUR POLICY - THE PRODUCTIVE  
POWER TO OUR WORKERS AND OUR RESOURCES IF  
FULLY UTILIZED CAN PROVIDE AND MAINTAIN A  
NATIONAL INCOME FAR ABOVE ANY LEVELS WE HAVE  
YET REACHED



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-AN IMPORTANT FACTOR THAT DETERMINES WHETHER WE SHALL SUCCEED OR BE BLOCKED IN OUR ENDEAVOR TO ATTAIN FULL EMPLOYMENT AND A HIGH LEVEL OF INCOME IS THE BEHAVIOUS OR PRICES- IN THIS CONNECTION CAREFUL ATTENTION MUST BE GIVEN TO -1- THE RELATIONS OF THE PRICES OF VARIOUS GROUPS OF COMMODITIES TO EACH OTHER -2- THE RELATIONS BETWEEN COMMODITY PRICE LEVELS AND THE LEVELS OF DEBT BURDENS AND COSTS - 3 - THE DIRECTION AND RATE OF MOVEMENT OF THE GENERAL PRICE LEVEL - TO FURTHER ITS BROAD OBJECTIVEH THE ADMINISTRATION HAS THEREFORE IN ITS AGRICULTURAL INDUSTRIAL AND MONETARY PROGRAMS NECESSARILY BEEN CONCERNED BOTH WITH THE RELATION OF THE PRICES OF GROUPS OF SPECIFIC COMMODITIES TO EACH OTHER AND WITH THE MOVEMENT OF THE GENERAL PRICE LEVEL

-THE MEASURES EMPLOYED AT ANY GIVEN TIME TO FURTHER THIS POLICY MUST FIT THE NEEDS OF THAT TIME - A YEAR AGO THERE WAS GROUND FOR CONCERN THAT A TOO RAPID RISE IN THE PRICES OF SOME COMMODITIES WAS ENCOURAGING A SPECULATIVE BOOM - DURING THE PAST SIX MONTHS ON THE OTHER HAND THE GENERAL PRICE LEVEL AND INDUSTRIAL ACTIVITY HAVE BEEN DECLINING - GOVERNMENT POLICY MUST BE DIRECTED TO REVERSING THIS DEFLATIONARY TREND

-THIS DOES NOT MEAN THAT ALL PRICES SHOULD ADVANCE NOR THAT THE RISE SHOULD BE RAPID - PRICES OF DIFFERENT GROUPS OF PRODUCTS MUST BE BROUGHT INTO BALANCED RELATIONS TO ONE ANOTHER - SOME PRICES AND SOME COSTS ARE STILL TOO HIGH TO PROMOTE THAT BALANCED RELATIONSHIP

BETWEEN PRICES THAT IS NECESSARY FOR SUSTAINED RECOVERY - CONTINUED HIGH PRICES OF MANY OF THE COMMODITIES NOT SUBJECT TO HIGHLY COMPETITIVE MARKET FORCES INTENSIFIED THE DOWNWARD PRESSURE ON ALL OTHER PRICES- THOSE INDUSTRIES THAT HAVE MAINTAINED PRICES AND CURTAILED OUTPUT SHOULD SEEK THE RESTORATION OF PROFITS THROUGH INCREASED RATHER THAN THROUGH RESTRICTED OUTPUT

-THE PRICES OF SOME ITEMS ARE STILL AT THE HIGHEST LEVELS REACHED IN 1937 - SOME ARE EVEN HIGHER THAN IN 1929 - WHEN HIGH PRICES SHARPLY CURTAIL SALES THERE IS REAL DANGER - THIS IS SHOWN BY OUR RECENT EXPERIENCE WITH HOUSING - A YEAR AGO THERE WAS A SERIOUS SHORTAGE - WE HAD UNUSED PRODUCTIVE RESOURCES AMPLE TO OVERCOME THE SHORTAGE - YET ALL THE MAJOR ELEMENTS IN HOUSING COSTS ADVANCED SO SHARPLY BY THE SPRING OF 1937 AS TO KILL A PROMISING EXPANSION OF ACTIVITY IN AN INDUSTRY WHOSE RESTORATION IS VITAL TO CONTINUED RECOVERY

-FOR INDUSTRIES SUCH AS AGRICULTURE THAT OPERATE AT A HIGH LEVEL OF CAPACITY EVEN WHEN BUSINESS ACTIVITY IS AT LOW LEVELS THE RESTORATION OF PROFITS MUST COME PRIMARILY THROUGH HIGHER PRICES - HIGHER PRICES IN SUCH INDUSTRIES AND INCREASED OUTPUT IN OTHER INDUSTRIES WILL BE INCREASING PROFITS ENCOURAGE NEW INVESTMENT IN REPLACEMENT AND EXPANSION OF EQUIPMENT - THIS IS NECESSARY TO FULL RECOVERY

-THE AVERAGE FAMILY WILL BENEFIT FROM THE BUSINESS RECOVERY WHICH A BALANCED PRICE STRUCTURE WILL FOSTER - INCREASED EMPLOYMENT AND MORE CONTINUOUS INCOME SHOULD MUCH MORE THAN OFFSET ANY INCREASE IN THE COST OF LIVING - RECENTLY WHOLESALE PRICES HAVE DECLINED MARKEDLY YET THAT DECLINE HAS BEEN REFLECTED IN THE COST OF LIVING ONLY TO A VERY SLIGHT DEGREE - A MODERATE RISE IN WHOLESALE PRICES AT THIS TIME SHOULD ONLY SLIGHTLY AFFECT LIVING COSTS - INCOMES OF MOST FAMILIES WILL INCREASE WHILE THE COST OF WHAT THE HOUSEWIFE BUYS SHOULD SHOW LITTLE CHANGE - THE AVERAGE FAMILY WILL ENJOY A HIGHER STANDARD OF LIVING

-IT IS CLEAR THAT IN THE PRESENT SITUATION A MODERATE RISE IN THE GENERAL PRICE LEVEL IS DESIRABLE AND THAT THIS RISE NEED NOT AND SHOULD NOT EXTEND TO ALL PRICES - THE RISE SHOULD TAKE PLACE IN AND MUST BE MAINLY CONFINED TO CLASSES OF COMMODITIES WHOSE PRICES ARE TOO LOW - THESE INCLUDE MOST OF THOSE RAW MATERIALS AND FINISHED PRODUCTS, WHICH ARE PRODUCED AND SOLD UNDER HIGHLY COMPETITIVE CONDITIONS - SUCH RISE MUST NOT BE SO SHARP OR CONTINUE SO LONG AS TO LEAD TO A REPETITION OF THE UNHEALTHY SPECULATIVE CONDITIONS OF A YEAR AGO - THAT SHARP RISE IN PRICES ENCOURAGED SPECULATIVE INVENTORY BUYING WHICH COMBINED WITH THE DECLINE IN HOUSING CONSTRUCTION LAID MUCH OF THE GROUND FOR THE PRESENT RECESSION - WE MUST DO EVERYTHING WE CAN TO PREVENT THIS FROM HAPPENING AGAIN

-OUR PROGRAM SEEKS A BALANCED SYSTEM OF PRICES SUCH AS WILL PROMOTE A BALANCED EXPANSION IN PRODUCTION - OUR GOAL IS A CONSTANTLY INCREASING NATIONAL INCOME THROUGH INCREASING PRODUCTION AND EMPLOYMENT - THIS IS THE WAY TO INCREASE THE REAL INCOME OF CONSUMERS

-THIS IS NOT A POLICY OF RESTRICTION IT IS A POLICY OF ABUNDANCE

-OUR AGRICULTURAL INDUSTRIAL HOUSING AND MONETARY PROGRAMS HAVE BEEN AND WILL BE DIRECTED TOWARD THIS END-

PRESIDENT ROOSEVELT SAID TODAY THE ADMINISTRATION SEEKS A BALANCED

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SYSTEM OF PRICES WHICH WILL EXPAND PRODUCTION, INCREASE NATIONAL INCOME AND REVIVE EMPLOYMENT.

2/18--R1131A  
THE PRESIDENT OUTLINED HIS POSITION ON PRICES IN A STATEMENT READ TO HIS FRIDAY MORNING PRESS CONFERENCE.

THE ADMINISTRATION'S POLICY, HE SAID, "IS NOT A POLICY OF RESTRICTION; IT IS A POLICY OF ABUNDANCE."

"OUR AGRICULTURAL, INDUSTRIAL, HOUSING AND MONETARY PROGRAMS HAVE BEEN AND WILL BE DIRECTED TOWARD THIS END," MR. ROOSEVELT DECLARED.

MR. ROOSEVELT DECLARED THAT ACHIEVEMENT OF THE ADMINISTRATION'S GOALS WOULD "PROVIDE AND MAINTAIN A NATIONAL INCOME FAR ABOVE ANY LEVELS WE HAVE YET REACHED."

MR. ROOSEVELT DID NOT TOUCH ON THE QUESTION OF WAGES IN HIS FORMAL PRICE STATEMENT. INFORMALLY, HOWEVER, HE DECLARED THAT EMPHASIS IS GENERALLY PLACED ON A FLEXIBLE WAGE SCALE DURING A DOWNWARD SWING OF THE ECONOMIC CYCLE. HOWEVER, HE POINTED OUT, INDUSTRY HAS A TENDENCY TO IGNORE THE FLEXIBILITY OF WAGES AS PRODUCTION MOVES UP, DELAYING PAY INCREASES UNTIL THE LAST POSSIBLE MOMENT.

2/18--R1133A

OFTEN, HE SAID, INDUSTRY DELAYS WAGE INCREASES UNTIL THE VERY PEAK OF A BOOM, EVEN THOUGH THE WAGE INCREASE IS SMALL BY COMPARISON WITH AN INDUSTRY'S PROFITS. BECAUSE OF THIS POLICY OF DELAY IN GRANTING WAGE INCREASES, HE SAID, IT IS DIFFICULT TO MAINTAIN THESE SCALES WHEN PROFITS FALL OFF.

THE PRESIDENT CITED THE AUTOMOBILE INDUSTRY AS AN EXAMPLE OF THIS WAGE POLICY.

2/18--R1142A  
THE PRESIDENT DECLARED THE ADMINISTRATION PROGRAM DOES NOT MEAN INFLATION, BUT IS A POLICY TO HELP RESTORE THE BALANCE IN THE PRICE STRUCTURE.

IT DOES NOT MEAN, HE SAID, DEVALUATION OF THE DOLLAR. HOWEVER, HE CHARACTERIZED THE ENDING OF GOLD STERILIZATION MONDAY WAS A CONSIDERATION IN DRAFTING THE PROGRAM FOR RESTORATION OF PRICES.

HE SAID THAT HE AND THE GOVERNMENT'S EXPERTS AGREE THAT PRICE DISLOCATION IS ONE OF THE MAJOR CAUSES OF THE RECESSION. HE SAID DISLOCATION OR MALADJUSTMENT FOLLOWED SPECULATIVE BUYING WHICH DEVELOPED DURING 1936 AND THE FIRST FOUR MONTHS OF 1937 AND BEFORE MR. ROOSEVELT ISSUED HIS WARNING LAST APRIL THAT PRICES WERE GOING TOO HIGH. HE OBSERVED THAT PERHAPS HE SHOULD HAVE ISSUED THE WARNING BEFORE HE DID.

AS TO CREDIT POLICY, THE PRESIDENT SAID THE ADMINISTRATION EXPECTS TO CONTINUE TO MAINTAIN EASY CREDIT CONDITIONS. THE FEDERAL RESERVE BOARD AND THE TREASURY ARE COOPERATING TOWARD THAT END, HE SAID.

THE CHIEF EXECUTIVE THEN ASKED HIMSELF THE QUESTION WHETHER THE ADMINISTRATION HAD TAKEN THE 1926 PRICE LEVEL AS AN OBJECTIVE TO BE ATTAINED. HIS REPLY WAS YES AND NO.

HE SAID THE OBJECTIVE WAS NOT TO RESTORE PRICE LEVELS TO THOSE OF A GIVEN YEAR BUT TO SEEK A BALANCED RELATIONSHIP BETWEEN PRICES AS A MEANS OF STIMULATING EMPLOYMENT AND THE BROAD ECONOMIC STRUCTURE.

2/18--R1147A

MR. ROOSEVELT SAID THE 1926 PRICE LEVEL HAD BEEN SELECTED AS 233  
A CRITERION BECAUSE CONDITIONS IN THAT YEAR REPRESENTED A FAIR BALANCE  
WITH REGARD TO CREDIT--AS BETWEEN CREDITORS AND DEBTORS. SINCE 1926, HE  
POINTED OUT MUCH NEW LENDING OCCURRED--ESPECIALLY IN 1933, 1934 AND THE  
THREE YEARS SINCE THAT TIME. THIS LENDING, HE POINTED OUT, MODIFIED THE  
GENERAL PRICE AVERAGES OF 1926 TO A CERTAIN EXTENT.

THE PRESIDENT SAID HE COULD NOT SAY WHETHER THE PRICE LEVEL COULD BE  
RAISED BACK TO THE 1926 INDEX AS IT IS A VARYING THING AND SUBSEQUENT  
RELATIONSHIPS EFFECT ANY NORM THAT IS TAKEN.

MR. ROOSEVELT ASKED HIMSELF WHETHER LABOR COSTS WERE TOO HIGH.  
HE REPLIED THAT THE REAL ANSWER TO LOWER COSTS OF PRODUCTION IS TO BE  
FOUND IN INCREASED VOLUME RATHER THAN IN LOWER WAGES. HE POINTED OUT  
THAT DESPITE THE FACT THAT EARNINGS PER HOUR IN MANUFACTURING GROUPS  
WERE 24 PERCENT HIGHER IN 1936 THAN 1932 LABOR COSTS PER UNIT OF OUTPUT  
WERE ONLY 6 PERCENT HIGHER, DUE IN PART TO THE FACT THAT PRODUCTIVITY  
OF LABOR INCREASED .

THE PRESIDENT'S STATEMENT DECLARED THAT PRICES HAD FALLEN IN THE  
PAST SIX MONTHS AND THAT "GOVERNMENT POLICY MUST BE DIRECTED TO  
REVERSING THIS DEFLATIONARY TREND."

"THIS DOES NOT MEAN," HE SAID, "THAT ALL PRICES SHOULD ADVANCE NOR  
THAT THE RISE SHOULD BE RAPID. PRICES OF DIFFERENT GROUPS OF PRODUCTS  
MUST BE BROUGHT INTO BALANCED RELATIONS TO ONE ANOTHER."

HE DID NOT LIST SPECIFIC PRICES IN HIS STATEMENT WHICH HE BELIEVED  
SHOULD BE REDUCED BUT SAID THAT "CONTINUED HIGH PRICES OF MANY OF THE  
COMMODITIES NOT SUBJECT TO HIGHLY COMPETITIVE MARKET FORCES  
INTENSIFIES THE DOWNWARD PRESSURE ON ALL OTHER PRICES."

"THOSE INDUSTRIES," HE SAID, "THAT HAVE MAINTAINED PRICES AND  
CURTAILED OUTPUT SHOULD SEEK THE RESTORATION OF PROFITS THROUGH INCREASED  
RATHER THAN THROUGH RESTRICTED OUTPUT."

LABOR, THE PRESIDENT SAID, IS MORE EFFICIENT IN MASS PRODUCTION INDUSTRY WHEN THAT INDUSTRY OPERATES AT A HIGH LEVEL OUTPUT. 240

THIS IS FURTHER DEMONSTRATED BY THE FACT THAT IN THE LAST FIVE MONTHS, DESPITE THE FACT THAT WAGES HAVE NOT INCREASED, SHRINKING VOLUME FORCED UP LABOR COSTS PER UNIT OF OUTPUT AS MUCH AS THEY HAD RISEN BETWEEN 1932 AND 1937.

MR. ROOSEVELT SAID HE FAVORED ALL EFFORTS TO STABILIZE EMPLOYMENT THAT WILL MAKE IT POSSIBLE TO REDUCE THE COSTLY INSURANCE OF A HIGH HOURLY RATE ON A SMALL NUMBER OF HOURS OF IRREGULAR WORK, AND SUBSTITUTE ASSURED JOBS THAT WILL PRODUCE A MUCH HIGHER ANNUAL INCOME.

ASKED IF WAGES ROSE TOO FAST LAST SPRING, HE REMARKED THERE WERE VERY FEW WAGE INCREASES FROM 1934 UNTIL OCTOBER, 1936. IN THE NEXT NINE MONTHS, AVERAGE HOURLY EARNINGS IN MANUFACTURING INDUSTRIES ROSE FROM ABOUT 57 CENTS TO ABOUT 65 CENTS. HE DECLARED THAT MANY FIRMS WERE IN A POSITION TO INCREASE WAGE RATES IN 1935 AND 1936. HE SAID HE DID NOT BELIEVE IT WAS HEALTHY FOR BUSINESS TO POSTPONE WAGE INCREASES SO LONG THAT THEY HAD TO ABSORB THEM IN A SINGLE LUMP OF THAT SIZE.

THE PRESIDENT SAID THAT IF WAGE INCREASES WERE NOT SO LONG DELAYED BUT WERE MADE AS BUSINESS IMPROVED, BUSINESS MANAGERS WOULD HAVE A LONGER PERIOD OF ACTIVITY IN WHICH TO ADJUST THEMSELVES TO WAGE CHANGES.

THE RESIDENT SAID FARM PRICES ARE A GLARING EXAMPLE OF PRICES THAT WERE TOO LOW. HE SAID THE NEWLY ENACTED FARM BILL WAS DESIGNED TO PREVENT EXTREME LOWS AND MAINTAIN PRICES IN YEARS OF EXCESSIVE CROPS CAUSED BY NATURE.



MR. ROOSEVELT HOPED HIS PRICE PROGRAM WOULD HAVE AN EXCELLENT EFFECT ON FOREIGN TRADE. ANY MEASURE, HE SAID, THAT HELPS RECOVERY IN THE U.S. ALSO HELPS WORLD RECOVERY.

HE WAS ASKED WHETHER SUGAR PRICES WOULD BE AFFECTED AND SAID THAT THAT FELL INTO A DIFFERENT CATEGORY- THE SUGAR ACT OF 1937 WHICH ESTABLISHED SUGAR POLICY.

THE CHIEF EXECUTIVE WAS ASKED WHAT COULD BE DONE ABOUT SITUATIONS WHERE RIGID PRICES PREVAIL. HE SAID THAT SUBJECT WAS BEING GIVEN STUDY BUT CONCERNED INDUSTRIES ON THE MONOPOLISTIC SIDE. HE SAID NO ACTION WAS READY YET.

MR. ROOSEVELT SAID HE WAS MUCH CONCERNED BY THE EXCESSIVE BIDS FOR MERCHANT CARGO SHIP CONSTRUCTION. HE SAID THEY WERE FAR ABOVE THE COST OF BUILDING SHIPS DURING THE WAR PERIOD.

HE SAID THE PROBLEM IS A HEADACHE.

ASKED WHAT COULD BE DONE, HE SAID THERE WERE SEVERAL COSTLY ALTERNATIVES, SUCH AS GOVERNMENT FINANCING OF A NEW YARD OR GIVING NAVY YARDS NEW EQUIPMENT. HE REVEALED HE HAD TALKED TO CONGRESSMEN ABOUT THE SHIP BUILDING PROGRAM AND THAT THEY ADMITTED THE ONLY WAY COSTS COULD BE HELD WITHIN REASON WAS TO HAVE THE VESSELS BUILT IN FOREIGN YARDS, BUT THAT NATURALLY THEY COULD NOT VOTE FOR SUCH A PROPOSITION.

2/18--R1209P  
MR. ROOSEVELT WAS ASKED ABOUT WAR DEBTS AT HIS PRESS CONFERENCE AND REPLIED THAT HE HAD NOT DISCUSSED THE MATTER IN THE PAST 48 HOURS ANY MORE THAN IN THE PAST 48 DAYS OR 480 DAYS.

2/18--R1211P



COMMISSIONER OF  
ACCOUNTS AND DEPOSITS

# TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

WASHINGTON

February 18, 1937

TO: THE SECRETARY

This is in reference to the situation with respect to the payment of unemployment compensation, based upon reports received from the Treasury officers who have been assigned as consulting accountants to the Social Security Board.

Our accountants, on this assignment, have been instructed to furnish this office currently with the following information:

1. Newspaper clippings
2. Statements showing status of work (i.e. number of claims filed, approved, denied, in process, and paid).
3. Report on important matters relating to facilities and problems of the state agencies (in the form of a questionnaire).
4. Diary of events relating to the assignment.

In addition to the foregoing information received directly from the Treasury accountants, this office is receiving from the Social Security Board in Washington a semi-weekly confidential release reporting the condition of work in all states with respect to number of claims filed, approved, denied, and paid. Until recently this was a daily release.

The latest information we have with respect to the various states is set forth in the attached loose leaf binder, which is kept up to date as nearly as practicable.

The states which have requested the services of Treasury accountants, are:

Alabama	Maine	North Carolina
Arizona	Maryland	Oregon
California	Massachusetts	Pennsylvania
Connecticut	Minnesota	Tennessee
District of Columbia	New York	

The states which have not requested the services of Treasury accountants, are:

Louisiana	Texas	Virginia
New Hampshire	Utah	West Virginia
Rhode Island	Vermont	

Generally speaking, the states which have not requested the services of Treasury accountants are reported to be in satisfactory condition. This does not appear to be true in the case of Louisiana, Virginia, or West Virginia.

#### ALABAMA

The Treasury accountant was not called in until February 15th. The latest information we have regarding the claims work in this state is as of February 8th and is rather unfavorable. The total number of claims filed was reported as being 76,000, of which 39,400 had been allowed and 410 denied, making a total of 39,810 claims disposed of (approximately 50%). Through February 9th only 14,558 checks amounting to \$99,313.00 had been issued.

#### ARIZONA

The volume of claims is small but the situation within the State Agency is not satisfactory. There has been serious difficulty due to incompetent help, poor organization, internal dissension, and political influence in employing personnel. The cost of administration is very high. In a special executive session held by the State Commission

on February 11th, it was unanimously agreed that the services of the Treasury accountant would be requested for 60 days to completely organize the Agency. The status of the work of processing claims and issuing benefit checks, however, appears to be satisfactory.

CALIFORNIA

The volume of claims is heavy and the situation is not at all satisfactory. Although first payments were due February 7th, the Treasury accountant reports that as of February 14th determinations had been completed on only 38,461 claims out of a total of 107,745 filed, and only 304 checks had been issued against 30,519 pay orders received. He also reports that delayed payments will result and while there has been no serious public criticism thus far that is likely also to result. He states services have not been utilized by the Agency to any great extent.

CONNECTICUT

The status of the work in this State appears to be generally satisfactory.

DISTRICT OF COLUMBIA

Until February 14th, the District Unemployment Compensation Board declined the assistance of a Treasury accountant but his services are now being used. The latest information available (as of February 10th) is that 20,114 claims were filed, of which only 1739 were allowed and 6,547 denied making a total of 8,286 disposed of. This indicates they are considerably in arrears in determining benefits. Payments were ordered in only 929 cases, against which only 352 were issued amounting to \$3,103.00. The situation in the District of Columbia

has been watched closely by representatives of the Social Security Board and assistance given in developing procedure and organization.

#### LOUISIANA

Although Treasury services have not been requested, we have sent the Treasury accountant to Baton Rouge, just to look around and procure what information he could under the circumstances. The latest information we have regarding claims filed and benefit determinations made, is as of February 5th. As of that date, 21,279 claims had been filed, on which only 10,173 benefit determinations had been completed. This work, at that time, was only 50% current. As of February 10th, 3984 benefit checks, involving the sum of \$24,474.20, had been issued, indicating that there also is delay in the issuance of checks for benefits due. As previously stated, our men are under instructions to send to this Office all newspaper clippings relative to the unemployment compensation program, but to date the only news articles received on the State of Louisiana relate to Governor Leche's program of securing "non-firing" pledges from employers. A newspaper clipping received last week also attributes to Governor Leche a statement to effect that Louisiana is enjoying employment conditions better than most of the states and that less than 1% of Louisiana's population are claimants for benefits under the Compensation Payment Act. The Treasury accountant has just been instructed to see Social Security Board representative with a view to ascertaining just what the present situation is and reaching a definite understanding as to whether his services will be utilized by the State Agency.

MAINE

The status of the work in this State appears to be generally satisfactory. The trend of conditions is forward and not backward.

MARYLAND

The Treasury accountant reports a deplorable condition with respect to organization within the State Agency. The principal difficulty appears to grow out of the fact that, because of illness, the Executive Director of the Agency has not been on duty since August 1937, with the result that there is no directing force in the Agency for coordinating the various activities. The Treasury accountant has been required to shoulder much of the administrative responsibility and reports that the employment of a qualified director, clothed with the necessary authority, is required to put the Agency in shape in order that it may function properly on a permanent basis. He also reports there is no one in the organization at the present time capable of filling such position. The Treasury accountant has had several conferences in Washington with the Social Security Board relative to this matter. On February 15th a conference was held in Washington between the Maryland Unemployment Compensation Board and the Social Security Board as a result of which the State Board is definitely committed to prompt action in this matter as well as other corrective action with respect to the organization of the State Agency. Notwithstanding the aforementioned condition the progress made in processing claims through the benefit determination stage compares favorably with most other states due largely to the unusual efforts put forth by the Treasury accountant. Regardless of corrective action that is to be

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taken the State Board desires the services of the Treasury accountant for at least another month. In view of the delay in issuing benefit checks the State Board issued orders last week that all employees of the Agency would work 12 hours a day, plus 7 hours on Sunday, until distribution of checks is up to the schedule set to give every unemployed worker one check a week. As of February 14th there had been 37,417 checks issued, amounting to \$326,074.54.

#### MASSACHUSETTS

Information concerning Massachusetts is rather meager for the reason that in requesting the services of the Treasury accountant the State Agency has placed restrictions on the manner in which information would be communicated to Washington. The latest information available is as of February 10th, showing that 229,913 claims were filed. Of these, 109,795 have been allowed, and 5,721 denied, making a total of 115,516 claims disposed of. A total of 73,270 checks had been issued, amounting to \$741,897.00. The Treasury accountant states that there is considerable "heat" being put on the State Unemployment Compensation Commission by the newspapers, particularly the "Springfield Republican".

#### MINNESOTA

The Treasury accountant was not called in until February 1st. He reports that as of February 14th, 66,426 claims had been filed, of which 31,200 were allowed, 871 denied, making a total of 32,071 claims disposed of. Although first payments were due January 23rd, only 2,737

- 7 -

checks amounting to \$31,881.36 had been issued up to February 15th. The Treasury accountant attributes the slow progress to insufficient space, unqualified personnel, faulty organization, and lack of permanent procedure. Although he reports that there has been no public criticism thus far, there will be a serious condition of delayed payments until the aforementioned deficiencies are corrected.

#### NEW HAMPSHIRE

The status of the work in this State appears to be generally satisfactory. There is little likelihood of the services of the Treasury accountant being requested.

#### NEW YORK

Until the past week the situation in New York looked very doubtful, but a report received as of February 10th indicates that improvement has been made recently and that work will be on a current basis some time between February 25 and March 1. As of February 10th, 662,400 claims had been filed and determinations had been made with respect to 289,424 of the claims. It is to be noted, however, that 64,010 of these claims were determined to be ineligible. Checks actually issued numbered 44,114, and in addition, there are 49,078 checks in the State Comptroller's Office which were to be released as soon as required notices are received from claimants, indicating that they have



not worked during the particular weeks to which the benefit checks pertain. In addition there were 110,132 eligible claims awaiting preparation of the checks. Improvements in New York are indicated by the fact that on February 10th they issued 12,978 checks. This is more than one-fourth of the checks issued during the whole period. It is difficult for either the Social Security Board representative or the Treasury accountant to render maximum service in New York State because of the attitude of the State Agency. The State Agency appears to be reluctant to furnish information or data on the progress being made in the processing of claims.

NORTH CAROLINA

There was little inclination to use Federal assistance until after adverse newspaper publicity on February 8th. As of February 14th, 137,098 claims had been filed, of which 70,392 had been allowed and 13,900 denied, making a total of 84,292 claims disposed of. There had been 44,822 pay orders prepared against which only 16,289 checks had been issued although the first benefit payments became due on January 23rd. The Treasury accountant reports that he considers the situation rather serious as the Agency in its endeavor to correct the delay in payments by speeding up the issuance of pay orders and checks has literally thrown all precautions to the winds. Duplicate checks have been mailed on many different occasions and while the officials are aware of this situation, they refuse to allow any Federal representatives to become familiar with the circumstances surrounding the lack of adequate control over disbursements so that suggestive procedures may be developed. There appears to

be inadequate space, lack of trained personnel, inadequate organization and supervision, and a definite need for standard operating procedure.

#### OREGON

Oregon is moving very cautiously, placing principal emphasis on accuracy in making benefit determinations and payments. Payments in Oregon are probably slowed up somewhat because of provision in State law not requiring employers to make reports until separation of employees. Benefit determinations are based upon wage reports received from employers at time of separation rather than upon current reports. Work relating to determination of benefits is only about 25% current. It is also reported that the personnel is untrained and that there is inadequate supervision. There appears to have been no serious adverse newspaper publicity. Report received this morning indicates improvement in conditions.

#### PENNSYLVANIA

Conditions in this state are fairly satisfactory although the large number of claimants, 81,893, who have been declared temporarily ineligible may result in a condition of delayed payments and serious public criticism if a substantial number of such claimants are eventually determined to be eligible because of improper wage records kept in the State Agency. While there has been no serious newspaper criticism thus far, a heavy volume of correspondence is being received in the State Agency from claimants who registered through the first three weeks waiting period and first compensable week, but have not yet received their first benefit checks. Also letters are being received from such civic groups as American Legion Posts, Chambers of Commerce, etc., inquiring about delay in benefit payments. The Treasury accountant reports that space, equipment,

personnel, and procedure is all adequate. Through February 12th, a total of 481,792 claims had been filed and determinations made in 342,408 cases, leaving 139,384 claims unprocessed. Against 260,700 pay orders received, 144,560 checks had been issued. First payments were not due until February 1st.

RHODE ISLAND

The status of the work in this State appears to be generally satisfactory.

TENNESSEE

While the status of benefit determination work has been generally satisfactory, the Treasury accountant reports February 14th that the progress of benefit payments after determinations have been completed has been very unsatisfactory. This is due to lack of filing equipment, inefficient personnel, errors in computing claims, incorrect filing, and many other contributing factors. Very few corrective measures are being taken by the State Agency. Whereas 58,880 pay orders have been received through February 14th, only 20,057 checks amounting to \$139,284.87 have been issued against such pay orders. There already has been newspaper criticism and the condition of delayed payments will probably become even more serious.

TEXAS

The status of the work in this state appears to be generally satisfactory, and it is unlikely that the services of the Treasury accountant will be requested.

UTAH

The status of the work in this State appears to be generally

satisfactory and it is unlikely that the services of the Treasury accountant will be requested.

VERMONT

The status of the work in this State also appears to be generally satisfactory and that no need will exist for the services of the Treasury accountant.

VIRGINIA

Payments in Virginia were due at the end of the first comparable week, on January 24th. Although the services of our Treasury accountant have not been requested, he reports that only 2,212 checks were written through February 12th. He was unable to obtain accurate figures on the number of checks or claims now due or past due, but the best estimates on February 12th are from 18,000 to 23,000 items now due, some of which are two or three weeks past due. It appears that it will take at least thirty days to clean up the back load, and the problem undoubtedly will be increased and become more acute as "continuing" claims become due from week to week. There appears to have been no adverse publicity thus far, but the Treasury accountant's appraisal of the situation is that it is rather serious. He also reports that the office of the State Auditor has apparently assumed control over the accounting and benefit payment procedures and that the Assistant State Auditor is now in personal charge.

WEST VIRGINIA

The latest information we have in the case of West Virginia is that conditions are not very satisfactory and that there has been

- 12 -

quite a little adverse publicity. As of February 10th benefit determinations have been completed on approximately only 53% of the total number of claims filed. The checks issued numbered 19,740, involving a total sum of \$200,508.24. It appears that Governor Holt has promised representatives of organized labor to employ more clerks to expedite processing of claims. Considerable difficulty is being encountered because of failure of employers to file wage reports. Warrants for the arrest of some delinquent employers have been issued. Thus far there has been no inclination to request the services of the Treasury accountant.

It is worthy of note that in a great many states the proportion of claims denied to claims filed is great. These denials are made for various reasons such as lack of wage records in the State Agency, insufficient earnings recorded in wage records, lack of social security numbers for claimants, lack of other necessary information in the claims presented, errors in benefit determinations, duplicate claims, etc. When these claims are denied and it later develops that due to improper record keeping or other action taken by the State Agency the claims should have been allowed, much serious criticism can develop even though the condition of work in the Agency has been generally satisfactory. Therefore, the Treasury accountants are being requested to give special attention to this phase of the situation and report fully to me not only the conditions that exist but also the measures that will be taken to alleviate the difficulties.



TELEGRAM SENT

GRAY

February 18, 1938.

4 p. m.

AMEMBASSY

LONDON (ENGLAND)

75

FOR BUTTERWORTH.

The Secretary of the Treasury transmits the following text released to the press at the White House:

"STATEMENT READ TO NEWSPAPERMEN WHO ATTENDED THE PRESIDENT'S CONFERENCE WITH THE PRESS, FRIDAY, FEBRUARY 18:

"This Administration has from the beginning pursued a policy designed to promote full employment of our human and material resources. That continues to be our policy. The productive power of our workers and our resources, if fully utilized, can provide and maintain a national income far above any levels we have yet reached.

"An important factor that determines whether we shall succeed or be blocked in our endeavor to attain full employment and a high level of income is the behavior of prices. In this connection careful attention must be given to: (1) the relations of the prices of various groups of commodities to each other; (2) the relations between commodity price levels and the levels of debt burdens and costs; (3) the direction and rate of movement of the general price level. To further its broad objective the Administration has, therefore, in its agricultural, industrial, and monetary programs necessarily been concerned both with the relation of the prices of groups of specific commodities

MEB

3-475, To London, Feb. 18, 4p.m.

commodities to each other and with the movement of the general price level.

"The measures employed at any given time to further this policy must fit the needs of that time. A year ago there was ground for concern that a too rapid rise in the prices of some commodities was encouraging a speculative boom. During the past six months, on the other hand, the general price level and industrial activity have been declining. Government policy must be directed to reversing this deflationary trend.

"This does not mean that all prices should advance, nor that the rise should be rapid. Prices of different groups of products must be brought into balanced relations to one another. Some prices and some costs are still too high to promote that balanced relationship between prices that is necessary for sustained recovery. Continued high prices of many of the commodities not subject to highly competitive market forces intensifies the downward pressure on all other prices. Those industries that have maintained prices and curtailed output should seek the restoration of profits through increased rather than through restricted output.

"The prices of some items are still at the highest levels reached in 1937; some are even higher than in 1939. When high prices sharply curtail sales there is real danger. This is shown by our recent experience with housing. A year ago there was a serious shortage. We had unused productive resources ample to overcome the shortage. Yet all the major elements in housing costs advanced so sharply by the Spring of 1937 as to kill a promising expansion of activity in an industry whose restoration is vital to continued recovery.

"For industries, such as agriculture, that operate at a high level of capacity even when business activity is at low levels, the restoration of profits must come primarily through higher prices. Higher prices in such industries and increased output in other industries will, by increasing profits, encourage new investment in replacement and expansion of equipment. This is necessary to full recovery.

"The average family will benefit from the business recovery which a balanced price structure will foster. Increased employment and more continuous income should much more than offset any increase in the cost of living

S-#75, To London, Feb. 18, 4p.m.

living. Recently wholesale prices have declined markedly, yet that decline has been reflected in the cost of living only to a very slight degree. A moderate rise in wholesale prices at this time should only slightly affect living costs. Incomes of most families will increase while the cost of what the housewife buys should show little change. The average family will enjoy a higher standard of living.

"It is clear that in the present situation a moderate rise in the general price level is desirable, and that this rise need not and should not extend to all prices. The rise should take place in and must be mainly confined to classes of commodities whose prices are too low. These include most of those raw materials and finished products which are produced and sold under highly competitive conditions. Such rise must not be so sharp or continue so long as to lead to a repetition of the unhealthy speculative conditions of a year ago. That sharp rise in prices encouraged speculative inventory buying which, combined with the decline in housing construction, laid much of the ground for the present recession. We must do everything we can to prevent this from happening again.

"Our program seeks a balanced system of prices such as will promote a balanced expansion in production. Our goal is a constantly increasing national income through increasing production and employment. This is the way to increase the real income of consumers.

"This is not a policy of restriction; it is a policy of abundance.

"Our agricultural, industrial, housing and monetary programs have been and will be directed toward this end."

This



REB

4-#75, To London, Feb. 18, 4 p. m.

This statement was prepared at the President's request by:

Henry Morgenthau, Jr.  
Secretary of the Treasury

Henry A. Wallace,  
Secretary of Agriculture

Frances Perkins,  
Secretary of Labor

Marriner Eccles,  
Chairman of the Board of Governors  
of the Federal Reserve System

and economists of various executive department.

HULL

SAME TO: AMEMBASSY, PARIS,  
as Department's #100, February 18, 4 p.m.

REB

TELEGRAM SENT  
GRAY

February 18, 1938

4 p. m.

AMEMBASSY

PARIS (FRANCE)

100

FOR COCHRAN.

The Secretary of the Treasury transmits the following text released to the press at the White House:

(See No. 75, February 18, 4 p. m. to London for Butterworth).

HULL  
(FL)

GRAY

SMS

London

Dated February 18, 1938

Rec'd 2:25 p.m.

Secretary of State,

Washington.

142, February 18, 5 p.m.

STRICTLY CONFIDENTIAL FOR TREASURY FROM BUTTERWORTH

I had a long private talk with Clay, Economic Adviser to the Bank of England, who definitely fears that we are drifting into another world depression period. He does not believe that activity can remain at the present level; it must either improve or decline and he sees the underlying trend growing stronger and stronger towards depression levels. He therefore feels that unless energetic steps are taken in the United States and in the United Kingdom to make full use of the opportunity which the forthcoming seasonal upturn will offer the world may well lapse into another depression. In this connection he mentioned in passing the reflection of uncertainty which can be found in many quarters, not the least important of which is the gold and coin market: the growing movement into gold was not merely the result of large

large

ams 2 - No. 142, February 18, 5 p.m. from London.

large capitalists seeking safety but also gold coin has been in extraordinary demand on the Continent the premium at times reaching as much as four percent. This indicates to him that the Continent is once again beginning to anticipate a period of monetary instability. Clay said that surely this attitude of mind if it began to grow would frustrate all attempts to lower barriers to international trade; that the whole tendency would be for one to keep assets and liabilities in the same currency and to play for safety in every possible way. In passing he mentioned as an example how serious would be the effect of another depression at this time on the Dominions: South Africa was in good shape but Australia could only stand about one year of low wheat and wool prices and both Canada and the Argentine (sic) needed two or three years more of recovery in which to put their houses in order.

Clay said that the British authorities were quite properly concerned about the rapid increase in unemployment which however he thought would not go much further at the moment due to the Spring upturn. Clay thought that Chamberlain's House of Commons statement (my 119, February 10, 8 p.m.) was merely lip service to the idea of preparing a public works program for use in case of  
need

3- no.142, Feb.18, 5p.m. From London

need (letter portions of my 763, December 9, 9 p.m. and 17, January 6, 5 p. m.). Clay believes that this should be done and that taxation should certainly not be increased and if possible reduced. He termed Chamberlain's increase in the income tax as Mæochistic and illadvised; the burden of taxation was too heavy both actually and psychologically and furthermore there had been forgotten the very sound principles which nineteenth century Chancellors of the Exchequer had kept in mind, namely, to hold in reserve a field for further taxation in time of war. He went on to say that there was no point in Great Britain trying to carry the rearmament program except overwhelmingly by borrowing and this attempt to straddle two horses was stupid. In Clay's opinion some reduction of taxation and a further easing of credit particularly if accompanied by a bold announcement that the Government was preparing elaborate plans for public works which would be available for use when needed would stave off a deterioration in the British economic position which in any case he did not expect to be very rapid. In his view the average British business man and industrialist is not so panicky as he was inclined to be three months ago but is decidedly perplexed by the manner in which his orders have declined. As to the

rearmament

4-#142, Feb. 18, 5p.m. From London

rearmament program, Clay feels that whereas it will tend to bolster up the situation its effect has been somewhat overestimated; that so far as construction goes the peak of the expenditure should now be passed; the peak of the program's general effect will not be passed for say fifteen months time.

Clay (\*) out of his way to make it clear that his advocacy of a public works program did not necessarily apply to the United States; that whereas he believed drastic measures should and would have to be taken in the United States to give sufficient confidence to permit business to go ahead, he did not mean to imply that public works program was one of them. Such a program initiated by a conservative government in England would undoubtedly be considered by English business as a bull point but in America with the position reversed a similar program doubtless would be regarded as a bearish development. However he saw no sign that the British Treasury had changed the view which it held in the late twenties in opposing any such idea. Clay said that one disturbing thought about the possibility of a depression in Great Britain was that unfortunately there would be no Labor Party for the electorate

REB

5-#142, Feb. 18, 3p.m. From London

electorate to throw out; that the Labor Party was still discredited in the eyes of the people and that therefore the next election if it were held in the midst of a serious depression would not mean a labor victory but probably the rise of a British form of Fascism. That was the danger.

The amount of gold at fixing was again extraordinarily large, 371 bars. After fixing dealings have been active at 139 shillings 11 pence which is one penny above fixing price and at the prevailing dollar rate of 505.35 gold point has been reached. The market therefore is awaiting expectantly the announcement of gold movements <sup>from the United States</sup> which when made should have a reassuring effect. The franc has been bid all day and the French fund has acquired substantial amounts of sterling.

JOHNSON

HPD

(\*) Apparent omission

REB

GRAY

Paris

Dated February 18, 1938

Rec'd 5:08 p. m.

Secretary of State,  
Washington.

266, February 18, 4 p. m.

FROM COFFMAN.

Franc opened around 152.70 to the pound but soon went to 152.25 with French control apparently acquiring quite a lot of sterling. Since noon it has moved back to 152.80 without any visible attempt by control to check the move. Improvement late last night and this forenoon came from more optimistic feeling over progress of French labor legislation. Market just now expectantly awaiting President Roosevelt's message on prices, concerning which many rumors are afloat, mostly giving rise to fear of inflation. Consequently there have again today been heavy continental, particularly Swiss and French, sales of dollars against gold in London. Commission on latest French Treasury loan has moved from original 15 to 17½ francs per thousand franc bond, with little apparent enthusiasm for the issue.

FINANCIAL



REB

2-#266, From Paris, Feb. 18, 4p.m.

FINANCIAL TIMES today carried following telegraphic report from Berlin: "the time is not yet ripe for the stabilization of world currencies. This was the view expressed by Herr Blessing (repeat Blessing) a director of the Reichsbank in a lecture on the possibilities of stabilization to the Berlin School of Economics. He said that the economic and financial conditions necessary for stabilization had not yet appeared and thought the main hindrance was the international armaments race due to political uncertainties. Germany would welcome the end of the present unsatisfactory internal currency situation.

BULLITT

CSE

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 268

DATE: February 18, 8 p.m.

FROM COCHRAN. STRICTLY CONFIDENTIAL.

The French Financial Attaché in London, Mr. Monick, came to Paris from London on February 17 and called on me at 5 o'clock that afternoon. He said that earlier in the week Ambassador Corbin and he had talked with Sir John Simon, with Phillips and Waley present, and had interested the British in the idea of opening tripartite conversations. He said that since reaching Paris he had talked with the Minister of Finance but no other official in the Finance Ministry and no one in the Bank of France knew of his visit. He said that the Minister of Finance wanted to talk with me at the Ministry at 5 this afternoon.

Marchandean received me at the appointed hour. Monick was present. Marchandean referred to our recent conversations regarding collaboration between the tripartite countries and reaffirmed his intention to remain faithful to the tripartite agreement and to maintain monetary freedom in France. He said that we must realize that this is a difficult task for France and that precautionary measures should be taken to prevent the danger of France being drawn into exchange control should conditions become more critical

critical.

At Marchandean's request, Monick summarized for me an account of his visit with the British Chancellor of the Exchequer, while glancing at a memorandum of the conversation which he had prepared for Marchandean. Monick said he had said in the London meeting that certain French circles were becoming disappointed over the failure of the tripartite agreement to keep the franc steady and that suggestions for exchange control in France were gaining adherents. He expressed the opinion that some international movement by the tripartite countries in unison would be the best countermove against this. The British, Monick said, accepted the idea of opening tripartite conversations.

Marchandean asked that I submit the proposition to Mr. Morgenthau, stressing that both the French and British Treasuries desired that the matter be handled most intimately and be treated as strictly confidential. I said I would cable immediately but that they had not been specific as to what they thought of accomplishing in the conversations. When I asked if there was any definite plan in mind so far as France was concerned, the Minister insisted that it was best to leave the field open for wide discussion and that France would enter it without any preconceived plan.

The

-3-

The spirit of the tripartite, he said, was that when any serious situation with respect to the currency of any one of them threatened, the three countries should consult together. However, when I still insisted on being given some more concrete basis for a message to the Secretary of the Treasury, Marchandean gave me a memorandum, of which the following is a translation.

"Is the American Treasury disposed to open with France and England conversations which would have the following object: (A) to study the concrete possibilities of developing and extending the cooperation inaugurated by the tripartite agreement; (B) to examine particularly the possibility of establishing a new stage in the direction of more definite stability, while maintaining the necessary comparisons between their treasuries and institutions of issue."

BULLITT

EA:FL:EB

## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England

DATE: February 19, 1938, 11 a.m.

NO.: 77

FOR BUTTERWORTH.

FROM SECRETARY MORGENTHAU.

I quote below the text of telegram No. 268 of February 18, 6 p.m., from the Embassy at Paris: -

"The French Financial Attaché in London, Mr. Monick, came to Paris from London on February 17 and called on me at 5 o'clock that afternoon. He said that earlier in the week Ambassador Corbin and he had talked with Sir John Simon, with Phillips and Waley present, and had interested the British in the idea of opening tripartite conversations. He said that since reaching Paris he had talked with the Minister of Finance but no other official in the Finance Ministry and no one in the Bank of France knew of his visit. He said that the Minister of Finance wanted to talk with me at the Ministry at 5 this afternoon.

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drawn into exchange control should conditions become more critical.

At Marchandean's request, Monick summarized for me an account of his visit with the British Chancellor of the Exchequer, while glancing at a memorandum of the conversation which he had prepared for Marchandean. Monick said he had said in the London meeting that certain French circles were becoming disappointed over the failure of the tripartite agreement to keep the franc steady and that suggestions for exchange control in France were gaining adherents. He expressed the opinion that some international movement by the tripartite countries in unison would be the best countermove against this. The British, Monick said, accepted the idea of opening tripartite conversations.

Marchandean asked that I submit the proposition to Mr. Morgenthau, stressing that both the French and British Treasuries desired that the matter be handled most intimately and be treated as strictly confidential. I said I would cable immediately but that they had not been specific as to what they thought of accomplishing in the conversations. When I asked if there was any definite plan in mind so far as France was concerned, the Minister insisted that it was best to leave the field open for wide discussion and that France would enter it without any preconceived plan.

The

- 3 -

The spirit of the tripartite, he said, was that when any serious situation with respect to the currency of any one of them threatened, the three countries should consult together. However, when I still insisted on being given some more concrete basis for a message to the Secretary of the Treasury, Marchandean gave me a memorandum, of which the following is a translation.

'Is the American Treasury disposed to open with France and England conversations which would have the following object: (A) to study the concrete possibilities of developing and extending the cooperation inaugurated by the tripartite agreement; (B) to examine particularly the possibility of establishing a new stage in the direction of more definite stability, while maintaining the necessary comparisons between their treasuries and institutions of issue.'

WELLES

(Acting)

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE February 19, 1938

TO Mr. Oliphant  
FROM Mr. Foley

At Col. Roosevelt's suggestion, I attended another housing meeting in his office yesterday afternoon. In addition to Col. Roosevelt and his assistant, James Rowe, there were present:

From WPA - Aubrey Williams and Col. Harrington; from FHA - Stewart McDonald, Charles McGehee and Mr. Daiger; from FSA - Capt. Lord and Mr. Baldwin; and from USHA - Nathan Streus.

Col. Roosevelt told the group that the President had decided not to spend WPA funds for housing construction for the present but wanted to give the current program a trial period of 3 months to demonstrate what it can accomplish. During this time its effect on the building industry and unemployment will be observed closely. Around the first of June the matter is to be considered again in the light of accomplishments.

Col. Roosevelt explained that Mr. Jones was willing to make RFC funds available to assist FHA operations. Stewart McDonald said that Mr. Jones intends to incorporate at once an emergency mortgage company to make available junior money, where necessary, to assist in financing FHA projects. He said that there were many situations where the private lending institutions, even with FHA insurance, would not be willing to lend enough on a first mortgage to finance the project. In such cases, he contended, the new RFC Mortgage Company could supply the difference between the borrowers equity and the amount the lending institutions would make available. Mr. McDonald



-2-

also added that arrangements were being worked out with WPA for the construction of utilities, sidewalks and streets where necessary in connection with FHA activities. ✓

Mr. Daiger of FHA explained that HOLC, as of last November 30, had acquired through foreclosure, title to approximately 67,000 properties and by the end of 1938 he estimated that it will have acquired in this manner approximately 150,000 properties. He went on to say that houses on these properties were, for the most part, quite dilapidated and needed renovating and repair before they could be rented or sold. Aubrey Williams said that WPA labor could be made available for this work and promised to get in touch with Mr. Fahey at once and work out the details.

Nathan Straus said that he expected to have \$100,000,000 of housing under contract by July 1. Wherever streets, sidewalks and utilities are needed in connection with his developments, he will ask WPA to furnish the necessary labor. ✓

Capt. Lord explained that FSA owns approximately 4,700 acres of land in more than 15 states which had been acquired at prices ranging from \$100 to \$150 per acre. Most of this land is located in suburban areas or is adjacent to large cities. By making the land available on long term leases to non-profit corporations and by having WPA furnish the necessary streets, sidewalks and utilities, a sufficient equity for a loan from the RFC Mortgage Company could be established. In this way a \$37,000,000 program for the construction of \$2,500 to \$4,000 houses to rent from \$15 to \$50 could be started without great delay. Col. Roosevelt asked Capt. Lord to sit down with the FHA people and select projects in localities that would not interfere ✓

-5-

with FHA activities, then arrange with WPA for the transfer to FSA of the funds necessary for utility construction. Capt. Lord estimated about \$7,000,000,000 would be needed for this purpose. In addition, Capt. Lord said they would need about \$1,000,000 for plans. After Capt. Lord makes his arrangements with FHA and WPA he is to talk further with Col. Roosevelt about the money for plans.

Col. Roosevelt is to be away for about two weeks and in his absence Mr. Rowe is to keep himself informed of developments.

F. W. J. L.

## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England

DATE: February 19, 1938

NO.: 78

Secretary Morgenthau asks that Butterworth go to Paris on Monday, February 21, to discuss the subject of Paris Embassy's telegram No. 208 of February 18, 6 p.m., with Cochran. The Department has no objection to this if the Chargé is agreeable. The expenses of the trip will be paid by the Treasury Department.

The Department is advising the American Embassy, Paris.

WELLES

(Acting)

EA:LWW

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: February 19, 1938, noon

NO.: 103

FOR COCHRAN.

FROM THE SECRETARY OF THE TREASURY.

Reference is made to your telegram No. 368 of February 18, 6 p .m.; Butterworth is being asked to go to Paris on Monday, February 21, to discuss this matter with you.

WELLES

(Acting)

CA

TELEGRAM SENT

GRAY

Feb. 20, 1938

9 p.m.

AMEMBASSY

PARIS (FRANCE)

108. FOR BUTTERWORTH

At request of Secretary of Treasury please have  
Butterworth return to London Monday night.

WELLES ACTING

(HF)

EA HF NPL

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE  
CONFIDENTIAL FILES

DATE February 21, 1936.

SUBJECT TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

I called Mr. Bolton at 11 o'clock today. Eden had just begun with his speech on the floor of the House. The split in the cabinet politically had been badly managed, Bolton thought, but the important thing to remember was that it did not arise out of the Austro-German developments but had gradually developed long before. Chamberlain was not a good politician in having this thing break at the present moment, but the general feeling in London right now was that there would be no crisis. With this feeling gradually gaining the upper hand, the continent, particularly Amsterdam, Brussels and Zurich, after having first sold sterling under the impression that the government was in danger, had subsequently reversed its action and was now bidding for sterling. The Treasury and the Bank of England had been prepared to give support to sterling to prevent a runaway market but subsequent events had made intervention unnecessary. They had considered whether they should let the London gold price move very much one way or the other and had finally decided to keep it steady at the present level of 139.10. If the dollar should turn strongly bid, they would still, in all probability, keep the sterling price in gold unchanged, which would, of course, mean a drop of the dollar equivalent of the London gold price. Assuming that the latter was left unchanged at 139.10, the upward movement of the dollar would automatically be checked at 4.9750, at which dollar price 139.10 would equal the shipping parity of 34.77. Such policy on their part would, of course, be subject to agreement with us, as Bolton put it, but in the circumstances prevailing

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 21, 1928.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

- 2 -

today it had seemed to them to be the best one to follow. An upward movement of the dollar to 4.97 would be contrary to all local ideas about the dollar rate, most people in London being well convinced that fundamentally the dollar was weak.

France was taking the latest political developments very calmly and there had been no effect on the franc, so that the French fund did not have to operate at all. In London they had the feeling that the move continued in France toward a political union and that the more pressure was exerted on France from the outside by developments such as the latest Austria-Germany arrangement, the nearer was the moment when the French might have some form of national government. The other movement of importance at the moment was the effort of the extreme left to impose exchange control, which was ever more likely to become the topic of the day. During the last few days the fund had managed to recover a good deal of the exchange recently lost but this recovery was a very spasmodic affair.

LWK:KMC

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 21, 1938, 4 p.m.

NO.: 275

FROM COCHRAN.

At half-past ten this morning I visited the Bank of France. At that time the franc was calm, being around 152.60 to the pound. There was no official intervention on the market.

At 3:30 this afternoon my market contact reported franc had advanced to 152.37 but was then back to 65. He thought French control may have gained a few pounds but had not yielded any. Trading was very light on both foreign exchange and stock markets with every one still perplexed as to possible results of Hitler's speech and Eden's resignation.

Press reports that Caisse des Depots et Consignations has not asked reimbursement on the due date February 20 of two billion francs loaned to the Treasury in 1936 against two year 3% bonds. No confirmation or details of renewal yet available.

In its weekly review L'INFORMATION Paris remarks that "the Paris Bourse warmly welcomed the statements of Mr. Roosevelt favorable to a rise in raw materials as well as the strengthening that actually took place therein at the end of the week. The effect of this American economic policy has offset that of developments in Austria."

END SECTION ONE.



LMS

GRAY

Paris

Dated February 21, 1938

Rec'd 5:45 p. m.

Secretary of State,

Washington.

275, February 21, 4 p. m. (SECTION TWO)

LA JOURNEE INDUSTRIELLE Paris in reviewing American developments concludes:

"The maintenance of prices or a measure to raise them cannot have lasting results unless consumption increases, and this consumption will not develop definitely from a simple monetary change (desterilization). It has been seen that the devaluation of 1933, even if it did cause an accidental price rise, has not been able to maintain it. If Mr. Roosevelt wishes indeed to develop a constructive policy for prices and economic recovery he must extend his action outside and invite other great industrial powers to a common action, either in the monetary or credit field".

Financial Editor Jenny of LE TEMPS defends the gold move of the Treasury and states that after reflection international financial quarters do not consider that the decision taken is in any way likely to imperil the American  
currency

LMS 2-No. 275, February 21, 4 p. m., from Paris.

currency situation. Furthermore, he does not believe that the Treasury authorities envisage any new depreciation of the dollar.

On the other hand the conservative situation ECONOMIQUE ET FINANCIERE says:

"The turn given to American monetary policy raises anew the question of a devaluation of the dollar. Monetary manipulations appear to have returned to honor in the United States as a remedy for the present business depression. In case that, as is feared, the increase in gold stock does not procure the desired recovery, it may be asked whether President Roosevelt would not have recourse to more radical measures such as a lowering of the gold value of the dollar. These are the fears that explain the recent weakness of the dollar against sterling and the firmness of gold in London."

(END OF MESSAGE)

BULLITT

KLF

## Paraphrase

PARIS

Dated February 21, 1938

Recd. 11 p. m.

Secretary of State,

Washington.

279, February 21, 10 p. m.

FROM COCHRAN

STRICTLY CONFIDENTIAL

With reference to the Department's telegram 103, February 19, noon.

This morning Butterworth arrived in Paris. We compared notes.

The British financial adviser in Paris, Rowedutton, had asked me on February 15 to dine with him tonight. He said that Sir Frederick Phillips would be with him for dinner. Phillips was due to arrive in Paris today for a meeting of a League of Nations committee.

En route to Paris Butterworth met Phillips. Rowedutton asked me to bring Butterworth to tonight's dinner. Butterworth's talk with Phillips on the way to Paris raised points which were used for leads and confirmed in our evening conversation. This conversation is summarized below. French Treasury officials here were not seen by Phillips.

Only the four of us attended the dinner. The following is a summary of our conversation: I informed Phillips of Monick's approach to me on February 17 and also of my interview with Marchandean, the Minister of Finance, in the presence of Monick, as reported in my No. 268, February 18, 6 p.m. It was made quite clear by me that it was Marchandean who took the lead in the conversation, although the invitation for me to come to him had been brought by Monick, and that

I had addressed my questions to Marchandean and that I had received the memorandum quoted in my above mentioned cablegram from his hands.

The British had received nothing in writing from Monick according to Phillips. I told him that my impression, gained from Monick's hints when he called on me on February 17, was that some step involving a move towards stabilization of the franc, dollar, and pound was what he had in mind. Marchandean had not repeated these hints and therefore I had not ventured to be more specific in reporting my interview at the Ministry of Finance than was warranted by the memorandum which I received there. In Monick's talk with the British ~~xxxx~~, Phillips said there had not been any suggestion of any move toward achieving greater stability in any other currency than the French franc. His understanding was that Monick had some intermediate step in mind towards stabilization between the present situation and a final de jure definite fixing of the franc against gold with the thought that this intermediate step should involve defense of the franc more on the lines of the way the old gold standard worked than on the lines of the system at present in effect.

Regarding the chances of success of such an operation, Phillips did not seem optimistic and if his advice were sought by the French he would be very hesitant. However, considering such a possibility he discussed various factors which would be involved. If, for instance, the contents of the stabilization fund amounting to approximately 15,000,000,000 francs, the 6,000,000,000 francs in the rentes fund and the profit of between 17 and 20,000,000,000 from revaluation of the present gold stock of the Bank of France from 45 milligrams to

the current rate were to be made available, after due legislation, by stabilization, what lasting relief to the French situation would there be therefrom? Would a new flight from the franc actually be facilitated by this donation of new francs on the market leading to spending? What rate of stabilization should be chosen? Would the present rate of say 155 francs to the pound be sound? Phillips was obviously concerned about the fact that the present proposal is known only to Marchandeg, Delbos and Chautemps, and wondered what the reaction to the proposition would be on the part of other government leaders, particularly Daladier. The latter conceivably might vigorously oppose returning to a system in which the surrender of the so-called war chest (the Bank of France's gold) to defend the franc would be automatically involved.

As my purely personal opinion, I said that ~~the present rate~~ even though the French may instinctively prefer a fixed to a floating currency, stabilization at the present rate would not be, in itself, sufficient inspiration for a significant amount of French flight capital to return immediately and permanently. It was my opinion that before stabilization could really be effective it would be necessary for other very progressive steps to be taken toward social peace and increased production. I remarked that with respect to the proper rate, in each successive stage of depreciation from 105 to 155, defense of the franc had experienced difficulty. It appeared, however, that the present rate might be correct from the current economic viewpoint, in as much as during the brief period at the time of the latest Cabinet crisis when the franc was unprotected the rate fluctuated

very little. This rate cannot be held indefinitely unless the factors of labor and production are cleared up and there is improvement in the balance of payments; furthermore it is impossible to say what rate could be maintained. Each one of us had difficulty in envisaging the lead in seeking exchange control being taken by a Radical Socialist government. All of us were in agreement that if the present treasury loan does not go better than is currently reported, difficulty will be experienced in raising funds in March by the French Treasury. It would presumably depress the franc if the Treasury should draw upon its remaining five million credit in securing Bank of France.

Further opportunities for the French to borrow in Switzerland or the Netherlands seemed to me very slight. It was stated by Phillips that in London the short term money market had changed entirely since the French obtained their two earlier credits, and that it would now be out of the question for a London participation in a French credit.

It would be necessary for any borrowing to be at long term with the bonds passed on to investors and, considering the unfavorable British impression of the French domestic situation, such a loan would not be well received now. However, he talked about the possible relief that a loan which would permit a lowering of French interest rates to 4% would give to France. I was in agreement with Butterworth in not being entirely convinced that, if political circumstances made it imperative, a long term British loan would be out of the question.

In Phillips' opinion it is impossible for either us or the British to ~~have~~ refuse to talk with the French. I do not believe that the French should be given any possible ground for complaining that the terms of the tripartite agreement which envisage consultation were not

-5-

met by us. I believe that we were all in agreement in feeling that the French approach should be accepted but that we should leave it very definitely to the French to advance specific ideas at the earliest stage possible; furthermore, rather than being made too formally diplomatic, the conversations should be technical. The British are ready to give their moral support to the French under the tripartite agreement. ~~That~~ They do not desire, however, that sentimental or idealistic grounds be the basis of any conversations.

This message is being repeated to London for Butterworth's information and any supplementary additions. He did not have opportunity to read the above text before he left although we did discuss it. Butterworth and Phillips left for London on the ten o'clock train.

BULLITT

## PARAPHRASE

PARIS

Dated February 21, 1938

Recd. 11 p.m.

Secretary of State,

Washington.

379, February 21, 10 p.m.

FOR COCHRAN.

STRICTLY CONFIDENTIAL.

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- 4 -

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Further

- 5 -

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at

- 6 -

at the earliest stage possible; furthermore, rather than being made too formally diplomatic, the conversations should be technical. The British are ready to give their moral support to the French under the tripartite agreement. They do not desire, however, that sentimental or idealistic grounds be the basis of any conversations.

This message is being repeated to London for Butterworth's information and any supplementary additions. He did not have opportunity to read the above text before he left although we did discuss it. Butterworth and Phillips left for London on the ten o'clock train.

BULLITT.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 21, 1938

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: The Business Situation

Summary

The President's statement of policy on commodity prices, accompanied by moves leading toward an expansion in available credit, has had a favorable influence on business sentiment during the past week. It has been accompanied by an upturn in commodity prices on an increased volume of trading, and by some improvement in stock prices.

The statement appears to have been made at an opportune time, since underlying conditions in the commodity and stock markets are apparently growing more favorable, and the decline in business activity has levelled out. While the current business trend, as measured by the New York Times weekly index, turned down during the week ended February 12, an improvement in various industries is looked for during March.

The movement of goods into consumption, as indicated by department store sales, continues to make a much more favorable showing than does industrial production. Sales in dollar volume during the first two weeks of February were only 4.8 per cent below last year, which is probably about equal to the decline in price levels.

Our estimates of basic demand during January (See attached chart) are lower than in December, while industrial production during the month was at nearly the December level. The stability of production following its wide deviation below the level of demand in the previous month provides some evidence that a bottom is being established around these levels.

The Current Situation

Current business activity, as measured by the New York Times business index, showed a rather sharp setback during the week ended February 12, owing to declines in carloadings,

electric power production, and lumber production. Automobile output and cotton mill activity increased. The combined index dropped nearly to the low level established at the end of December.

Steel activity was maintained during the past week at 31 per cent of capacity, a fractional gain over the previous week. Steel prices have been confirmed for the second quarter at present levels. This clarification of the price situation, announced first by the U. S. Steel Corporation and followed by the independent companies, is expected in the trade to bring increased buying of steel products during the next few weeks from those who have been holding back orders in the hope of lower prices. In the longer term outlook the steel price question has not been settled by this week's action, but remains a factor contributing to the liquidation of inventories and to hand-to-mouth buying. Such policies, however, are tending to build up a large potential demand that will make itself felt when the question of steel prices is satisfactorily settled.

The Automobile Situation

Automobile production during the past week showed a slight gain, but no important step-up in operations is expected until late this month or early in March. Used car sales are showing gradual improvement, and are expected to advance markedly with the coming of spring, in view of plans in the industry for intensive sales drives. Because of the relatively favorable agricultural situation, substantial purchases of used cars by farmers are looked for this spring. Twice as many used cars as new cars are generally sold in the farming districts.

The President's price-raising statement is considered by Ward's Automotive Reports as tending to prevent a reduction in automobile prices in the immediate future, regardless of the recent reduction in prices of steel sheets used in making automobiles. The desire to prevent losses to dealers and factories on the present large stocks of cars, both new and used, is of primary consideration in maintaining prices. On the other hand, the surprising gain in orders following the recent reduction by Packard suggests that price reductions may provide the key to increased automobile demand.

The market prices of all raw materials going into the making of an automobile, with the exception of iron and steel and aluminum, are substantially lower than they were a year ago. Prior to the recent reduction in prices of steel sheets, which means a further cut in the average cost of materials per car of about \$3.50, the comparative open-market costs of the various materials used in making an automobile are listed by Ward's as follows:

Secretary Morgenthau - 3

	<u>Prices early in February</u>	
	1938	1937
Finished steel	\$52.10	\$46.60
Pig iron	4.06	3.53
Rubber sheets	9.95	14.99
Cotton	16.20	25.65
Copper	3.40	4.34
Lead	1.50	1.84
Aluminum	2.12	2.12
Tin	1.63	2.00
Wool	3.10	4.70
Total per car	\$94.06	\$105.77

#### Basic Demand and Production

Our combined estimate of basic demand shows a further downturn during January, according to preliminary calculations. (See attached chart). Industrial production during the month receded but slightly, the preliminary Federal Reserve Board index standing at 82, as compared with 84 in December, hence the deviation of production from demand has narrowed somewhat. Since production during December was unusually far below our estimate of basic demand, the stability of the production index in January provides some ground for believing that a bottom is being established around these levels.

The January production levels in relation to demand differ among the various industrial groups. In the iron and steel industry a slight increase in production occurred during January while the index of demand turned down, thus narrowing the unusually wide deviation of the previous month. Since iron and steel production continues materially below the estimated demand, a further narrowing of the spread will probably come about partly, or even largely, through increased production.

The textile group continues in a position favorable to recovery from recent low levels. This is confirmed by a study we have made of the situation in the wool industry, as well as by current developments in the cotton industry, where encouragement is seen in the fact that cotton goods are moving into consumption in much larger volume than they are being produced.

In the automobile and leather industries the situation also appears favorable for an upturn in production. Lumber



Secretary Morgenthau - 4

production appears in approximate balance, and could move either way, depending upon the trend in residential construction.

The petroleum industry, on the other hand, continues to appear in a definitely unfavorable position, a fact which is confirmed by statistics which show a piling up of stocks of various petroleum products. The production of crude petroleum showed a further slight increase during January. The outlook for bituminous coal production also appears relatively unfavorable, with a decline in both production and demand during January.

Retail Sales

The movement of goods into consumption, as indicated by weekly figures on department store sales, continues to make a much more favorable comparison with last year than do the various indexes of industrial production. During 4 weeks in December, department store sales in dollar volume averaged 2.3 per cent lower than in the previous year, about equal to the decline in prices. In January the 4-weeks' average was 2.2 per cent below, while prices were still lower. During the first 2 weeks in February the sales in dollar volume have been 4.8 per cent below last year. Since prices have probably declined by about the same amount, the sales in actual volume are apparently running on approximately the same level as in February last year. Sales last year during February showed more than a seasonal increase over the previous month.

The Price Situation

The President's discussion of a price-raising program, accompanied by moves toward credit expansion through a change in the gold-sterilization policy and through the release of funds by the Reconstruction Finance Corporation for industrial borrowing, has caused a broad advance in commodity prices this week. The volume of trading expanded on the rise, and in the case of wide futures established a new high record. Cotton prices rose above the 9-cent level for the first time since early last fall. Grain prices, however, were depressed by general rains and snow over the winter wheat states, which relieved fears of drought damage.

While some disappointment over the President's price statement was noted by market observers, in that it made no mention of a definite plan for raising prices, this was overshadowed by the fact of a definite stand having been taken in favor of rising

Secretary Morgenthau - 5

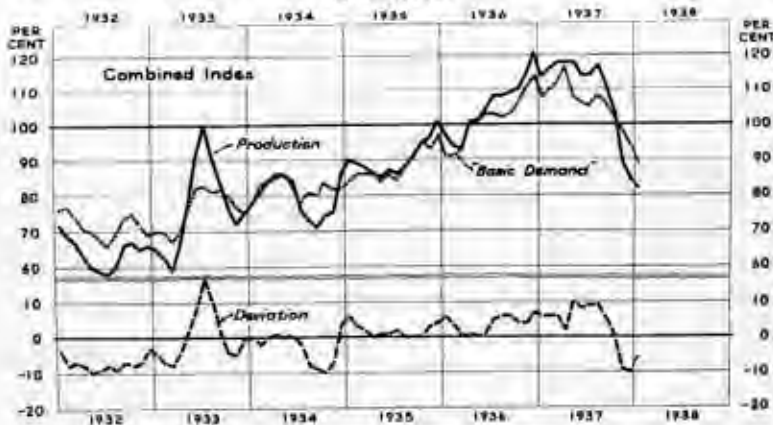
prices, accompanied by changes in policy directed toward that end. It is generally felt that other measures will be taken if these do not prove effective. Commodity prices rose to higher levels at the end of the week after declining slightly on Friday when the President's statement was published.

Other factors tending to improve fundamental conditions for certain commodities, have also contributed to the rise. Cotton has been helped by the passage of the farm bill, with a severe cut in acreage planned for this year. Tin has been strengthened by a reduction in the export quota for second-quarter shipment to 55 per cent of basic quotas, as compared with 70 per cent for the first quarter. Rubber shipments during January have shown a sharp drop, reflecting a cut in the export quota to 70 per cent for the first quarter, as compared with 90 per cent during the second half of 1937. Copper prices have risen on an increased demand from abroad. The cocoa market has been strong on reports of crop destruction by African producers. A pick-up in trade demand for silk has been partly responsible for the recent steady rise in silk prices.

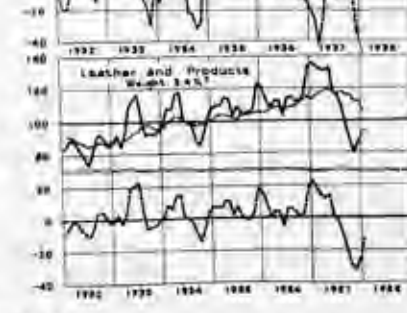
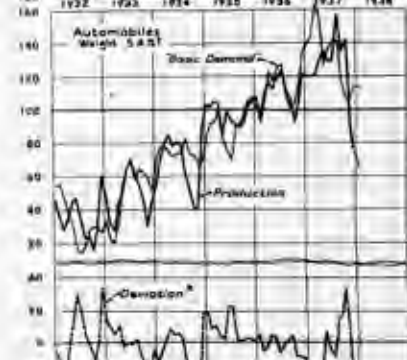
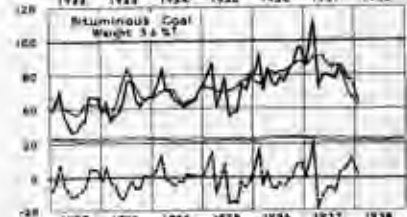
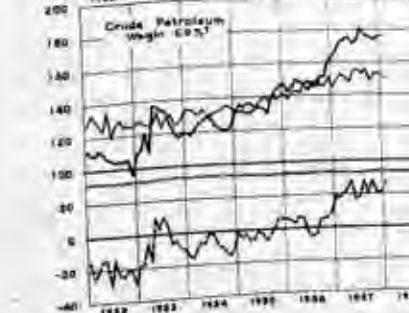
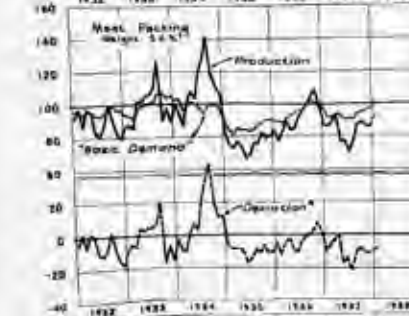
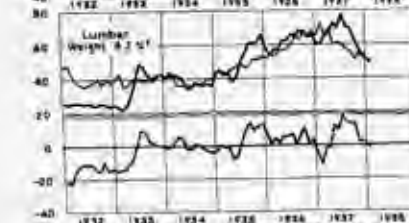
The stock market has improved somewhat during the past week, with the Dow-Jones industrial and rail averages closing the week at the highest levels of the month. While recent Administration moves have had a favorable influence on market sentiment, underlying conditions in the market also seem to be improving. Evidence of this appears in (1) The continued reduction in brokers' loans over the past several months, placing the total on February 16 at \$588 millions, as compared with more than a billion dollars in loans at the same time last year; (2) a noticeable increase reported in the inquiries for large blocks of stock to buy by private arrangement, which contrasts with the situation last August when large blocks of stocks were offered for sale off the Exchange shortly before the market turned downward; (3) confidential reports of the S.E.C. indicating a pronounced improvement in the condition of margin accounts, with the number of restricted accounts declining to the smallest figure on their records. This has resulted from the deposit of new money in the accounts, rather than from price increases or from liquidation. It has been accompanied by an increased amount of buying orders under the market, while selling orders above the market have been reduced.

An unfavorable influence on stock prices has been continued weakness in foreign security markets, with an increased amount of foreign selling in American markets, principally from Great Britain.

**ESTIMATED BASIC DEMAND  
COMPARED WITH PRODUCTION, BY INDUSTRIES**  
1922-'25 = 100



**SELECTED INDUSTRIAL GROUPS**



\* Deviation of Production from Basic Demand  
Weights in Combined Index