

DIARY

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Approved 1
2-15-39

ALTERNATIVE PROPOSALS
FOR IMPROVEMENT OF THE COTTON PROGRAM

The Situation

The Commodity Credit Corporation is required to offer loans to cotton producers at not less than 52 percent of the parity price unless the actual market price for cotton should remain above that level. Under the supply and demand conditions prevailing during the current marketing year the loan has tended to establish a minimum price for cotton. During this period the level of our exports of cotton has been less than 60 percent of the average for the 10 preceding years. Exports probably would increase if the loan were discontinued but returns to cotton producers, already inadequate, would be greatly diminished. Three proposals for additions to the present program are described below. It is believed that any of these alternatives would maintain returns to producers and increase our cotton exports above present levels.

Alternative Proposals

Briefly stated, the three proposals are as follows:

1. Additional payments.-- Under this proposal an additional payment would be offered to cotton producers who comply with their acreage allotments on condition that they accept the payment in lieu of securing a loan on their cotton.

2. Self-financing certificates.-- Under this proposal each producer who complies with his cotton acreage allotment and elects not to obtain a loan on his cotton would receive certificates which he would be enabled to sell at a stated price. Manufacturers and importers would be required to purchase certificates to cover their sales of cotton goods.

3. Export subsidies.-- A third proposal is that subsidy payments be made to exporters on exports of cotton and cotton goods. The rate of payment would be sufficient to establish the price of cotton on the domestic market above the level of the Government loans.

Comparison of Alternatives

Under either the additional payment proposal or the self-financing certificate proposal, cotton would be sold by producers at a competitive world price although they always would have the alternative of obtaining a Government loan at rates near last year's level. Producers who do not secure loans would receive a payment or a certificate in addition to the world price. Assuming a 3-cent payment or a certificate with a value of 3 cents and a world price of 6 cents per pound, cooperating producers would receive about 9 cents per pound in addition to payments under the conservation and price adjustment programs. Under the payment proposal an appropriation of about \$165,000,000 annually would be needed for the additional payments

to cotton producers at 3 cents per pound. If this amount were to be allocated to cotton under section 303 of the Agricultural Adjustment Act of 1938, a total appropriation of about \$400,000,000 would be needed for all commodities to which that section applies. No appropriations would be needed in connection with the self-financing certificates; producers would receive the additional return through manufacturers from consumers of cotton goods. Under the payment proposal cotton goods would sell to domestic consumers on the basis of world prices for cotton. Under the certificate proposal certain low value cotton goods would be on a world price basis but all other cotton goods would sell to domestic consumers on the basis of world prices plus about 3 cents per pound.

Under the export subsidy proposal, assuming a world price of 5 cents per pound and an export subsidy of 3 cents per pound, producers would sell the entire crop at about 9 cents per pound. Payments under the conservation and price adjustment programs would be in addition to this price. Cotton goods would sell in the domestic market on a basis of about 9-cent cotton, midway between the price under the additional payment proposal and under the certificate proposal. Cotton producers probably would prefer to receive 9 cents per pound as the market price for their cotton rather than to receive 5 cents per pound in the market plus 3 cents in the form of a payment or certificate.

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The appropriations required under the export subsidy proposal would depend of course on the rates, quantities, and commodities involved. A payment of 3 cents per pound on exports of 7,000,000 bales of cotton, for instance, would cost \$105,000,000. This is much less than the amount which would be required for the additional payment proposal. The export subsidy proposal, of course, raises the question of what foreign trade policy we should pursue to secure a fair share of the world trade in cotton.

The three alternative proposals which have been discussed briefly are described and compared in greater detail below.

Additional Payment Proposal

Description.—Under this proposal a payment, in addition to other payments under the farm program, would be made to any producer who complied with his cotton acreage allotment and elected not to obtain a Government loan on his cotton. Thus producers would sell their cotton in preference to placing it under loan provided the price obtained plus the additional payment exceeded the loan rate. If the rate of this additional payment were 3 cents per pound, practically all producers would sell their cotton and accept the payment in lieu of the loan, unless the price of cotton should be less than $5\frac{1}{2}$ to 6 cents per pound.

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Legislation needed.—Legislation would be required to appropriate the amount needed for making the additional payments.

Cost.—Payments to cooperating producers at the rate of 5 cents per pound on the normal production of their acreage allotments would amount to approximately \$165,000,000 annually. If this payment were made in conjunction with payments to other commodities in accordance with the parity payment section of the Agricultural Adjustment Act of 1938, a total annual appropriation of about \$400,000,000 would be needed in order to provide \$165,000,000 for cotton.

Self-Financing Certificate Proposal

Description.—Under the certificate proposal, producers who comply with the acreage allotment program would receive, in addition to the payments provided for in the program, certificates for a quantity of cotton equal to the normal production of their acreage allotments, upon the condition that they elect not to obtain a Government loan on their cotton. These certificates would be purchased by manufacturers and importers of cotton goods and surrendered in connection with their sales of articles manufactured from cotton. A pool would be established in order to facilitate the sale of certificates by producers to manufacturers and importers. The pool would buy or sell

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certificates at the fixed price of 3 cents per pound and thereby tend to establish this price for all certificate transactions. The pool would be able to operate through local agents, such as banks, and in this way make it possible for the producer to receive the cash value of the certificates without delay.

Manufacturers and importers would be required to file monthly returns of their sales of cotton goods, the returns to be accompanied by certificates covering the quantity of cotton goods sold. Certain low-value articles, such as bagging and twine, would be exempted from the certificate requirements. While the certificates would be issued covering the entire normal production of each cooperating producer, only about one-half of this amount of cotton would be used in manufacturing articles, the sale of which would require the use of certificates. In order to provide for the use of all certificates issued to producers, the manufacturers or importers would be required to purchase and surrender certificates for twice the quantity of cotton in the articles sold by them. Thus, assuming

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a 6-cent price for cotton, the articles manufactured from the cotton, except those exempted from the certificate requirement, would sell to domestic consumers on a 12-cent basis and the exported articles would sell on a 6-cent basis.

Legislation needed.—The legislation necessary in connection with the certificate proposal would be the enactment, under the commerce power, of a regulatory measure requiring the use of certificates in connection with the sale or importation of articles manufactured from cotton and providing for the issuance of certificates to cooperating producers.

Cost.—No appropriation would be required in connection with the certificate proposal except to provide for administrative expenses.

Export Subsidy Proposal

Description.—Under this proposal, subsidy payments would be made to exporters in connection with the exportation of raw cotton and articles manufactured from cotton. The proposal contemplates that the subsidy payments would be made at rates sufficient to establish the domestic price of cotton above the loan rate so that practically all producers would elect to sell their cotton rather than to obtain a Government loan.

Of course, no one can determine in advance the rate of export subsidy payment that would be required to hold domestic prices above the Government loan rate and to maintain our fair share of the world cotton market. In view of the present supply and demand conditions, however, it is believed that an appropriation should be made to provide payments at an average rate of at least 5 cents per pound.

Although it would be preferable to operate on the basis of subsidy payments to domestic exporters, thereby permitting our cotton to remain in the regular trade channels, it would be necessary for the Government to be in a position to sell cotton directly to foreign importers as an alternative procedure.

Legislation needed.—The following legislation would be necessary in connection with the export subsidy proposal:

- (a) Amendment of the present act to permit sale for export of cotton acquired by the loan agency;
- (b) Modification of the present import duty on raw cotton so as to include cotton of less than 1-1/8" staple. (The present import duty on cotton 1-1/8" and longer in staple is 7 cents per pound).
- (c) An appropriation of the amount required for making the subsidy payments.

Cost.—From 1928 to 1937, foreign consumption of American cotton averaged approximately 7,000,000 bales annually. The payment of 5 cents per pound on 7,000,000 bales of cotton would amount to \$105,000,000. If a lower rate of payment should be sufficient, the cost would be correspondingly less.

Comparison of Alternative Proposals

(a) Returns to producers.—For convenience in comparison the rates were used for payments, certificates, and export subsidies that would result in a return to growers under any of the plans discussed approximately equal to those received last year. These illustrative rates should not be understood as recommendations. In case any of these proposals, or some combination of two or more, were adopted, it is believed that every effort should be made to increase the returns to growers above the present level. For purposes of illustration in the following examples it is assumed in each case that the world price will be 6 cents per pound, that payment of 2 cents per pound under the conservation program and 1.6 cents per pound under the price adjustment program will be retained, and the rate of the additional payment, value of certificates or export subsidies, as the case may be, will be 3 cents per pound. Under these assumptions returns to cooperating producers would be 12.6 cents per pound.

	<u>Payment</u> <u>plan</u> (cents	<u>Certificate</u> <u>plan</u> per	<u>Subsidy</u> <u>plan</u> pound)
Domestic price if export price is 6 cents per pound	6	6	9
Value of certificates	-	3	-
Conservation payment	2	2	2
Price-adjustment payment	1.6	1.6	1.6
Additional payment	3	0	0
Total returns to cooperating producers	12.6	12.6	12.6

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(b) Domestic consumption.— The price of cotton to the domestic consumer would be lowest under the payment proposal and highest under the certificate proposal. The export subsidy proposal would establish an intermediate price. Assuming an export price of 6 cents per pound, cotton goods would sell in the domestic market on a 6-cent basis under the payment plan, a 12-cent basis under the certificate plan, and a 9-cent basis under the export subsidy plan. Because the price of raw cotton represents a relatively small part of the retail prices of cotton goods, the quantity of cotton consumed domestically probably would not be greatly different under any of these plans, especially if under the certificate plan some of the low-value products were exempt from the certificate requirement.

(c) Exports. Under any of these proposals cotton would be available to the export trade at prices competitive with foreign cotton and the volume of exports would be about the same under any of the alternatives, although under the export subsidy proposal a more aggressive export policy could be pursued.

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(d) Government loan stocks.—any of these proposals would keep new cotton out of the Government loan stocks unless, with continuation of the present loan rate, the export price of cotton should fall below 5-1/2 to 6 cents per pound. The problem of liquidating present Government loan stocks needs to be dealt with regardless of the program decided upon, and this decision would not affect the applicability of any proposal for using loan cotton as payments in kind to producers for further acreage adjustment, for distributing cotton to families on relief or using it to develop new outlets, or for enabling borrowers to withdraw their cotton and sell it in the open market.

In connection with the Government loan stocks of cotton, I want to bring to your attention Section 381 (c) of the Agricultural Adjustment Act of 1938:

"(c) The Commodity Credit Corporation is authorized on behalf of the United States to sell any cotton of the 1937 crop so acquired by it, but no such cotton or any other cotton held on behalf of the United States shall be sold unless the proceeds of such sale are at least sufficient to reimburse the United States for all amounts (including any price-adjustment payment) paid out by any of its agencies with respect to the cotton so sold. After July 31, 1939, the Commodity Credit Corporation shall not sell more than three hundred thousand bales of cotton in any calendar month, or more than one million five hundred thousand bales in any calendar year. The proceeds derived from the sale of any such cotton shall be used for the purpose of discharging the obligations assumed by the Commodity Credit Corporation with respect to such cotton, and any amounts not expended for such purpose shall be covered into the Treasury as miscellaneous receipts."

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Obviously with present supply and demand conditions, a modification of this section is necessary if the Commodity Credit Corporation is to sell cotton held by it now or cotton which may be taken over later. There is no similar provision affecting the disposal of other commodities held by the Corporation and in most cases other commodities are merchandised shortly after the time the loans mature.

(e) Legislation needed.--The increased payment proposal would require no legislation except enactment of an appropriation item. The certificate proposal would require legislation for the enactment of a regulatory measure providing for distribution of the certificates to producers and use of certificates in connection with sales of cotton manufactures. The export subsidy proposal would require an appropriation and imposition of compensating import duties. No new legislation would be needed to authorize the payment of export subsidies. In any event, as pointed out above, the existing restrictions on liquidation of loan cotton would need to be modified.

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(f) Costs of alternative proposals. - The highest costs would be involved in adoption of the increased payment proposal. The certificate proposal would not involve any cost to the United States Treasury except for administrative expenses. Export subsidies on cotton would call for an annual appropriation of approximately \$105,000,000, as compared with \$185,000,000 which would be required annually under the payment proposal, or \$400,000,000 which would be required if annual payments were made on all the crops to which the parity payment provisions of the present legislation apply. If export subsidies were made on cotton it is probable that producers of other crops would request similar action.

(g) Summary. - The advantage of the additional payment proposal is that no new legislation would be needed other than appropriation of the necessary funds. The advantage of the self-financing certificate proposal is that, while new legislation would be necessary, no new appropriation would be required. The export subsidy proposal would require less legislation than the certificate proposal and less funds than the payment proposal. The advantage of the subsidy proposal is that a higher domestic market price would be maintained and a more aggressive export policy could be pursued than under either of the other two proposals.

Other Proposals

In addition to the three alternatives which have been described above, there are two other proposals which have been discussed in connection with the present cotton situation. One of these is for the Government to take over the present loan stocks of cotton and sell them in the export market for whatever price can be obtained.

The other proposal, which is contained in the bill S. 1405, is for the Commodity Credit Corporation to offer to purchase all cotton offered to it by producers. Cotton equal to the domestic allotment established for each producer would be purchased at 20 cents per pound or the parity price, whichever is higher. All other cotton would be purchased at the price which the Corporation estimated it could receive in the export market.

These two proposals raise the question of the extent to which it is desirable for the Government to take over functions of the cotton trade now performed by private business concerns. In the one case the Government would handle all of the export trade while under the other proposal the Government would handle the entire cotton crop, reselling it to domestic and foreign buyers.

**COMPARISONS OF PROPOSED ADDITIONS
TO 1959 COTTON PROGRAM**

	<u>Additional payments</u>	<u>Self-financing certificates</u>	<u>Export subsidies</u>
	(C e n t s p e r p o u n d)		
1. Assumed export price	6	6	6
2. Price received by producers	6	6	9
3. Value of certificates	-	3	-
4. Additional payment	3	-	-
5. Conservation program payment	2	2	2
6. Price adjustment payment	1.6	1.6	1.6
7. Returns of cooperating producers	12.6	12.6	12.6
8. Returns of non-cooperators	6	6	9
	(M i l l i o n d o l l a r s)		
9. Farm value of cotton crop, including cottonseed	475	475	625
10. Value of certificates		165	
11. Payments to cotton producers:			
(a) Conservation program	113	113	113
(b) Price adjustment	80	80	80
(c) Additional payment	165	-	-
12. Total returns to all producers	833	833	846
13. Additional appropriation in connection with 1959 crops	165	0	165

* The amounts shown do not provide for administrative expenses.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 15, 1939.

TO Secretary Morgenthau

FROM

Mr. Haas 

The attached memorandum may be of interest to you in connection with the business outlook which you discussed at the staff meeting this morning.

The information was obtained by Mr. Seltzer from interviews in New York. I asked Mr. Seltzer to stop over in New York on one of the trips he is required to make to the Leahey Clinic in Boston. He was not able, however, to make a very complete coverage as many of the people were ill.

Attachment.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 15, 1939.

TO Secretary Morgenthau
FROM Mr. Hask *HA*
Subject: Opinions of Several New York Economists on Business Prospects and the Money Market, as Given to and Paraphrased by Mr. Seltzer

1. Lionel D. Edie, Investment Counsel:

January 1939 marked the cyclical low point in investment confidence. I walked up and down both sides of the Street here into all the new issue houses and couldn't find a single new capital flotation on deck, in the works, or even the subject of negotiation.

I think, however, that we've seen the worst of that. Like any other emotional state, it lasts just so long, and I think that this state of fear and depression is now on its way out.

I think that business and the stock market are going to move up between now and summertime, but I'm not sure in my mind about the latter part of the year. In fact, I think business and the markets are going to be on the down grade in the second half. By that time, the upward movement will have lost its momentum because the push from deficit spending will be over and will not be fully offset by expansion in residential building, etc.

No, I don't believe that we're going to see anything like the 1937 type of recession in the second half of the year. I believe that the country is now ripe for a real all-around improvement in capital goods, beginning right now; but I don't believe the expansion will follow a smooth course. I am right now trying to make up my mind whether the stock market decline in the summer or fall of this year is going to be substantial enough to justify me in getting my customers out of stocks this spring. At the moment, I am inclined to think it will be.

Secretary Morgenthau - 2

I look for a rather prompt recovery early in 1940. I think that the increasing prospect of a conservative victory in the 1940 elections, regardless of whether a Republican or Democrat wins, will be discounted by both business and the markets quite a little in advance, and that this will strongly encourage capitalistic confidence.

About the bond market, I think that Governments and other high-grades will continue vulnerable to European war scares. There is a considerable need for shorter-term securities around New York.

2. J. E. Riddle, Economist at the Bankers Trust Company:

The money market is urgently in need of more Treasury bills. It's a shame to have only \$1,500 millions outstanding at a time like this. Why, all the member banks together have only \$500 millions. Look at this memorandum I sent over to our buying department a couple of weeks ago. Yes, you can take it along. (Copy attached hereto.)

I think Moody's is doing its customers a great disservice in steadily predicting a drop in high-grade bond prices. It's gotten so that a person could almost say that they're trying to bring about the downturn by their own predictions in order to validate their own previous opinions. I don't see anything in the picture that indicates a real turn in interest rates. Of course, we can get temporary market spills, but what of it? Prices bounce right back again. The banks will find that they are cutting their own throats if they attempt to play for market profits by selling whenever the market turns a little weak. The fundamentals of the situation point to low yields and high bond prices.

This talk of a great increase in commercial loans causing banks to ditch their bonds seems very greatly overstated to me. The whole loan expansion for reporting member banks between 1935 and 1937 was only \$2 billions during a period when the Federal Reserve Board index went up 33 points; and the banks have lost nearly the whole of that loan expansion since the fall of 1937.

Secretary Morgenthau - 3

3. Donald B. Woodward, Economist and Bond Market Analyst
of Moody's Investors Service:

Business is now consolidating its recovery from the 1937-1938 recession. Confidence is low but is no longer declining.

We do not feel as bearish on Governments and other high-grades as some people interpret us. We are still predicting that high-grade bond prices are around their long-term ceiling, and that eventually they are going to turn down. But we are not downright bearish, particularly for the near-term.

The market could use a larger volume of short-term securities than it now has. The banks would welcome a larger amount of Treasury bills and Treasury notes.

You may be right about mortgage rates weakening. A friend of mine did some checking up on this among the banks and dealers in New York recently. But he has gone to Bermuda for a short vacation; so I can't call him right now to review his findings. I recall very definitely, however, that he told me that the rates are definitely weakening; and I know that some of the leading officials of the American Bankers Association are now telling bankers that good mortgages are safer than high-grade bonds.

4. Leslie Hayford, Economist, General Motors Corporation:

As you know, we had anticipated a downward and sidewise movement during the first quarter or more of this year as a consolidation of the recovery movement. We think this will give way to a renewed advance later in the year. General Motors is figuring on 1939 as a good year for the automobile industry.

Attachment

January 25, 1939

to

Mr. TompkinsRe: Treasury Bills

The U. S. Treasury ought to keep more Treasury bills outstanding to meet the needs of the money market. It is rather absurd, when the Treasury is borrowing new funds all the time, to limit the supply of bills to the point that banks have to pay par or a premium to get the supply needed at this time of the year. There is little other short-term paper outstanding so that the money market must depend largely on Treasury bills for its needs.

For several years the Treasury kept outstanding regularly over 2 billion dollars of bills, and at times over 2.5 billion. In its refunding operations last year, however, the amount was cut down to 1.3 billion and seems to be fixed at that figure for no better reason than that a weekly issue of 100 million dollars of three-months bills totals 1.3 billion. That amount might be sufficient for the market if it were not for the policy of the Federal Reserve banks of freezing a large amount in their own portfolios. They still hold over 500 million dollars of these bills, leaving only 800 million for the other demands of the market. Some of these are held by corporations and other investors. The member banks held only 300 million dollars of bills last September, the latest date for which figures are available.

The Treasury could easily put out another billion dollars of bills and reduce their long-term borrowing by an equal amount, to the benefit of both the money market and the Treasury. I don't think it would be very much easier if the banks actually received a little return on Treasury bills, say enough to pay the FDIC assessment.

It is true that some of the demand for bills at this time of year comes from banks in states with personal property taxes which apply to bank deposits. Perhaps the Treasury does not feel called upon to supply such needs. This, however, would seem to be a rather stiff-necked attitude because it certainly is not a situation which can be blamed upon the banks or the money market generally.

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Perhaps one reason why the Treasury has reduced the amount of its short-term paper so much is that it wants to hold this market available in case of emergency or in case the time arrives when long-term issues are not absorbed so well. I doubt, however, if the Treasury needs to worry about saturating the short-term market to the point that there would be any difficulty in issuing additional bills in case of need. The market would doubtless absorb 5 billions of bills very readily with only a small rise in interest rates. The argument certainly isn't good enough to cause the Treasury to deprive the market of the necessary amount of bills when it could save interest by better supplying the market needs.

Would it do any good to take this matter up with the Federal Reserve Bank and the Treasury?

J. H. Hiddle

Copy to Mr. Harris

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

February 15, 1939.

Secretary Marguties

Mr. O'Donnell

For your information

The Temporary National Economic Committee decided to-day, in executive session, not to hear further testimony relative to a practice on the part of some agents of the Metropolitan Life Insurance Company of forging the names of policyholders on ballots for the election of the Board of Directors for that Company. The executive session and this decision were made necessary by the presence of some hundred agents of the Company who wished to be heard to refute testimony relative to this practice, received by the Committee last week. After the executive session the Chairman stated the Committee's decision at the public hearing, and then the Committee proceeded to other matters. The record was made to indicate what the tenor of the evidence of these agents would have been had they been permitted to testify, and I believe the action taken by the Committee was satisfactory to all concerned.

The last several days of public hearings have been occupied by testimony of representatives of the New York Life Insurance Company, the Metropolitan Life Insurance Company and the Home Insurance Company, and the testimony related in general to the subject of interlocking directorates. The examiner is attempting to demonstrate that serving on the Boards of Directors of companies that are doing business with each other creates a situation which tends to result in improper performance of the fiduciary duty which the member of a Board of Directors owes to any company in which he occupies such a position.

John H. O'Donnell

GROUP MEETING

February 15, 1938.
9:30 A. M.

Present: Mr. Gaston
Mr. Heas
Mr. Foley
Mr. Duffield
Mr. Gibbons
Mr. White
Mr. Lochhead
Mr. McReynolds
Mrs. Klotz

H.M.Jr: Good morning.

Gibbons: Good morning.

H.M.Jr: Where is Gene?

Duffield: (Entering) Coming right back.

H.M.Jr: If you will just prepare a formal answer for me.

Duffield: It's coming around; I'll have it before the meeting is over.

H.M.Jr: And then, where is my attorney? If you would acknowledge these two from the former United States district attorney of New York. What he wants is - what's the opposite from a "smear" letter? I mean putting it - an "applesauce" letter.

Lochhead: "Smooch".

H.M.Jr: Applesauce, goose grease - something.

Gaston: The word is "salve".

H.M.Jr: Salve; that is right. Some kind of salves burn though.

Gaston: That's another principle; that's a counter-irritant.

H.M.Jr: I tell you what you can use - vanishing cold cream.

McReynolds: Be sure it vanishes.

Klotz: I think that is very clever.

H.M.Jr: The sermon for this morning, ladies and gentlemen, is article 12, Whaley-Eaton letter number ten sixty-seven, page three. I will now read.

*AMBASSADORS: There are some ambassadors who take the view that they are the personal representatives of President Roosevelt. They deal with him direct in matters of particular importance. The bad break in the French airplane contracts can be traced to the fact that Bullitt sold the idea direct to the President. The latter did not, at once, consult the War Department, possibly because he understood how confused that establishment is by the private battle between Secretary Woodring and Assistant Secretary Johnson, who are barely on speaking terms. It does not make for efficiency when ambassadors become too important to operate through the regular channels of the Department of State."

Which I thought was rather interesting.

Now, Mr. Haas, I read your business review of the week, and for once I think you are much too optimistic.

Haas: (Laughs)

H.M.Jr: And I'll tell you why. I don't see how you come to your - mind my doing it this way - I don't see how you come to your conclusions based on your charts where your estimate of basic demands for the first time, is above your industrial production. Your consumer buying for the first time is below your industrial production, and new orders are below industrial production. I - I think that - I think it is a very

Haas: Did you get the idea we are very optimistic?

H.M.Jr: Yes.

Haas: I think that is a misconception.

H.M.Jr: I didn't say that. I quote you.

Haas: I struggled with that just for fear I might give the wrong impression.

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H.M.Jr: I didn't say that; I think these charts lead me to feel quite pessimistic. The way you leave me, "The business outlook remains generally favorable." That is your opening sentence. I don't agree with you. "While the business outlook remains generally favorable, viewed from the standpoint of domestic conditions, renewed weakness in commodity prices has added somewhat greater uncertainty to the outlook and may tend to prolong the current period of hesitation."

You say may tend to prolong the current business - current period of hesitation. I think it is more severe than that.

Wass: Well, it is down, as we pointed out there. I didn't want to say there is a recession.

H.M.Jr: The point I want to get over to you and the staff is this: Based on this one thing, if this thing continues we are on the eve of another depression.

Wass: Ah.....

H.M.Jr: I am not interested in that; I am interested in the next six months. If this thing is right at all, we are on the eve of another severe depression.

Wass: I characterize it this way, Mr. Secretary; that now your basic demand, your orders, and production are pretty nearly even; the charts show them a little above, but you know those approximations on there, that from now on the increase in production here will have to be dependent upon an increase in demand. Now where is that coming from? Steel orders are up you know, on the steel picture. And that is one of the important pictures.

H.M.Jr: Look, George, if the charts are right, we are exactly where we were in November '37. The same thing happened - the same phenomenon happened in November '37 as is happening now.

Wass: I don't remember.

H.M.Jr: Well look here - look over my shoulder.

Wass: In terms of those balances, yes.

H.M.Jr: Look over my shoulder.

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This - this - this thing - production went below there in November - November.

Hess: But at that time, Mr. Secretary, a very large inventory - here you have a very low inventory.

H.M.Jr: Just a minute. The automobile production is in excess of sales.

Hess: That is about usual this time of year.

H.M.Jr: All right, but what happened here, again in November '37 and then went right on ahead. See? And here is your - this thing here is just the same thing, and that is what started all the trouble.

Hess: It makes the inventory different.

H.M.Jr: I wish you'd get your boys together again. If these charts are any good, I am very pessimistic. Now what is there to offset it?

Hess: The only thing to offset it is you have to get an increase in demands somewhere. I think the most pessimistic thing is the way the commodities are acting. If they turn around, the other thing would correct itself very easily.

H.M.Jr: This, to me, is important.

Hess: I don't want to make you optimistic. I am not optimistic myself. If something I said in there gave you that impression.....

H.M.Jr: Well, George, let me take time - anybody get in on this discussion that wants to. What I have been talking about now for six months, where I can be of use to my President, use to my country, if things are again on the eve of where they were in November '37, I want to bring it to his attention, but I want to be as near right as I can, and I want to do something about it. Now everything that you show me here on the charts looks as though we are going through exactly the same phase we were in the fall of '37.

Hess: Except one very important thing. The inventory.

H.M.Jr: All right, inventory position is better now. Now where is your basic demand going to come from?

East: That is the point, and one thing that holds it down is the uncertainty about the bond situation. It is holding down the orders and it is holding down the commodity price situation. If that were cleared up the domestic thing could go ahead.

W.H.Jr: Nobody here in this room or in Washington can do anything about the bond situation. Let's say the bond situation - the chances are more than even they will continue uncertain for the next six months. Knowing that they are going to continue uncertain, I come back - what can we do? Are we just going to sit here and see this thing go into another depression? If I am reading the signs wrong - I have just taken a subscription to a psychic magazine to help me out.

East: You are reading the signs correctly.

W.H.Jr: I have just subscribed - I am serious.

East: I think I'll subscribe to it too.

W.H.Jr: It might help. (Hearty laughter)

We've got all the other services. I want you to take a look at this fellow. It's giving Mrs. Klotz the creeps, but she keeps looking at it just the same.

Easton: I think we've got to be scientific; if we take in the crystal ball, we've got to take in the stars also.

W.H.Jr: Seriously. Each one of you take a look at this fellow. (To Mr. McReynolds) See that fellow? Did you look him in the eye?

Gibbons: Mr. Secretary, I had lunch one day this week with Gardner Jackson and he told me that the coal operators in Pennsylvania are not going to sign up again with the C.I.O. on that wage proposition.

Easton: Checking in?

Gibbons: Checking off; they expect they are going to close right down. That is the first of April or first of May the contract expires.

W.H.Jr: I don't know what this is, if this is English, what they are going to do on this. The reason they sent me this was because they were right all through

September. They consistently said there'd be no world war.

White: A faker says the dead helped him beffle the situation. I think we ought to kill it.

H.M.Jr: You know what I said - this country doesn't need a good five-cent cigar; it needs a couple good resignations.

Haas: I think, Mr. Secretary, on the situation, if you are feeling it, if you are in a period of apprehension where you have your fingers crossed, I agree with you a hundred per cent.

H.M.Jr: I am thinking of charts, and not your interpretation, and based on your charts, I think those things are very serious.

Haas: Well, I struggled on that first page, on the conclusions and I intended to convey the impression you got, but maybe that first sentence led you astray. I don't think it appeared that you can be absolutely sure things are going down. You can't get that impression.

H.M.Jr: You say here, (points to chart) "There are relatively short periods of recession in business," and then you go Bradstreet and Dunn on me, "Unsettling developments".

Haas: That is right. In other words your inventories have no excesses, and so on. I say further down, too, it is in position - it's position is very vulnerable. Favorable or unfavorable.

H.M.Jr: Will you go back for me ten years and - say, Dunn and Bradstreet ran his inventory figures back ten years?

Haas: No.

H.M.Jr: Which one publishes these figures?

Haas: Dunn and Bradstreet made up a census of the thing.

H.M.Jr: Go back as far as you can and find a time when the inventory position was good, and see if that was followed by twelve months of good times. See? I mean, it's just one factor.

Look, George, here's the point; this is what I am getting at, because I think this is terrible. Supposing the inventory position is good. That doesn't mean.....

- Hase: You've got to get an increase in orders, and what is going to make those?
- H.M.Jr: You've got to get an increase in orders, and what is going to make them?
- Hase: You are right; I am not. If there is a sentence, or something, that disturbs you, it is the text.
- H.M.Jr: We can't sit back and say everything is going to be lovely.
- Hase: And I agree with you a hundred per cent.
- H.M.Jr: Don't you like that fellow?
- Gaston: Yes, he's a lovely fellow.
- H.M.Jr: I'll swear, he fascinates me. Could we bring him over as an expert?
- McReynolds: Yes, we can.
- Hase: Hanes ought to have him go up on the Hill today to explain that estimate on the tax exempt.
- H.M.Jr: I like Tyler Bailey. We are going to subscribe to it, and anybody that wants to look at it - our weekly subscriptions - for twenty-five cents, we'll let them look at it.
- Elots: It is worth more than that.
- H.M.Jr: (Telephone conversation with Mr. Harry L. Hopkine at 9:50 A.M. re French Mission in Diary)
- Let's see, get that Financial Attache. You can take care of that, Lochhead?
- Lochhead: Right, I'll see that it goes right along.
- H.M.Jr: It's not necessary. I want to see him anyway.
- Lochhead: As is?

H.M.Jr: I'm sorry, I won't need you. Is the man coming at eleven?

Gaston: I wasn't able to get either of them at the moment.

H.M.Jr: Well if the French Financial Attache is available at eleven, I'd get him to come.

Lochhead: I don't know if he is in town here in Washington just now. He may be back in New York. He was going to be.

H.M.Jr: I want to thank him for what he did. I think you will find he's here.

Lochhead: If he is I'll have him come down.

H.M.Jr: Tomorrow.

Gaston: I left word in my office if he comes back to let him come in at eleven.

H.M.Jr: Hopkins says, "After they fill these French boats, use the American boats."

Gibbons: Assistant Secretary of Commerce Johnson called me yesterday on that same thing, to use American boats, so that has been taken up.

H.M.Jr: Well, George, if you - well, I'll do this, so I don't show the President your comment.

Haas: I think if you read the whole page it is all right.

H.M.Jr: No I didn't want him to do that. I'll show him this stuff.

Haas: We anticipated this decline, in some previous that we put out.

H.M.Jr: Put another chart back in there and return it to Mrs. Klotz. All right?

Haas: The outstanding characteristic, Mr. Secretary, is on this other chart here.

H.M.Jr: What?

Haas: Which is peculiar to this situation.

H.M.Jr: What is that?

Haas: That is the fact, I think, this is without exception - when we had a rise, say 76 to 104 in the F.R.B., you have had a corresponding rise in commodity price. This time you haven't, and that's it. You see here - see this rise here, commodity prices?

H.M.Jr: Well go back further; it isn't enough. Go back ten years, will you?

Haas: Uh huh.

H.M.Jr: Go back ten years on that.

Haas: Yeah I'll show you.

H.M.Jr: Well, what you are saying adds to what I am saying, of pessimism. That's too short a run. Do it even if it is a pencil thing. The President is going to see me this morning; I'd like to have it. Put somebody right on it, will you?

Haas: Yes sir.

H.M.Jr: Thanks, George. And, say that is.....

Haas: This is the key of the whole picture.

H.M.Jr: I'm trying to talk constructively. There is nothing personal about it.

Haas: In fact, we are in agreement; I am - I was afraid you thought we weren't.

H.M.Jr: I have got the advantage on you by taking this psychic magazine.

Haas: You won't, from now on.

Gaston: I suggest you put that subscription in somebody's home - not yours.

H.M.Jr: It's already been done.

Gaston: I'd hate to see a story come out on the cable.

H.M.Jr: You'd be surprised at how many friends I'd make that way.

Klotz: Good ones, too.

H.M.Jr: There is an organization known as the Anglo-Israelites, who are all Christians, and who are not psychic. They are - they consider that they are the lost tribe, you see, and there are several billions of them all over, and.....

Gaston: Their specialty is Bible prophecy.

White: Their object is to find themselves.

Klotz: Oh, fine.

Gaston: I am talking about the instruments and means. Not the objectives.

Klotz: (Laughs) That's marvelous.

H.M.Jr: Good meeting today. (Laughter)

Klotz: Oh, that's precious.

H.M.Jr: Well, what we may have to do, Mac, is to take them extra room away from Gene Duffield and put in an with black curtains and a crystal ball, and other things.

Duffield: We have been doing that down in OGD.

White: That is where the business group ought to meet when they come down twice a year.

H.M.Jr: Maybe that's where they are meeting.

McReynolds: Now you see them, and now you don't see them. That is Harry's specialty.

H.M.Jr: Go ahead, get really down to serious business.

McReynolds: A couple weeks ago the President gave you a clearance on that bill of Weesche's for planes and customs.

H.M.Jr: That is right.

McReynolds: And I gave it to the budget. And they sent it over to the White House for formal clearance, and they lost it. The budget say it went over and the White House say they know nothing about it. Now what I have here is the letter as addressed to Congress.

F.H.D.: That's all right.

McGregor: In the assumption that.....

F.H.D.: That the President will back me up.

McGregor: That the President will back you up.

F.H.D.: He will.

McGregor: I just had them copy it yesterday. We will do it this way.

F.H.D.: We have still a couple of agencies on our tax board we can use.

McGregor: Yes, we have a couple.

F.H.D.: Anything else?

McGregor: No.

Lockhead: The exchanges are quiet, as far as the foreign situation is concerned, I would say that, looking at the records, it must be a little bit better because England and France are both gaining gold despite the conditions of talk; they are gaining something back. It shows the individuals are gaining back. I got a hold of White, the secretary of the silver committee yesterday, and asked whether we were expected to do anything, pending further news from the committee. He says, "Well," he says "the text of the hearing is being published," and they considered that was as formal as anything, and the request for the answers to the question was carried in that publication of the testimony. So I said, would we hear any more from them and he said no, he presumed they were going to wait and hear when we were ready to enter the questions, and send for Pittman and call another hearing. I told him we didn't have the questions furnished except in this one copy of the text. He sent them down. He sent them down to me in this memorandum.

F.H.D.: Talk to Dr. White.

Anything else?

Lockhead: Nothing else.

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H.M.Jr: For you people that are working on Brazil, I talked to Mr. Welles last night. This is for my record.

He said, number one. I'd like you please to know that I urgently requested the French, yesterday, to announce the purchase of the French planes, and they agreed that they would. He said, well, I have been working on that for three or four weeks. He saw it was in the paper this morning very strongly urging that he - that they do it. It would be good for them.

Two. I said, did he know that yesterday afternoon that Herbert Feis, at my two-thirty meeting, sometime in the afternoon said that he was pretty well convinced there was nothing of this Administration trying to do something to get the Brazilians to specify what relations would be between the dollars and the mark. So he said after the meeting of the Treasury yesterday morning, Feis came back to see him. He was very much upset about this thing, and that he, Welles, had told Feis to put two or three experts - technicians on it to work it out. So I said, "Well I was satisfied from our technicians, that there was nothing to it because the trade between Brazil and Germany would be on an unit basis, and the rate of exchange wouldn't make any difference." So Welles then told me, to my surprise, that was just the way he felt. He realized that perfectly, but that Caffrey, I think he said Caffrey, or I brought up Caffrey's name, and Feis was the one who was bothering. Feis seemed convinced. Will you see Caffrey? He said, I want them to work it out as far as Caffrey is concerned. I also told them, through the usher at the White House last night they said I would have an appointment sometime this morning with the President on Brazil.

The next thing was.....

(Mr. Foley hands H.M.Jr. a letter)

H.M.Jr: If you fellows will stay behind, we'll wait a couple minutes.

Harry?

White: There are two things. You will note in the papers the growing acuteness in the Russian-Japanese affair;

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there is other evidence that seems to be coming over - that seems to support that, and merely the legal department might dust up their possibility to operate. We'll do the same. It may blow over; it may not. But it looks worse than the last.

Lockwood: Nicholson tells me he cabled yesterday to find out if they had given any verification from his office, and he hasn't received any reply yet.

White: Well they had a series of measures; there is a whole book, I think, as to what might be done in case of war. I don't know whether the situation has been changed.

H.W.Jr: That is a declared war. That would be a declared war. We don't have those kind of wars these days.

White: I think this would be a little different kind than the Chinese or Spanish.

H.W.Jr: Well, we'll have forts, troops, regiments, and thousands of people fighting over that island, and forts there, and they didn't declare war.

White: It may be these same sort of episode, or it may be something they will use that will be more spectacular and glamorous.

H.W.Jr: Well, the lawyers are on notice.

White: Get your gun.

With regard to Paraguay, that thing still remains unsettled. The State Department is still pushing me.

H.W.Jr: Let them push. Incidentally, the greatest diplomatic victory I have had, as Secretary of the Treasury, is not going to the North and South American conferences or treasuries. I consider that a great diplomatic victory.

Lockwood: I have noticed that the papers the last two or three days that England is going to recognize Franco. What I think, in mind, I don't know, what we have from the State Department - what their idea is, but it seems to me somebody over there in that division should remember that we have got several suits by the Franco government. Certainly I think if they are going to recognize them that one of the conditions be they drop

those suits. It seems to me somebody over there knows we have those things. That should be taken care of before any recognition is given.

H.M.Jr: We shouldn't waste any time on that either.

White: They will never get anything out of the suits anyway.

Lockheed: Just the same it is just a natural thing.

H.M.Jr: It is just as proper, whether we are going to make the present Chinese government a loan, and the man, Hornbeck, over there brought out a five million dollar debt, going back twenty years, to the Chinese Imperial Dynasty, who owed to the bank in Chicago this five million dollars, and it has been held up.

White: Oh, it would be proper; I merely mention we would be getting nothing in exchange for something. That is all. O. K.

H.M.Jr: All right.

Gibbons: Walter Winchell says this morning that there are hundreds of thousands of refugees coming over the Mexican border and the border patrol should wake up. I am getting sick of Irey, with your permission.....

H.M.Jr: Oh no, no. Please not. No. We have got a Bureau of Immigration. Ever since I have been here I have gotten a thousand per cent of immigration matters. Please don't. Please don't. No, no. I don't want anything to do, in any way with immigration - smuggling aliens. I am glad you brought it up because this is Miss Perkins' private hunting grounds. Let her run it.

Gibbons: Well, the border patrol is known as our "baby".

McReynolds: Not to stop aliens.

H.M.Jr: Without drawing pictures, please keep out of it.

Gibbons: O. K.

H.M.Jr: I mean, I have gone all through that. Our people.....

(Nods to Mr. Duffield)

McReynolds: We tried two or three times, but got it moved over.

H.M.Jr: I am tickled to death we did.

Gibbons: It isn't our "baby", of course.

H.M.Jr: Wo. Come on.

Duffield: This is an acknowledgment.

H.M.Jr: I'll do it right now.

(Secretary reads letter)

If you don't mind, I'll give it to Mrs. Klutz;
she'll get it out.

Duffield: You just want a bare acknowledgment?

H.M.Jr: That is all.

Duffield: Do you have the record of that power meeting that
went to Mr. Hanes?

H.M.Jr: I haven't gotten it yet.

Duffield: Do you want it today?

H.M.Jr: Yes. Will you ask Hanes, when he comes back; I
asked him to get in touch with Leo Crowley. Why
he did not notify the Secretary of the Treasury that
the bank was going to fail. He said he was going to
talk to somebody and asked me to get excited about
it, and he said he would.

Lockheed: I checked up.

H.M.Jr: I want to know. I am the sole stockholder of
F.D.I.C., and if there is a twenty-three million
dollar failure, I want to know about it, and I want
you simply to prod Hanes.

Duffield: All right.

H.M.Jr: All right?

Duffield: Uh huh. That is all.

H.M.Jr: George?

Hess: I have nothing.

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- Gaston: About that, I understand there is likely to be another one there, a large one.
- H.M.Jr: The Comptroller doesn't know anything more about it than I do. After all, he is a member of the board of the F.D.I.C.
- Foley: The Transamerica hearings were adjourned yesterday until March 20 because witnesses refused to testify.

MEETING IN THE OFFICE OF THE SECRETARY

FEBRUARY 15, 1939.

Present: Secretary Morgenthau
Mr. Frederic A. Delano
Dr. William McClellan
Mr. McReynolds

Mr. Delano proposed that the Treasury lease from the Cosmos Club the club property to be used as office space with option to purchase so that the club would move out and leave the property in a situation so that whenever Congress appropriates the funds to construct a Treasury Annex, already authorized by enabling statute, there will be no further difficulty on the part of the Cosmos Club in giving possession to the property. He suggested also that the trustees, the Smithsonian Institution, lease to the Cosmos Club as a club headquarters, the property recently acquired by that Institution by gift at 18th and I Streets, with option to purchase at such time as the Federal Government exercises its option to purchase the Cosmos Club property. Mr. McReynolds pointed out that all property leased for Federal office space in the District of Columbia was under the jurisdiction of the Department of the Interior and that the Treasury had no authority to enter into such lease. The Secretary suggested that Mr. Delano make his request of the Secretary of the Interior. He stated that he was ready and willing to cooperate in the construction of the Treasury Annex on the Cosmos Club site just as soon as Congress provided the funds therefor and that he was also willing to be of any assistance possible in obtaining the leases and options

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FEBRUARY 15, 1939.

previously suggested by Mr. Delano, pending the authority to construct the Annex Building. He directed Mr. McReynolds to draw up specific plans of occupancy by Treasury units of the present Cosmos Club building in the event of its lease and suggested that Mr. Delano await the completion of such definite plans before raising the question of lease with the Secretary of Interior. Dr. McClellan promised to furnish Mr. McReynolds with floor plans of the building within the next few days.

MEETING IN THE OFFICE OF THE SECRETARY

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FEBRUARY 15, 1939.

Present: Secretary Morgenthau
Mr. Frederic A. Delano
Mr. Charles Butler
Mr. McReynolds

Mr. Delano raised the question of the relationship between the Procurement Division and architectural firms throughout the country who desire an opportunity to plan and supervise the construction of Federal buildings. The Secretary reviewed the history of the present arrangement whereby all architectural work of the Government is performed by the Procurement Division and the reasons for such arrangement. He stated that a year or more ago he had recognized the desirability of permitting local architects to participate in the design of such buildings through a series of open competitions and that in pursuance of that idea two nation-wide competitions had been held; that these competitions were without satisfactory result largely because they were not sufficiently localized. He stated that he had it in mind to follow up the competitive idea in limited localities. After considerable discussion, the Secretary suggested a subsequent meeting for the purpose of further discussion of this problem and for that purpose invited Mr. Delano and Mr. Butler to have lunch with him at the Treasury at 1 p.m. on Thursday, February 23, at which luncheon would be present in addition to the Secretary, Mr. Delano and Mr. Butler the following persons: Mrs. Morgenthau, Admiral Peoples, Mr. Louis Simon, Mr. Leroy Barton and the Committee of Consulting Architects, Messrs. Embury, Maher and Shepley.

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CHARLES BUTLER

ARCHITECT

F.A.I.A. D.P.L.G.

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Secretary Department

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TELEGRAPH OFFICE

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NEW YORK NY JAN 29 1939

1939 JAN 30 AM 8 33

JOHN KIELEY
OFFICE OF THE SECRETARY

I AM LAD UP WITH A BAD COLD AND COULD NOT BE IN WASHINGTON THIS WEEK.
WILL YOU SEE LATER IF YOU CAN MAKE APPOINTMENT FOR MR FREDERICK AND MR
WILLIAM DELANO AND ME TO SEE THE SECRETARY EITHER FEBRUARY FOURTEENTH
OR FIFTEENTH REGRET INCONVENIENCE I AM CAUSING YOU

CHARLES BUTLER

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WASHINGTON, D. C.
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NEW YORK CITY

Personal

Washington, D. C.

January 16, 1939.

The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

There are two things about which I am anxious to see you at your early convenience. First, Dr. William McClellan, of the Potomac Electric Power Company, and I wish to have a very brief conference on the subject of the Cosmos Club property. We have a plan to submit which I think has merit.

Secondly, Mr. Eric Gugler, Chairman of the Committee on Architectural Competition of the American Institute of Architects, Mr. Charles Butler, the well known architect and associated with Robert Kohn, and Mr. William A. Delano, also a well known architect of the firm of Delano and Aldrich, formerly a member of the Commission of Fine Arts and now a member of the National Capital Park and Planning Commission, wish to have a talk with you in regard to the relation of the architectural profession and the Procurement Division. I myself have taken a position about midway between the extremes of the young, budding architects on the one hand and the well established architectural firms who have large establishments. I have never talked with you about it, but I did once present the subject to Col. Louis McHenry Howe who did nothing about it because he was overwhelmed with many duties and physical infirmities. I have never talked with Admiral Peoples on this subject, although I think very highly of him and have had very pleasant relations with him.

However, as Messrs. Butler, Gugler and Delano are to be down here the latter part of this week, they are anxious for me to arrange an appointment with you. If you would be willing to dine with us, I would suggest a dinner at the Metropolitan Club or at my apartment, either on Thursday or Friday evening of this week, January 19th or 20th. If it is inconvenient or inconsistent with your views to do this, can you give us enough time so that we can really develop the subject?

Sincerely yours,

Frederic & Delano

February 15, 1939.
9:50 a.m.

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Operator: Go ahead.

EMJr: Hello.

Harry
Hopkins: Hello. This is Harry.

EMJr: How are you?

H: All right, have you got a second?

EMJr: I've got three for you.

H: All right. I got a letter here -- a private letter
from the -- one of our shipping outfits, American-
French Line.

EMJr: Yeah.

H: It tells me the French are going to ship all these
airplanes over French boats --

EMJr: Yeah.

H: And that they probably -- not having the boats, he
says, "I'm reliably informed the French Line is pre-
pared to charter additional ships, probably with
foreign flags."

EMJr: Yeah.

H: Well, I'm just wondering -- what this fellow said, --
he said, "I hope we could get our fair portion of the
movement of this important traffic."

EMJr: What you'd like me to do is to say to the French that
after they've loaded up their own steamers that we come
next.

H: Sure and don't -- and don't go out chartering other
boats.

EMJr: And that will be received very well here.

H: That's right.

EMJr: I'll take care of it.

H: All right.

EMJr: Thanks for the suggestion.

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H: Good bye, Henry.
HMLJr: I'll take care of it.
H: Fine.
HMLJr: I'll be glad to.
H: Fine, old boy.

MEMORANDUM OF SECRETARY MERRITT'S STATEMENT
TO THE PRESIDENT AT CABINET ON
THURSDAY, FEBRUARY 16, 1939.

The Secretary stated that he was not very happy about business conditions and asked the President if he would like to talk about that subject. The Secretary stated that in his opinion if such conditions moved any way they would become worse; the foreign situation is bad, the commodity situation is bad, there is not enough buying power, the only encouraging situation is that the inventory position is satisfactory. The Secretary stated that it would be tragedy in the 8th year of this Administration to have a serious depression. He reminded the President that he used to have the heads of independent agencies together in his office every Tuesday and discuss the things that could be done to help industry. He suggested to the President that after he comes back that he revive his weekly conferences with the heads of all agencies that have anything to do with helping business and have a forum to devise means of helping business and let the public know that he knows exactly what he is doing. The President said he would do that.

The Vice-President got on a tirade about what he said about fifty rich men who had put \$5,000,000 into a pot to discredit this Administration and that something should be done about them, but in the next breath he said the President should announce to the public

that he is through with all reform activities and that nothing further would be done during the next two years. The President said, "Suppose the Municipal Committee you are so much interested in does run into something, what are you going to do about it?"

The President seemed interested in the project proposed by the Secretary and definitely promised that he would revive the meetings recommended by the Secretary.

THE WHITE HOUSE
WASHINGTON

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February 19, 1938

My dear Mr. Secretary:

By direction of the President, I am sending you herewith, for the files of the Department, the resignation of Honorable Wayne C. Taylor as Assistant Secretary of the Treasury, and a copy of the President's letter accepting Mr. Taylor's resignation, effective at the close of business on February twenty-eighth.

Very sincerely yours,



R. E. McINTIRE
Secretary to the President

The Honorable
The Secretary of the Treasury,
Washington, D. C.

Enclosures.



ASSISTANT SECRETARY OF THE TREASURY
WASHINGTON

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February 7, 1939.

Dear Mr. President:

I regret exceedingly that circumstances have arisen which make it desirable for me to resign my post.

I shall always consider it the greatest privilege to have had the opportunity of participating in the work of your Administration, and I wish to assure you that if, in the future you should have occasion to find my services useful in some other capacity, I would welcome the opportunity of again serving my Government.

With deep appreciation of the thoughtful understanding which you have extended to me, believe me,

Faithfully yours,

Wayne Taylor

The President,

The White House.

THE WHITE HOUSE
Washington

February 16, 1939

Dear Wayne:

I have your letter of February seventh, tendering your resignation as Assistant Secretary of the Treasury.

I accept this resignation with real regret. I understand the circumstances which have led you to come to this decision. In compliance with your wishes as expressed by you in the talks we have had, I formally accept your resignation to be effective at the close of business on February twenty-eighth.

I assure you that your offer of future service to the Government is sincerely appreciated and I thank you officially and personally for the work you already have performed.

Very sincerely yours,

FRANKLIN D. ROOSEVELT

Honorable Wayne C. Taylor,
Assistant Secretary of the Treasury,
Washington, D. C.

February 16, 1939.

Dr. Jules I. Bogen,
Financial Editor,
New York Journal of Commerce,
New York, New York.

Dear Dr. Bogen:

I have read with interest and appreciation
the editorial on Stabilization Fund functions in the
Journal of Commerce of February 11th. You state quite
clearly and forcibly, I think, one of the reasons for
the continuation of the Stabilization Fund.

With personal regards, I am,

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

 HEG:tew

FEB 11 1939

**Journal of Commerce
Stabilization Fund Functions**

Although the activities of the Exchange Stabilization Fund have been shrouded in secrecy, enough is known about it to make the nature of its operations clear. Since its establishment, the fund's primary function has been to prevent the dollar from appreciating in terms of gold in the foreign exchange markets.

Throughout the entire period of the fund's life, the international flow of capital has been toward the United States. Hence, with minor exceptions, the fund has not been called upon to sell gold in the world's markets to protect the dollar from falling. Rather, since the demand for dollars has been consistently greater than the supply, the fund has had to buy pounds sterling, French francs and other currencies of countries adhering to the tripartite monetary agreement, to protect the dollar from going up too fast. As far as is known, the Stabilization Fund took no risk in buying these currencies, for it purchased them either for the account of European stabilization funds or it converted them immediately into gold.

Normally, practically every function performed by the Stabilization Fund could be carried out by private banking institutions. Whenever the price of gold reached a point where shipments to the United States would result in a profit, private dealers have entered the market and arranged to ship gold to this country, thus preventing the dollar from rising abroad

THE JOURNAL OF COMMERCE

in terms of gold. In abnormal periods, however, such as last September, private individuals refrained from buying gold to transport into the country, even though it was profitable to do so, because they have feared that they might not be able to transfer the capital to the United States. Under such circumstances, only the Stabilization Fund is in a position to sell dollars freely to buy gold abroad, thereby preventing a rise in dollars in terms of gold.

Stabilization funds have been constituted to take care of just such situations. Any resulting profit or loss is purely incidental to the performance of this function.

The Stabilization Fund will be able to maintain even greater reserves, since the gold in Europe becomes normal should an outflow of gold from the United States occur. It could help prevent the loss of gold from reducing reserve balances, and thus it could insulate the domestic banking system from international gold movements.

At the time the Stabilization Fund was established, the protection of the banking system from gold movements was regarded as one of its prime functions. If a special agency is still desired to perform the function intended to become necessary, the Stabilization Fund's life would have to be extended for this purpose.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE February 16, 1939

TO Secretary Huggins
FROM W. H. Endley

March Financing

I am of the opinion that the March financing, whether for new cash or exchange only, should be limited to the reoffering of outstanding bonds and notes at a price. This conclusion was reached after considering the following facts.

First. There are already outstanding 25 Treasury bond and 15 Treasury note issues. Adding continuously to this list at the rate of two or three issues every quarter may tend in time to overburden the market mechanically.

Second. There are several recent issues attractive to the market which, because of their relatively small sizes at present, could be successfully reoffered at a price.

Third. The favorable reaction in the market to the recent offering of an E. F. C. note issue at a price appears to have paved the way for offering outstanding direct Treasury issues at a price.

Examples of what might be done on a reoffering, either for cash or exchange of some outstanding bond and note issues, is shown below. On an exchange, the subscriber would pay in cash the difference between par and the reoffering premium.

<u>Suggested Reofferings</u>	<u>Amount now Outstanding (millions)</u>	<u>Current Market Price</u>	<u>Possible Price on an Exchange</u>	<u>Possible Price on a Cash offering</u>
<u>Treasury Note 1-1/8%</u> <u>due 12/15/43</u>	368	101.10	100-1/2 *	100-1/2

* Plus double interest through June 15 on this issue only.

Treasury Bonds

2s of 1947	701	102.23	101-1/2	102
2-1/2s of 1948	451	105.23	104-1/2	105
2-1/2s of 1950-52	866	103.10	102	102-1/2
2-3/4s of 1950-55	591	103.15	102	102-1/2

The Treasury note maturing June 15, now quoted at 102.1, has a 2-1/8% coupon and is outstanding in the amount of \$1,294,000,000.

Treasury Department

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TELEGRAPH OFFICE

1 W M 3+ NL

1939 FEB 17 AM 8 35

ATLANTA GA FEB 16 1939

HON HENRY MORGENTHAU JR

HAVING QUITE A HOT TIME HERE. THANKS A MILLION FOR YOUR TELEGRAM.
SO FAR HAVE ONLY SPRAINED ANKLE AND EXPECT TO COME THROUGH OK.
FLYING TO WASHINGTON TONIGHT AT MIDNIGHT. WILL THANK YOU IN
PERSON TOMORROW FOR YOUR TELEGRAM.

L W (CHIP) ROBERT

734A

STANDARD FORM NO. 64-A
APPROVED BY THE PRESIDENT
MARCH 10, 1926

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

TREASURY DEPARTMENT

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR
Expenses - Secretary's Office

(The appropriation from which payment must be made is shown first)

FEBRUARY 16, 1939.

LAWRENCE WOOD ROBERT, JR.

ATLANTA GEORGIA

I HAVE ISSUED THE FOLLOWING STATEMENT TO THE PRESS QUOTE
MR ROBERT LEFT THE TREASURY VOLUNTARILY AND UNDER HONORABLE
CIRCUMSTANCES UNQUOTE

HENRY MORGENTHAU JR

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 16, 1939, 6 p.m.

NO.: 304

FROM COCHRAN.

Today none of the Paris banks had an order to buy dollars, but five hundred thousand were given to the control by the Guaranty. An important amount of sterling was acquired by the control. Statement of the Bank of France as of February 9 showed no important change with ratio 62.72 versus 62.50 except for a gain in deposits of the Treasury evidently resulting from active subscriptions to securities of the Treasury.

Today's JOURNAL OFFICIEL announced that on 18 months bonds of the national defense fund the interest was reduced from 3 1/4 to 3 percent. Satisfactory increase in savings bank deposits.

Today an address was given by Professor Charles Rist before the American Club on the new orientation of international trade; he favored the orthodox as opposed to the totalitarian methods of trade, and condemned control of exchange. He said that the dollar was the greatest currency in the world today because of its connection with gold. He emphasized the influence for peace of the three great democracies.

I am told by central bank friends that the recently appointed Reichsbank Vice President, Brinkmann, is ill

- 2 -

because of overwork, and that it may be some time before he will be able to return to his duties.

BULLITT.

EA:LWW

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE: February 18, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

J. W. McKeon

Mr. Bolton called this morning at 10:55 to advise me that there had been a considerable change in the sterling market, that during the past hour he had sold over \$10,000,000 and that most of the buying had come from New York. Could I give him a reason for it? I told him that a few of the larger banks had advised me that they had purchased a few commercial bills and also some stock house bills; the other reason I thought was the defense plans announced by Chancellor Simon yesterday, of which all the newspapers carried a detailed report. I advised him that I was pleased to receive his buying order for sterling yesterday after his close because with the news of the defense program the undertone of sterling turned definitely weak although the volume of trading was nil. He then asked if I would take a buying order for his account at 4.88 7/16; if sterling became active before his close would I advise him accordingly. As to the weakness in guilders, he said the continual sales in Holland of guilders, the possibility of German intervention, together with the movement of Jewish capital from Holland to New York, were his reasons.

JWc:KW

JR

PLAIN

London

Dated February 17, 1939

Rec'd 3:44 p.m.

Secretary of State,
Washington.

244, February 17, 6 p.m.

FOR TREASURY FROM BUTTERNORTH.

1. Although the turnover of business in the city continues small, there are incipient signs of an increase in confidence. The Chancellor of the Exchequer suggested the following reasons therefor in the course of a speech to the Iron and Steel Federation last night: "This widespread impression that 'if hopes were dupes, fears may be liars', is due to a combination of causes; to the knowledge that Britain is growing stronger every day; to the knowledge too that we are prepared to shoulder any and every burden necessary to make us secure; to the close and warm understanding existing between this country and France; to our good relations with America; to the prospects of an early ending of the Spanish war without its having spread beyond the confines of Spain. Above all, it is due to the determination with which Mr. Chamberlain has pursued his policy of promoting

-2- #244, January 17, 6 p.m., from London.

a better understanding with other states, whatever their form of government may be, and to the coolness and firmness with which he has held to his course during recent months of anxiety".

2. Belgian bankers and industrialists who have visited the city in recent days have conveyed the impression that they are beginning to take a serious view of the Belgian situation and that basically the difficulties arise out of the economic and financial position rather than out of domestic political circumstances. Therefore there is beginning to be talk of the possibility of an adjustment in the value of the belge and it is assumed that if and when such adjustment occurs the belge will be attached to the pound.

3. The foreign exchange market was quiet and with the British fund apparently not operating at all the rate remaining around 4.68-1/2 with dollar slightly offered. Of the 296 bars of gold dealt in 219 were married and 14 bought by the British fund. The price was 1483. 4-1/2D. Giving a 1/2D. premium. The franc was steady the Bank of France buying a small amount of sterling at 176.95.

REMOVED

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 17, 1939, 6 p.m.

NO.: 314

FROM COCHRAN.

At half-past five the Bank of France told me that the French fund had another good day acquiring sterling and some dollars; brighter market atmosphere with gains in rentes and shares.

Invoice by Bank of France to Federal Reserve Bank of New York of 51 million francs gold bars for account of the BIS, Basel, to be shipped on PRESIDENT ROOSEVELT.

Tomorrow evening I am leaving on the Scandinavian trip which was authorized in telegram No. 80 of February 10, 3 p.m., from the Department; I expect to be back in Paris at 10 a.m., March 3.

BULLITT.

February 17, 1959.
11:16 a.m.

HWJr: Hello.

Operator: Senator Sheppard is in a Committee meeting, but I can get him if you want him.

HWJr: Do you think I could talk to his clerk?

S: I'll see.

(Pause)

S: Mr. Smalley.

HWJr: Hello.

S: Go ahead.

HWJr: Hello.

Smalley: Hello, Mr. Secretary.

HWJr: Hello, Mr. Smalley.

S: Yes?

HWJr: Is this, is that a full meeting? I don't want to disturb the Senator if it's a regular Committee --

S: Yes, sir, it's a full meeting of the Committee.

HWJr: I see.

S: I think I could slip a message in to him if you desire.

HWJr: Well, I mean, is it the Military Affairs Committee?

S: Yes, sir.

HWJr: Uh-huh. Well, tell him this, that -- if he could talk to me without inconveniencing himself, I'd appreciate it.

S: All right.

HWJr: What?

S: Then he can call you.

HWJr: Yes.

S: Yes, all right.

HWJr: Thank you.

February 17, 1930.
11:55 a.m.

WMr: Hello.
Jesse Jones: Hello.
WMr: Yes, Jesse?
J: Johnny wants to know whether you're going to be there when he gets there. He's just leaving.
WMr: Yes.
J: All right.
WMr: Yeah.
J: We've finished our work here and he was just fixing to go, and --
WMr: Good.
J: Good bye.
WMr: Good bye.
J: I see you --
WMr: What?
J: I see you kind of monopolized the press this morning.
WMr: I'll give it to you any day you want it.
J: (Laughter)
WMr: How's that?
J: Well, I'll get mine Tuesday, when I get up before that Committee again.
WMr: Yeah.
J: Huh?
WMr: What -- what -- which one?
J: Senate Banking and Currency.
WMr: Yeah.

- 2 -

J: About export banks.

WJr: Yes, well, take care of yourself.

J: Uh.

WJr: Take care of yourself.

J: I'll do that.

WJr: You can.

J: See, I called you this morning. What did I call you about?

WJr: Sure you called me. That's --

J: To get your answer.

WJr: Well, you be thinking about it.

J: Well, I think I just called you because of what I saw in the papers this morning. Wayne came by yesterday afternoon, and I was terribly surprised about that move.

WJr: I was very sorry he did it.

J: Well, he seemed to be sorry.

WJr: I was very sorry. I think it is most unfortunate and entirely unnecessary.

J: It would seem to me -- ah -- there is no reason -- is there any reason why I shouldn't follow up some of those things that I talked to him before about?

WJr: Not so far as I'm concerned.

J: Well, I'm -- I'm -- we could --

WJr: What?

J: You see no reason why I shouldn't?

WJr: No.

J: I don't know that he would be interested in them, see?

WJr: No, it's --

J: It wasn't mentioned yesterday at all.

- 3 -

WJr: There is no personal feeling as far as I'm concerned.

J: Yeah. Well, I hope to see you soon.

WJr: All right, Jesse.

J: Good bye.

February 17, 1939.
1:17 p.m.

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James A.
Farley:

How are you?

WJF: I'm all right, Jim.

F: Are you all right?

WJF: Yeah.

F: That's all right. I was just calling my office and I just thought I would inquire if you were all right.

WJF: No, I tell you, things have been very, very difficult, and there's been more lying and that kind of business, but I got my chin up in the air and I've got nothing to hide.

F: That's all right -- I was just thinking about you, brother.

WJF: And if some of the people around the town would simply take their share of the responsibility, life would be much easier for me.

F: I understand.

WJF: Yeah?

F: I understand. I -- well, all you can do, as you said a moment ago, is keep your chin up.

WJF: And -- but, I don't know how you feel. I think I came through the thing all right.

F: I do too. I do too. You're all right -- just keep your feet on the ground.

WJF: Well, it's terribly nice. You see what I did for Chip?

F: Yes, I did.

WJF: I see. I gave out a statement that he resigned voluntarily and under honorable circumstances.

F: Yeah, I see that.

WJF: And he was just tickled to death.

F: Is there -- was there any trouble on the Taylor situation, Henry?

- 2 -

- Q: Nothing except he just doesn't believe in what the President and I are trying to do.
- A: Well, that's all right. That's all right. That's an honest difference.
- Q: And he just doesn't believe in it.
- A: That's all right.
- Q: Nothing personal.
- A: That's all right.
- Q: But if he don't believe in it --
- A: What kind of humor was our friend in when he went away?
- Q: Pretty good.
- A: Was he?
- Q: Pretty good.
- A: Did you get a chance for a visit?
- Q: I did it -- I had to do it right in Cabinet.
- A: See Gordon?
- Q: I -- I didn't, so I did it right in Cabinet.
- A: Oh, you did, eh?
- Q: Yeah, and for an hour or an hour and a half the whole thing was about business conditions in 1940.
- A: Was Jack there?
- Q: Yeah.
- A: I see.
- Q: And everybody there told him that it looked as though we were going to have a depression in '40, so I had to do it then.
- A: How did he react?
- Q: Well, he said, "Maybe we'd have to study and do something about it."
- A: I see.

HMJr: So I suggested that when he came back that he devote every Tuesday afternoon to it and let the public know he was going to do it.

F: Yeah.

HMJr: He said he thought he would.

F: Yeah, that's all right.

HMJr: But I had to do it then because I didn't have any other chance.

F: What do you know about that?

HMJr: What?

F: What do you know about that?

HMJr: So I think for an hour or an hour and a half that -- everybody he asked said, "Yes, we think there will be a depression in '40."

F: Was it a full meeting?

HMJr: No, about half the Cabinet was there. But Wallace and Hopkins were there and the Vice President was there.

F: I see.

HMJr: So they all chimed in. It was a good meeting.

F: Well, I'm glad of that.

HMJr: Well, I appreciate it tremendously. How are you?

F: All right, I'm just relaxing. I haven't a care in the world and I'm letting -- I'm letting somebody else worry about the state of the nation. I'm really forgetting everything and relaxing. I'm enjoying myself too, Henry.

HMJr: Well, do that.

F: I really feel all right.

HMJr: I'm delighted.

F: I told them not to send me any mail. I just get the daily papers and I don't want any information about the Department -- let it run itself. I don't want to know anything.

Wife: O. K.

H: Take care of yourself.

Wife: Thank you so much.

H: Good bye.

February 17, 1939

Yesterday when Harrison had lunch with me, he told me that he would like to offer Danny Bell the Vice-Presidency of the Federal Reserve of New York at between \$20,000 and \$25,000 a year and how did I feel about it. So I said that I never interfered and that he should make his the offer; that of course it would be a terrible loss to me.

Today he came in and said please not to discuss this with Bell until he got a chance to talk to his people because he wasn't sure.

He discussed it yesterday with Eccles and Eccles said, "Why don't you give that job to Wayne Taylor?" Mr Harrison looked at me and I kept a poker face and he sort of laughed and gave me the impression as though that was a ridiculous suggestion. I made no comment.

The position that he wanted Bell for was to do the work that Randolph Burgess used to do on Government Circulations.

February 17, 1939

To: The Secretary

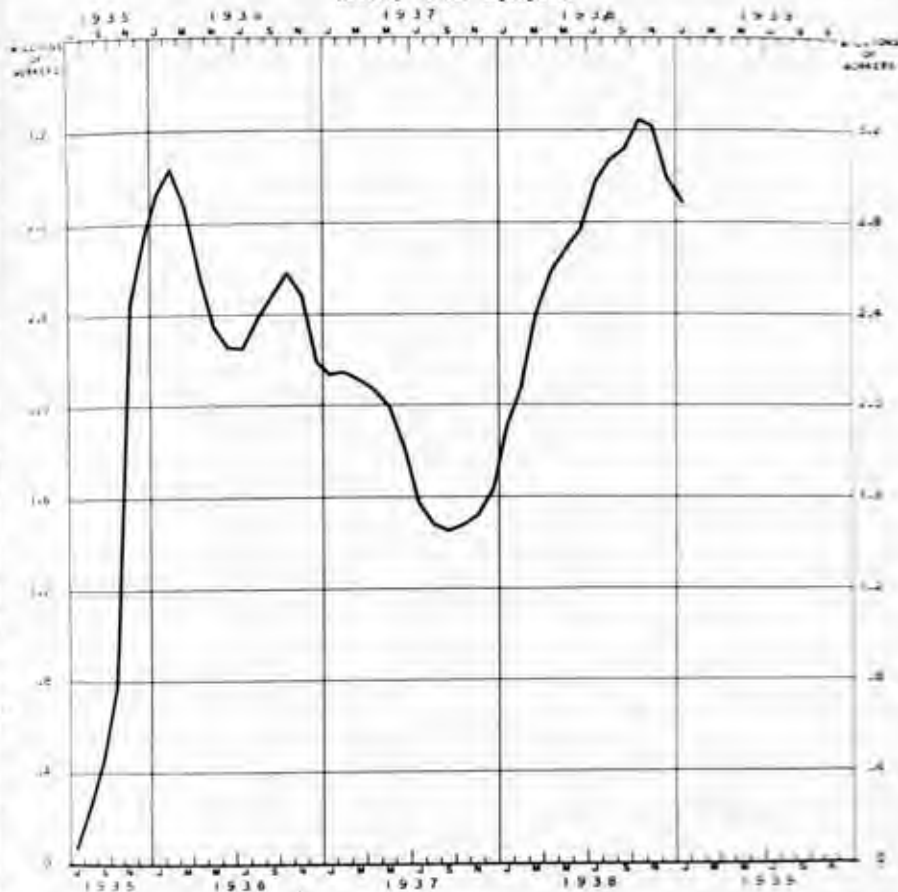
From: Miss Lonigan ^D_{GR}

The total number of WPA workers on
February 11, 1939 is 2,963,926

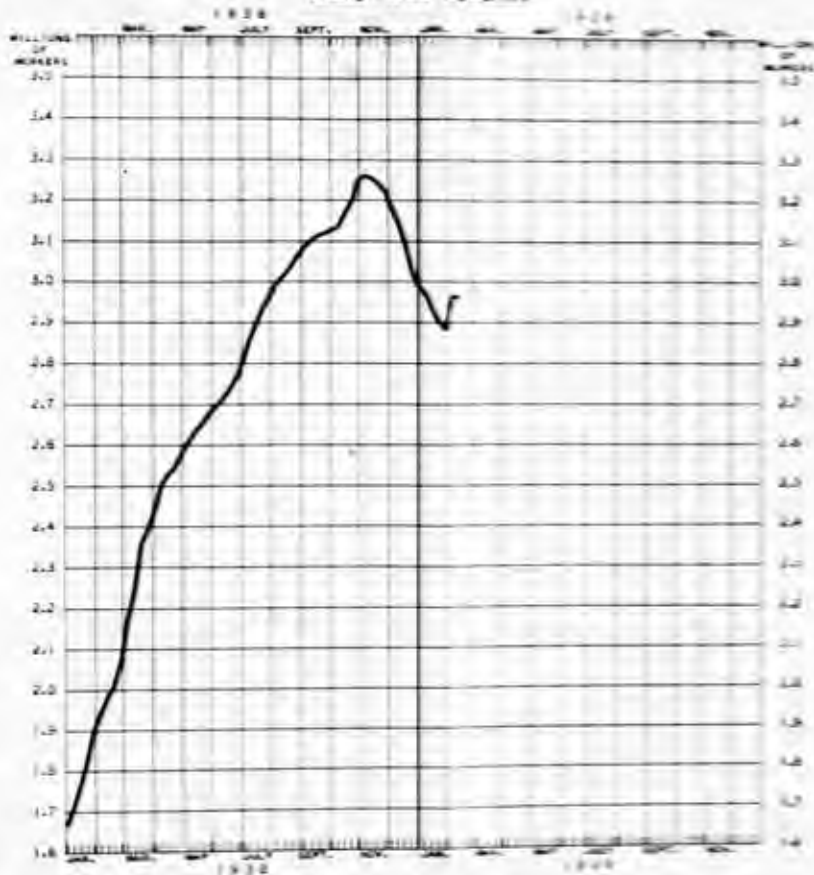
The decrease during the week from
February 4 to February 11 was 2,016
workers.

WORKS PROGRESS ADMINISTRATION
 Number of Workers Employed
 United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Weekly
United States

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Week ending 1938	Number of Workers (In thousands)
April 2	2,445
April 9	2,504
April 16	2,531
April 23	2,544
April 30	2,582
May 7	2,607
May 14	2,626
May 21	2,650
May 28	2,678
June 4	2,693
June 11	2,712
June 18	2,736
June 25	2,767
July 2	2,807
July 9	2,853
July 16	2,899
July 23	2,938
July 30	2,967
August 6	2,993
August 13	3,017
August 20	3,039
August 27	3,067
September 3	3,086
September 10	3,102
September 17	3,114
September 24	3,120
October 1	3,129
October 8	3,137
October 15	3,167
October 22	3,201
October 29	3,245
November 5	3,263
November 12	3,258
November 19	3,244
November 26	3,216
December 3	3,185
December 10	3,139
December 17	3,083
December 24	3,021
December 31	2,986
1939	
January 7	2,967
January 14	2,927
January 21	2,898
January 28	2,883
February 4	2,966
February 11	2,962 ^{a/}

Source: Works Progress Administration

^{a/} Confidential

WORKS PROGRESS ADMINISTRATION

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Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1936	
January	2,926
February	3,036
March	2,872
April	2,570
May	2,340
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	2,967
August	3,067
September	3,120
October	3,245
November	3,216
December	2,986
1939	
January	2,883 ^{a/}

Source: Works Progress Administration
^{a/} Confidential
 Monthly figures are weekly figures for the
 latest week of the month.
 They include certified and non-certified
 workers.

February 18, 1939.

Dear Mr. Swool:

Your letter of February 17th giving the Secretary information on corporate security issues of the past week has been received.

I know that Mr. Morgenthau will much appreciate this report.

Sincerely,

W. S. Klotz,
Private Secretary.

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

WSP:lmc

FEDERAL RESERVE BANK
OF NEW YORK

February 17, 1939.

Dear Mr. Secretary:

Three corporate security issues totaling \$15,100,000 were offered to the public or, in one case, to stockholders this week. An issue of \$12,000,000 Cincinnati Union Terminal Company bonds of 1969, for refunding, guaranteed by several of the strongest railroads in the country, was sold to a syndicate through public bidding. The highest bid was for 3 3/8s at 106 3/4. After adding an exceptionally small commission of 5/8 of a point, the winning syndicate offered the bonds to the public at 107 3/8, to yield about 3 per cent to maturity. Information on the reception of the issue is incomplete, the only report presently available being the announcement that the issue is over half sold.

A \$2,300,000 offering yesterday of common stock of General Shoe Corporation is reported to be entirely sold and quoted at a fractional premium. This is the largest issue of common stock for new capital so far this year. Stockholders of Bell Aircraft Corporation received rights expiring March 2nd to purchase \$840,000 of common stock, also for new capital.

Municipal bond awards amounted to about \$6,500,000 during the week.

Two or three additional corporate flotations have appeared as prospects for the next few weeks, of which by far the largest is a \$25,000,000 utility refunding issue. New issues, however, remain well below even the depressed levels of a year ago, and there is no clear indication as yet of genuine improvement.

Yours faithfully,



Allen Spraul,
First Vice President.

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 18, 1933

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Attached Clipping from The New York Times

1. Mr. Murray Shields on "Financial Rearmament"

Mr. Shields urged that the public debt held by private investors be reduced in order that reserves of Government borrowing power might be accumulated, so that the Government would be in a position to increase its debt without strain if war actually comes.

There is little doubt that the task of mobilizing a country's resources for war is made easier if its war-time borrowing does not have to be superimposed upon a large previously existing public debt.

The importance of this consideration, though real, should not be exaggerated. In a modern war, various degrees of coercion, ranging up to outright compulsion, may be counted on to reduce the role of credit standing in stimulating subscriptions to public loans. It will be recalled that, though our public debt rose from \$1 billion to \$25 billions during the World War, it was not noticeably more difficult to raise the last amounts than the earlier amounts: The arts of publicity and of operating a comprehensive mass bond selling organization had been perfected.

The essential problem of war-time finance is the rapid and effective mobilization of the country's economic resources for war-time needs. Finance, particularly in the sense of borrowing, is only one means of such mobilization. We used other means during the World War; and in all probability we can expect a higher degree of subordination of private interest to public necessity during the next war. By refusing supplies of raw materials, coal, electric power, etc., to producers of non-essential goods, by inducing or compelling owners of existing capital resources to divert the latter to war-time needs, by price-fixing, and by extremely heavy taxation, dependence upon borrowing is greatly reduced.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 18, 1939

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Attached Clipping from The New York Times

1. Mr. Murray Shields on "Financial Rearmament"

Mr. Shields urged that the public debt held by private investors be reduced in order that reserves of Government borrowing power might be accumulated, so that the Government would be in a position to increase its debt without strain if war actually comes.

There is little doubt that the task of mobilizing a country's resources for war is made easier if its war-time borrowing does not have to be superimposed upon a large previously existing public debt.

The importance of this consideration, though real, should not be exaggerated. In a modern war, various degrees of coercion, ranging up to outright compulsion, may be counted on to reduce the role of credit standing in stimulating subscriptions to public loans. It will be recalled that, though our public debt rose from \$1 billion to \$25 billions during the World War, it was not noticeably more difficult to raise the last amounts than the earlier amounts: The arts of publicity and of operating a comprehensive mass bond selling organization had been perfected.

The essential problem of war-time finance is the rapid and effective mobilization of the country's economic resources for war-time needs. Finance, particularly in the sense of borrowing, is only one means of such mobilization. We used other means during the World War; and in all probability we can expect a higher degree of subordination of private interest to public necessity during the next war. By refusing supplies of raw materials, coal, electric power, etc., to producers of non-essential goods, by inducing or compelling owners of existing capital resources to divert the latter to war-time needs, by price-fixing, and by extremely heavy taxation, dependence upon borrowing is greatly reduced.

Secretary Morgenthau - 2

2. Professor Paul Studenski on "Effects of Taxes on Business"

Professor Studenski's position, that governmental activities are rightfully supported by taxes, and that other factors are more important than taxes in explaining the depression and the unwillingness of wealthy individuals to invest in new enterprises, is a widely accepted one, and in our opinion, sound. The other factors mentioned by Professor Studenski properly include the unsettled international situation, as well as the availability of tax-exempt bonds.

Attachment

Paraphrase of telegram received from Embassy at Rio de Janeiro, dated February 18, 1939.

Secretary of State,
Washington.

52, February 18, 10 a.m.

I am informed by the Director of Exchange of the Bank of Brazil that exchange will close during the week of February 20 for daily quotas and maturities from January 15 to January 23, inclusive.

Advise Commerce.

SCOTTEN

EA:DJW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

DATE: February 18, 10 a.m., 1939

NO.: 52

My 50, February 11, 11 a.m.

I am informed by the Director of Exchange that the Bank of Brazil will close exchange for maturities and daily quotas from January 15 to January 23 inclusive, during the week of February 20.

Please advise Commerce.

SCOTTEN

EA:DJW

STRICTLY CONFIDENTIAL

No. 102

Rangoon, Burma, February 16, 1939.

CONFIDENTIAL

SUBJECT: Yunnan-Burma Road.

THE HONORABLE

THE SECRETARY OF STATE,
WASHINGTON, D.C.

SIR:

I have the honor to report that J. Mørch-Hansen, District Manager of the Texas Company (China), Limited, formerly at Nanking, China, and now at Hong Kong, arrived in Rangoon on February 9, 1939, after a journey by car from Yunnanfu (Kunming), China. He accomplished the journey in six and one-half days.

Mr. Mørch-Hansen called at the Consulate on February 10th, and he reported that he reached Lashio from Yunnanfu in four and one-half days. He said that he counted 150 places on the new road in Yunnan where slides might easily occur, and that he saw many culverts and drains which were apparently not adequate, and he expressed the opinion that it would not be possible to transport very much over the road before the end of the next rainy season. In the meantime, he said, the Chinese could continue work on the highway, finding its weak points and strengthening them. He estimated that 20,000 men are now working on the road, widening and surfacing it, and reconstructing bridges.

A copy of a report prepared by Mr. Mørch-Hansen

Regraded Unclassified

for

STRICTLY CONFIDENTIAL

-2-

for his company is being enclosed herewith.

In talking of the new road during his call at the Consulate, Mr. Morsch-Hansen referred to purchases of road equipment in Hong Kong by Mr. Ta'n-Po-ying, the Chinese director of the Yunnan highway (reference despatch no. 149 of January 31, 1939), and expressed doubt that some of the bridges would be able to bear the weight of the eight-ton road rollers that it is expected to use.

The American oil company's representative reported that while traveling over the first 200 miles of the Chinese road, from Yunnanfu, he saw at several places workmen engaged in moving earth on the route of the proposed Yunnan-Burma railroad. For that distance, he said, it appeared that the railroad would follow closely the route of the highway.

Respectfully yours,

Austin C. Brady
American Consul

Enclosure:

Report, as stated.

Distribution:

1. Original and four copies to Department.
2. Copy to American Embassy, London.
3. Copy to Consulate General, Calcutta.
4. Copy to American Consulate, Yunnanfu, China.

800

ACB/ep

Regraded Unclassified

87
enclosure to despatch no. 152, dated February 15, 1939,
from Austin C. Brady, American Consul at Hanyang, Burma,
on the subject of "Yunnan-Burma Road".

CONFIDENTIAL

YUNNAN-BURMA ROAD

Report prepared by J. Morch-Hansen, District
Manager of the Texas Company (China), Limited

KUNMING TO TSONGHIONG

Road in good shape, quite narrow in the hills,
all-weather surface, numerous bridges, 28 under
reconstruction.

TSONGHIONG TO HSIANKAN

Good road, numerous bridges under construction,
requiring detours, hill sections again narrow,
many weak points, all weather surface.

HSIANKAN TO PAOSHAN

Good roads for 20 miles, then 120 miles through
hills, 122 bridges and drains under reconstruc-
tion, much road work in progress including widen-
ing of road, not much being done to strengthen
the numerous weak mountain sections. Many minor
slides.

PAOSHAN TO MANGSHIH

Actual log:

1 to 10 miles - Excellent road
11 " 15 " - Good road through mountains
16 " 18 " - Fair road, hilly
19 " 25 " - Fair road through mountains
26 " 34 " - Good road through mountains
35 " 36 " - Fair road through mountains
39 " 45 " - Fair road through mountains
46 " 57 " - Bad road through mountains
Salween river suspension bridge completed.

58 to 70 miles - Steep climb
71 " 83 " - Fair road, climbing
84 " 92 " - Fair road, hilly
93 to 105 " - Extremely bad road, hilly

LUNGLING

106 to 128 miles - Extremely bad, hilly

PAOSHAN TO SALWEEN RIVER

31 obviously weak sections

SALWEEN RIVER TO MANGSHIH

92 obviously weak sections

NOTED:-

29 reconstructed bridges
51 old bridges requiring atten-
tion

137 new stone drains
99 old drains requiring atten-
tion

MANGSHIH

STUDY CONTINUED

MANUSKIN TO BORDER

54 miles of extremely bad road, under reconstruction the entire way. Hill sections very weak, numerous slides unavoidable, drainage insufficient, grading not as good as on other sections, much work required.

OBSERVATIONS

While traffic is possible at the moment, transportation must be slow and costly. Most hill sections require one-way traffic control systems, curves are extremely sharp, numerous bridges being built that only trucks with short wheelbase can conveniently get around. The monsoon rains must cause innumerable slides; in many places the roadway may fall entirely away. It is felt that attempts should be made to widen bridges approaches, to straighten the road in all possible places as is being done on the Burma section, to stone-face or brick drainage ditches at all cuts through soft materials and strengthen the road at such points.

As a whole the road is spectacularly conceived, an admirable engineering accomplishment especially considering that modern equipment has not been available. With sufficient labor and equipment available for work during the rainy season the road in its entire length should be permanent and safe by the end of the year.

RECEIVED

MAY 14 1944

 TECHNICAL DEPARTMENT
 OFFICE OF THE ASSISTANT
 SECRETARY OF THE ARMY

QUADRUPLICATE

89

No. 153

STRICTLY CONFIDENTIAL

Rangoon, Burma, February 16, 1939.

STRICTLY CONFIDENTIAL

SUBJECT: Shipments of war materials.

THE HONORABLE

THE SECRETARY OF STATE,
WASHINGTON, D.C.

SIR:

I have the honor to report, supplementing telegraphic information transmitted to the Department, that the movement of the war materials for China which have been stored at this port since their discharge from vessels that arrived here in November, December, and January, started this week with shipments by rail of TNT. Most of the high explosive was brought to Rangoon from Italy by the Norwegian steamship BEST in December 1938, and it has been held in a barge in the Rangoon River about seven miles from the city. It is said to amount to 1,500 tons.

The explosive shipped was taken in lighters from the storage barge to a railway siding on the Panzadung Creek, a tributary of the Rangoon River, where it was loaded on specially-built cars of the Burma Railways. The operations were supervised by the Government's Chief Inspector of Explosives and Mines, and military police were on guard and accompanied the shipments on the railway.

Storage

Regraded Unclassified

STRICTLY CONFIDENTIAL

Storage Facilities at Lashio.

The warehouses built at Lashio by the Burma Railways are for dangerous materials, and have a capacity of 2,000 to 3,000 tons. Sandbags have been used to divide them into compartments, with the object of lessening the destructive effects in the event of an explosion. Warehouses for other classes of war materials, and a garage and a repair shop, are to be built at Lashio by the Chinese, on eleven acres of land leased for that purpose by the Burma Government, but work has not yet commenced.

It is authoritatively reported that the permanent bank guarantee of 100,000 rupees (about \$35,000) demanded by the Burma Railways in connection with the shipment of war supplies has been provided by the Chinese Government. The railway management is asking for weekly settlements of freight charges.

Contract for Motor Transport.

Pending other arrangements, motor-transport facilities for shipments of war materials from Lashio, the railhead, into China will be provided by S. Vartanov, a local Armenian haulage contractor, who has purchased 120 new Chevrolet trucks for that purpose. It is said that there is a contract covering the transport of supplies during a period of 100 days, under which the contractor guarantees a certain number of ton-miles. It is also said that the contractor asked a rate of 8 annas (about \$0.17 at present exchange) a ton-mile, but that the rate agreed upon is somewhat lower.

Regraded Unclassified

OFFICIALS

STRICTLY CONFIDENTIAL

Officials of the Burma Railways have been informed that the local contractor will be called upon to transport the war supplies only as far as the Chinese town of Mangshih, or a point near there. Mangshih is only 175 miles from Lashio, or 55 miles from the Burma border. There is a new airfield adjacent to it. Trucks will be sent from Yunnanfu to carry the supplies into the interior, it is reported.

Trucks Supplied From Bombay.

The 120 Chevrolet truck chassis (1½ tons) for the Rangoon contractor have been furnished from the General Motors assembly plant at Bombay, India. Bodies are built here, and the first 25 complete trucks were driven in procession through some of the principal streets of this city yesterday afternoon, preparatory to leaving for Lashio. Horns were kept tooting, and the procession of trucks attracted much attention. Each truck is numbered and bears the name of the contractor. It is said that the contract for transport gives the Southwest Transportation Company the option to purchase the trucks at the end of the 100-day period.

It is reported that the trucks will be operated in convoys of 24 each, and that one truck in each convoy will carry supplies, including gasoline, spare parts, towing gear, and repair kits.

Supplies Transhipped at Singapore.

No large shipment of war materials for China has arrived at this port since that brought by the British steamer STANWOLD on January 16th. Some supplies transhipped at Singapore have continued to reach Rangoon on
British

STRICTLY CONFIDENTIAL

British-Indian passenger and freight steamers in regular service between Rangoon and Singapore. It is reported that recent shipments have consisted of Hotchkiss machine-guns and other guns and ammunition from France. While unloading a consignment that arrived from Singapore on the S.S. KARAPARA on February 7th, a sling broke and 30 cases of ammunition fell into the river. Quick work resulted in the recovery of 21 of the cases, the other nine being lost.

It is reliably stated that shells which arrived in November on the S.S. STANBELL, the British steamer that brought the first cargo of war materials for China, are stamped "1917".

Estimated Customs Revenue.

Port officials estimate that at least 600,000 rupees (about \$110,000 at present exchange) will be collected in Customs duty on the supplies for China brought in during November, December, and January, at the rate of one-sixteenth of the full duty payable. This is the rate now in effect, but the Chinese Government is seeking to have it reduced. Customs revenue of 600,000 rupees at the rate mentioned would mean a valuation of 19,200,000 rupees (about \$6,720,000), as the full duty is 50 percent ad valorem. As reported in my despatch no. 143, of January 18, 1939, the Chinese Vice Minister for Foreign Affairs, who is in Rangoon, said that calculations indicated a revenue to the Burma Customs of 1,000,000 rupees (about \$350,000), from exports up to that time. Such a revenue would mean a total valuation of 32,000,000 rupees (corrected figure).

STRICTLY CONFIDENTIAL

-5-

or about \$11,000,000, and part officials do not consider that the supplies imported represent that sum.

Respectfully yours,

Austin C. Brady
American Consul

Distribution:

1. Original and four copies to Department.
2. Copy to American Embassy, London.
3. Copy to American Consulate General, Calcutta.
4. Copy to American Consulate, Yennanfu.

RECEIVED
MAR 18 1944
THE SECRETARY OF THE ARMY
WASHINGTON, D. C.

- 13 - 7

4

The President

Recommend Archie
Lockhead for
assistant Secretary of
Treasury. He has
been ^{successful} manager
of Stabilization fund
from its inception.
I can guarantee
his ^{loyalty} 100%.
Hope you have your
lost your cold. - your

2-19-39

94

Elinor lunched
with us today at farm

Best Regards.

Henry

THE WHITE HOUSE
WASHINGTON

Feb. 19, 1939.

MEMO FOR

MRS. KLOTZ.

Attached is copy of communication sent to the President by Secretary Morgenthau this evening. He dictated this from his home in New York and requested we send a copy to you Monday morning.

TEL. & TEL. OFFICE,
(Cook.)

TELEGRAM

(DICTATED BY SECRETARY MORGENTHAU OVER TELEPHONE.)

VIA
NAVAL
COMMUNICATIONS

COPY OF ORIGINAL COMMUNICATION (6:45PM)

The White House
Washington

96

FEBRUARY 19, 1939.

SEND RESTRICTED CODE

FOR THE PRESIDENT
IN U S S HOUSTON.

RECOMMEND ARCHIE LOCHHEAD FOR ASSISTANT SECRETARY OF THE
TREASURY PERIOD HE HAS BEEN SUCCESSFUL MANAGER OF STABILIZA-
TION FUND FROM ITS INCEPTION. PERIOD I CAN GUARANTEE HIS
LOYALTY ONE HUNDRED PERCENT PERIOD WOULD APPRECIATE AN SEC
PERIOD HOPE YOU HAVE LOST YOUR GOLD PERIOD YOUR KLEANOR
LUNCHEON WITH US TODAY AT FAHM PERIOD BEST REGARDS.

HENRY.

(Handed personally to
Mr. Rodian - 2/25)

February 25, 1939.

THE PRESIDENT

(VIA WHITE HOUSE TELEGRAPH OFFICE)

IN CODE

IF CONVENIENT WOULD VERY MUCH APPRECIATE AN
ANSWER TO MY TELEGRAM OF FEBRUARY NINETEENTH IN
REGARD TO ARCHIE LOCHHEAD BEST REGARDS

HENRY MORGENTHAU JR

SECTION

P1A

NAVAL

COMMUNICATION

SERVICE

98

NAVY DEPARTMENT

FROM PRESIDENT US

TO SECRETARY OF THE TREASURY

RECEIVED AT ROOM 2315
ON 23 FEB - EXT. 27 - 39

1939

WITE

RESTRICTED

0023 THINK I APPROVE YOUR SUGGESTION ABOUT LOCKHEAD
BUT IN VIEW OF FACT NOMINATION CANNOT POSSIBLY GO IN
TILL MY RETURN PLEASE HOLD EVERYTHING 2215

RECEIVED IN CODE ROOM 2315 23 FEB

DISTRIBUTION

WHITE HOUSE VIA NSCR

19 FILE

*Read to
Secy. Morgenthau
S.30am 7/24/39.
Cook*

P1A

99

FROM PRESIDENT US
TO SECRETARY OF THE TREASURY

1939
NITE
RESTRICTED

0023 THINK I APPROVE YOUR SUGGESTION ABOUT LOCKHEAD
BUT IN VIEW OF FACT NOMINATION CANNOT POSSIBLY GO IN
TILL MY RETURN PLEASE HOLD EVERYTHING 2215

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19 FILE


TREASURY DEPARTMENT

CONFIDENTIAL

INTER OFFICE COMMUNICATION

DATE February 20, 1939.

TO Secretary Morgenthau
FROM Mr. Egan 
Subject: The Business Situation,
Week ending February 18, 1939.

The present business setting

A brief review of events leading up to the present business stalemate will show that during the latter half of 1938 industrial production was forced sharply upward in an attempt to reach a balance with a materially higher level of demand. The increased business activity, in turn, brought a further improvement in demand, and it was not until the end of the year that an approximate balance was restored between demand and production.

A slight excess of production occurred in some industries near the end of the year, chiefly in steel and textiles, suggesting the probability of a moderate setback or hesitation in business during the first quarter of 1939. This has already been partially corrected by a 2-point decline in the FEB production index in January.

Viewing the outlook for 1939, it is apparent that industrial production from this point on will lack the stimulus of a relatively higher demand level, so effective in carrying business upward in 1938. Instead, any further business rise must depend almost entirely upon an improvement in demand, which will reflect itself in the trend of consumer buying and in the volume of new orders.

Experience in previous recoveries has shown that demand tends steadily to improve as the various cumulative recovery influences take effect, until maladjustments of one kind or another become sufficiently serious to interrupt the recovery movement. The most serious threat at present is the uncertain foreign situation, and the fact that for some time it has been a deflationary influence adversely affecting commodity prices and new orders.

New orders show direction of trend

Since the trend of industrial production will necessarily depend upon the volume of new orders, a survey of the outlook for new orders should provide some guide to the general business outlook. The volume of industrial orders depends, in the final analysis, upon the trend of consumer buying, representing the "offtake" of manufactured goods. While complete data from which to calculate our usual index of consumer buying are not yet available for January, partial data show a definitely encouraging trend.

Retail trade (in dollar values) continued to improve during January in comparison with previous years, with the exception of department store sales in eastern industrial centers. In Chart 1 it will be noted that variety store sales and rural retail sales in January exceeded those of any of the three previous years, increasing their margin over the December comparisons. In fact, Department of Commerce figures show rural retail sales at a new high record for that month, and variety store sales at a new record since 1929. Department store sales make a less favorable showing, since large sales in most of the country were offset by poorer sales in the East. Average retail prices have declined during the past year, hence the actual quantity of goods sold has increased even more than the dollar figures would indicate.

Retail sales of automobiles continue at a high level, after making allowance for the usual seasonal decline at this time of year. Sales of 14 leading makes in the first 10 days of February were 28 per cent ahead of last year's corresponding figure, and showed a less than seasonal decline from the sales during the first 10 days of January.

Low inventory inventories

Whether an increasing volume of consumer buying will be translated quickly into new orders and then into increased industrial production depends upon the amount of stocks of finished goods in the hands of retailers and in other trade channels. Heavy inventories in the first half of 1938 prevented an increase in production even with a high level of consumer buying.

In the present situation, inventories are relatively low, and perhaps below normal in relation to the current volume of sales, hence they constitute no hindrance to a quick translation of retail buying into industrial production.

Secretary Morgenthau - 3

New orders may originate directly among retailers, wholesalers, or secondary manufacturers, if confidence in the business outlook becomes sufficiently strong, or inventories sufficiently depleted, to encourage buying. Such a situation, particularly under conditions favorable for developing long-term confidence among business men, may also stimulate buying of capital goods. For a month or two there has been little in the immediate situation to develop such a buying movement. Commodity and stock prices have been generally declining, the foreign situation has remained unsettled, and business news has been somewhat uncertain. Nevertheless, the trend of new orders during January and early February (see Chart 2) has been encouraging.

Price outlook improving

An upturn in commodity prices and stock prices has often started a general wave of buying, following a period of inactivity among industrial buyers. Conditions recently appear to have turned more favorable for commodity prices.

Sensitive commodity prices have been gradually improving since the 9th of February, and certain factors in the foreign situation which influence the world price trend appear to have turned more favorable. The business improvement recently noted in Great Britain, following earlier improvement in France, has doubtless resulted in some increase in demand for commodities. British steel output in January increased sharply to 811,700 tons, as compared with the low figure of 655,700 tons in December, and pig iron production also increased markedly. Cables from the Lancashire textile district to the New York Cotton Exchange Service last week indicate that an improvement in domestic orders has raised mill sales of goods to the level of current output.

The recent stability of sterling exchange, and pronounced recovery in security prices abroad, are additional straws pointing to a strengthening in the foreign situation as it affects world commodity prices. Industrial stocks on the London stock exchange last week reached a new high for the current movement.

A turn in the commodity price trend, which has been in a general downward trend since early 1937 (See Chart 3) would have a strongly favorable influence on business activity in a situation like the present, when inventories generally are at a low level. Its effect on business sentiment, on national income, and on Federal revenues would be felt in numerous ways.

Secretary Morgenthau - 4

Current business trend

Business activity is still tending downward. Continuing its downward drift of the past two months, the New York Times Business Index for the week ended February 11 declined 1.0 point to 59.4. Declines in the adjusted indexes of electric power and lumber production and carloadings were largely responsible for the drop in the combined index, though these were offset in part by upturns in automobile production and steel production.

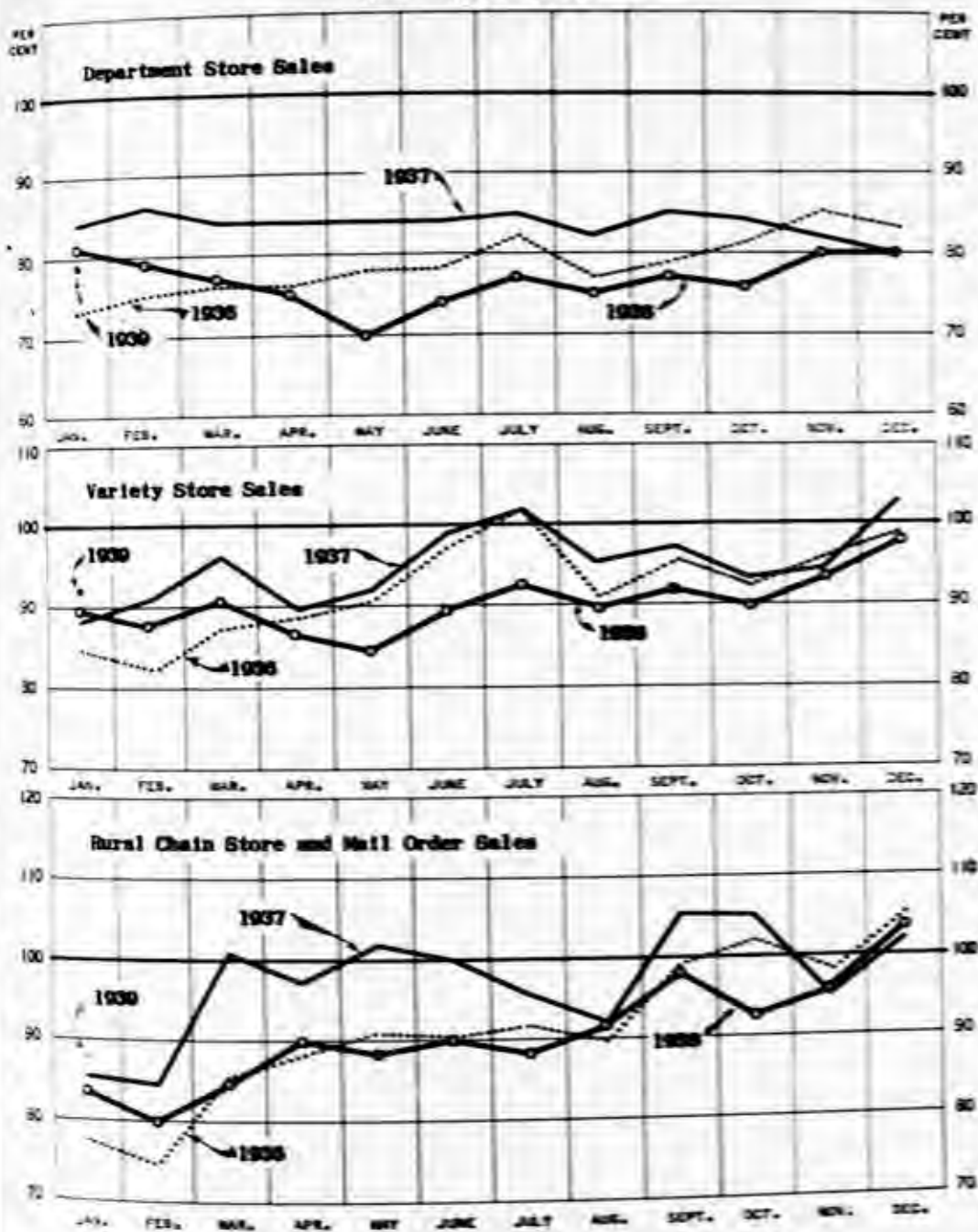
For the week ending February 18, preliminary data indicate a somewhat greater than seasonal rise in steel activity, but a sharp decline in the seasonally-adjusted index of automobile production. Ward's estimate of this week's automobile output shows a drop to 79,860 units, which compares with 84,500 units last week. Ward's Reports considers this a seasonal let-down.

A continued cautious attitude among buyers is reported in the steel trade, and new orders for steel reported this week by the U. S. Steel Corporation dropped to the equivalent of 52 per cent of capacity, as compared with 66 and 61 per cent for the two previous weeks.

Reports from the textile trade have again turned toward the possibility of some curtailment of production over the next several months because of an unsatisfactory volume of sales. Sales of cotton goods recently have been rather low instead of showing a seasonal improvement. For the past week, the volume of sales is reported to have reached only 35 to 40 per cent of production.

An examination of the basic demand for textiles shows the reason for the recent alternating periods of optimism and pessimism in the industry (See Chart 4) since production in recent months has alternately exceeded and fallen below the demand level. A decline in production during January, according to preliminary data, places the index still slightly above the basic demand figure.

RETAIL TRADE
Urban and Rural Sales of General Merchandise
 1929 = 100, Adjusted



Combined Index of New Orders and Selected Components

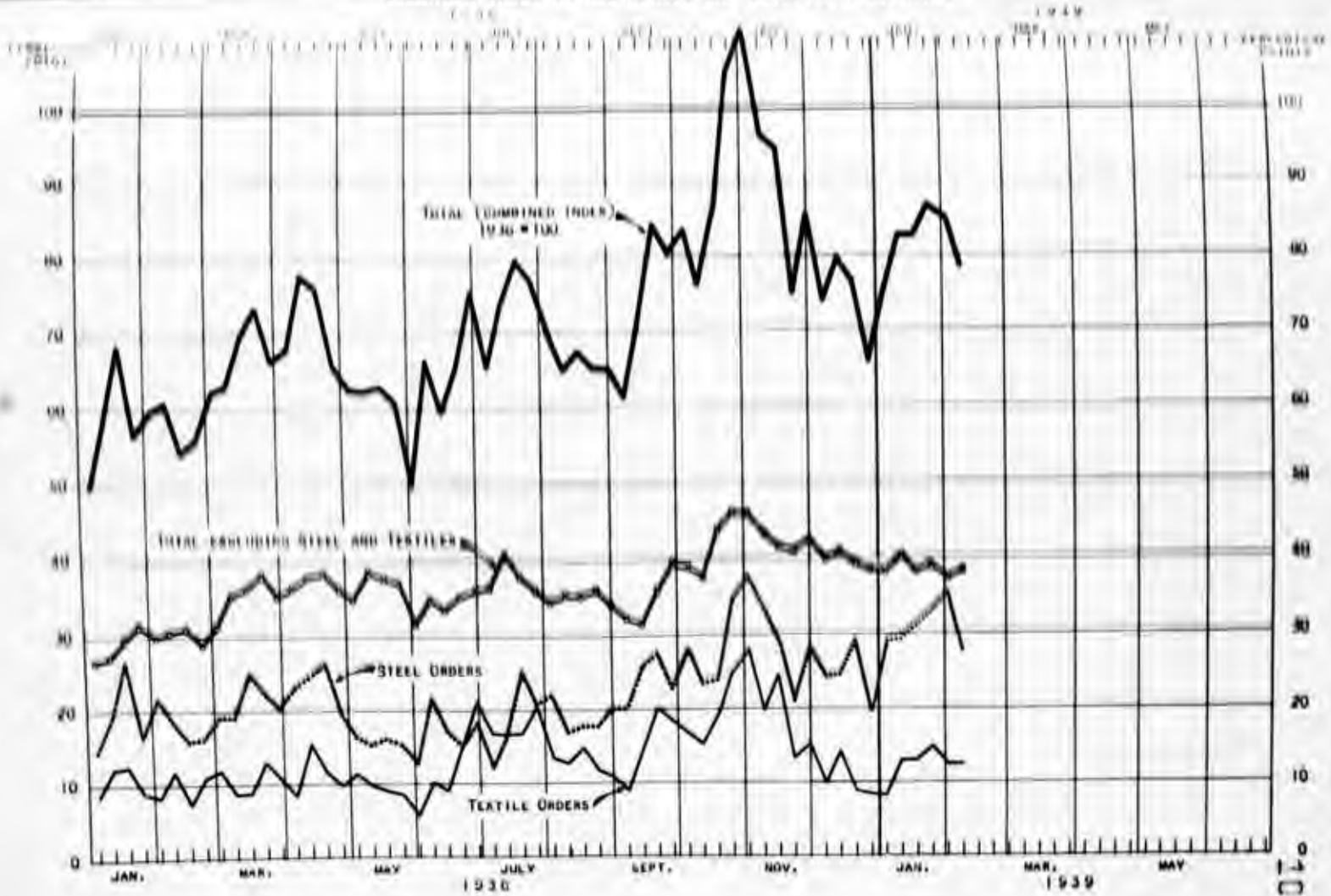
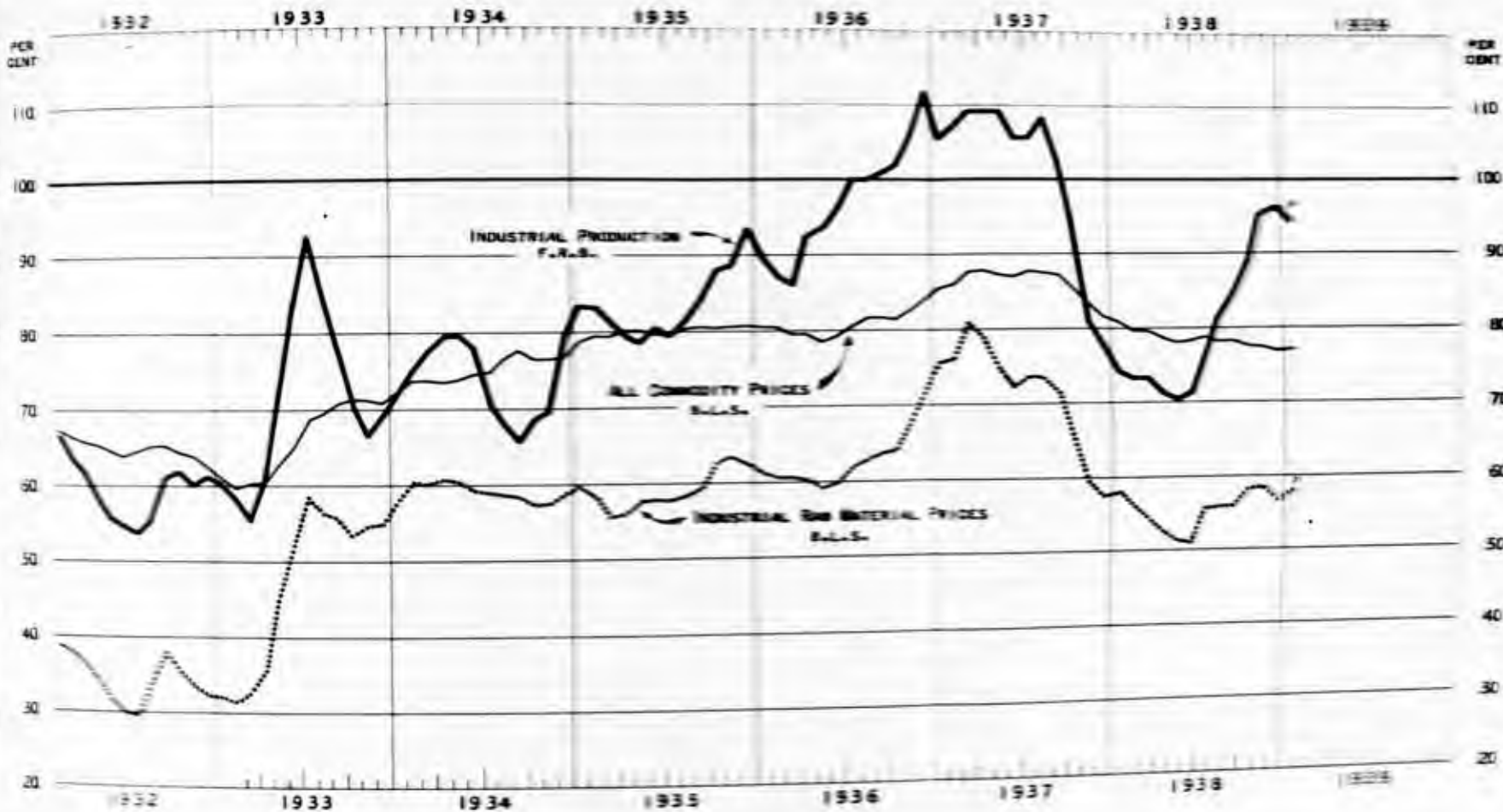


Chart 2
CONFIDENTIAL

INDUSTRIAL PRODUCTION AND COMMODITY PRICES 1928 = 100



TEXTILE PRODUCTION AND ESTIMATED BASIC DEMAND

1933 - '39 = 100

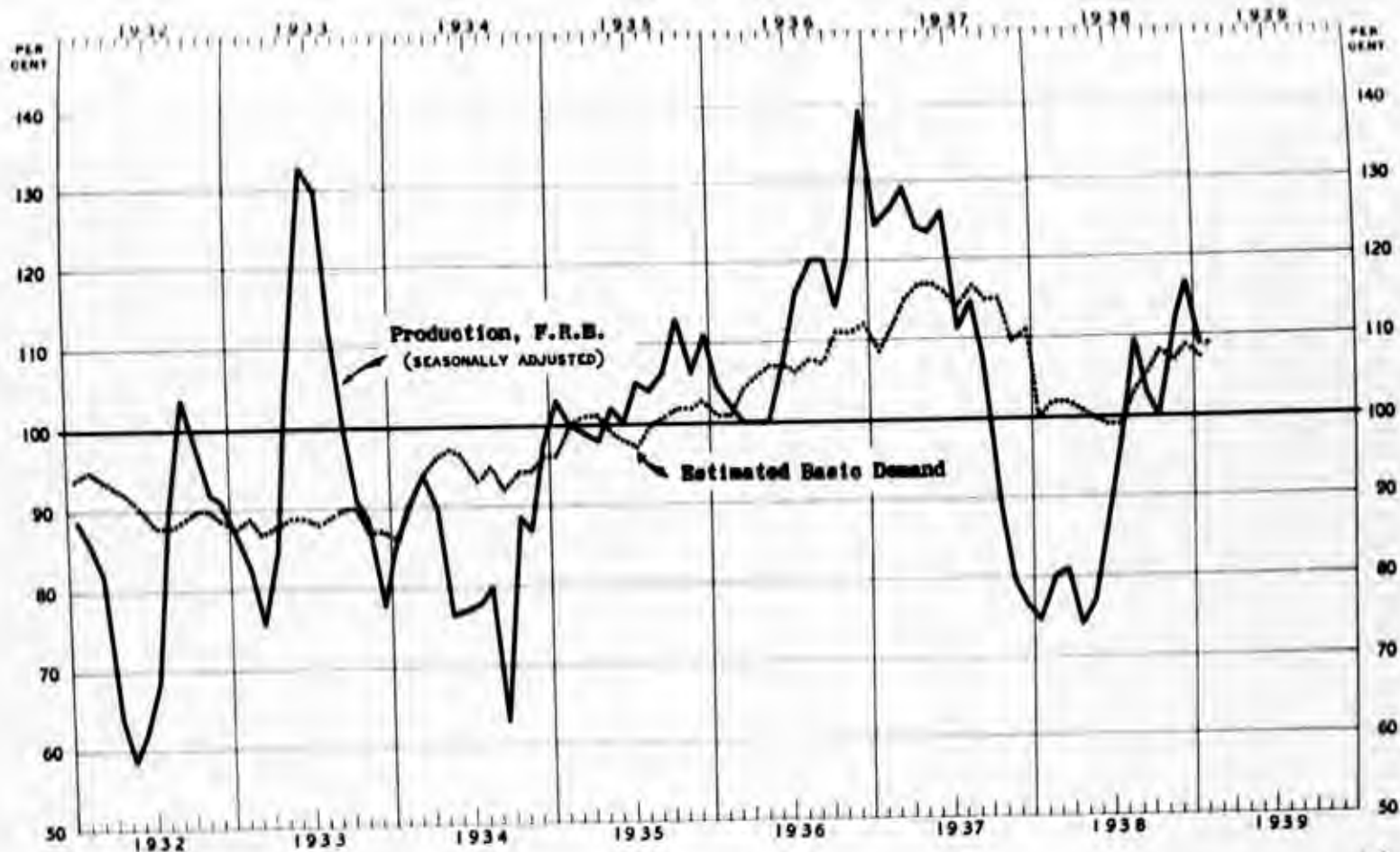


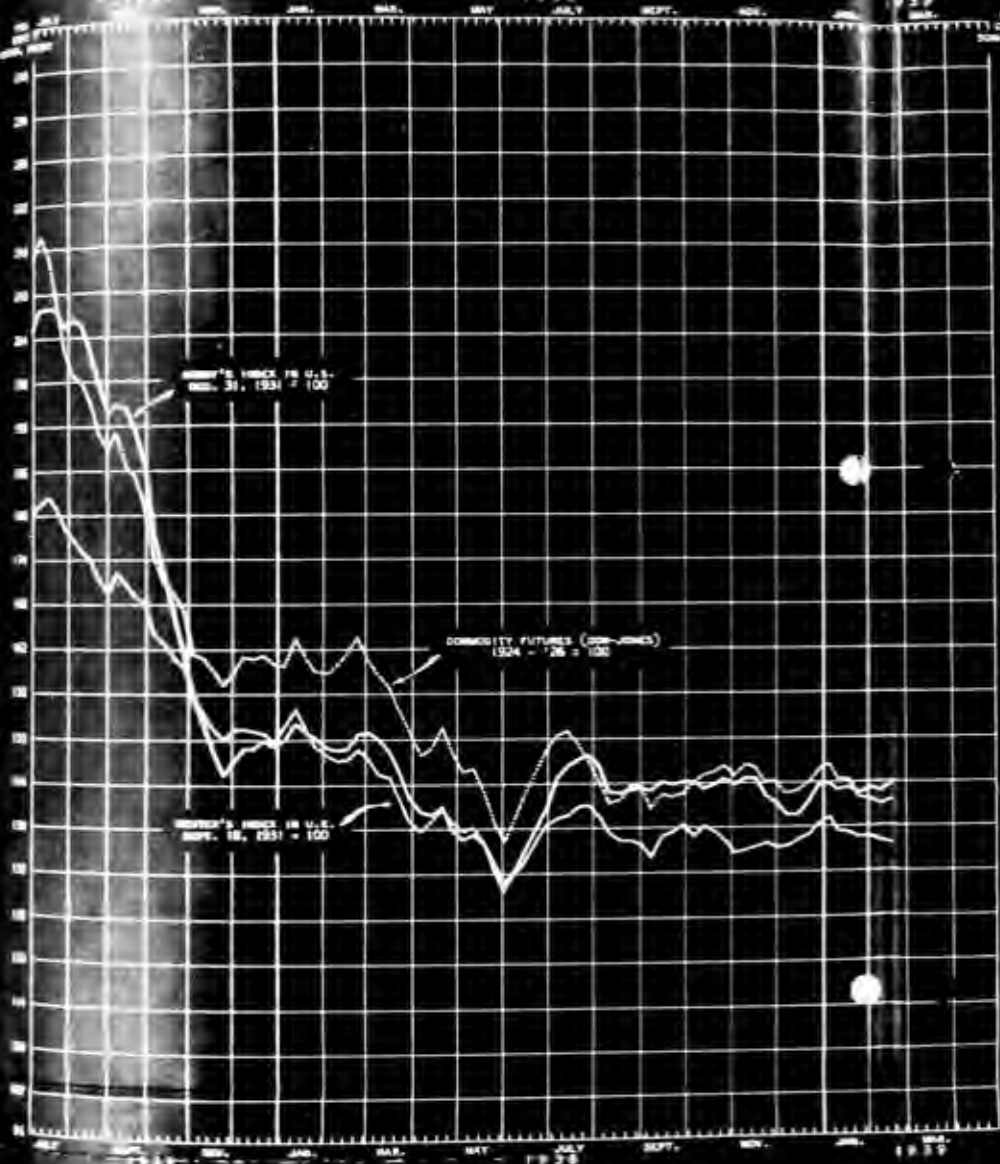
Chart 4
CONFIDENTIAL

107

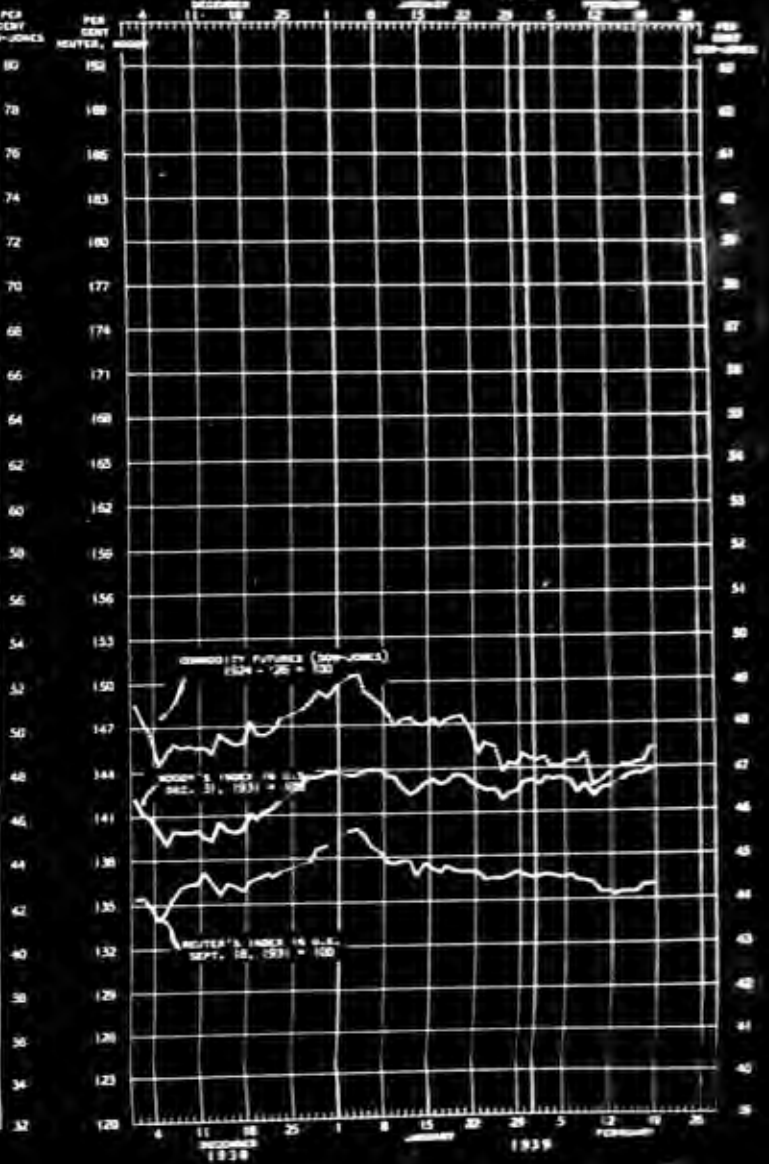
C - 189 - 4

COMMODITY PRICE INDEXES IN U.S. AND U.S.

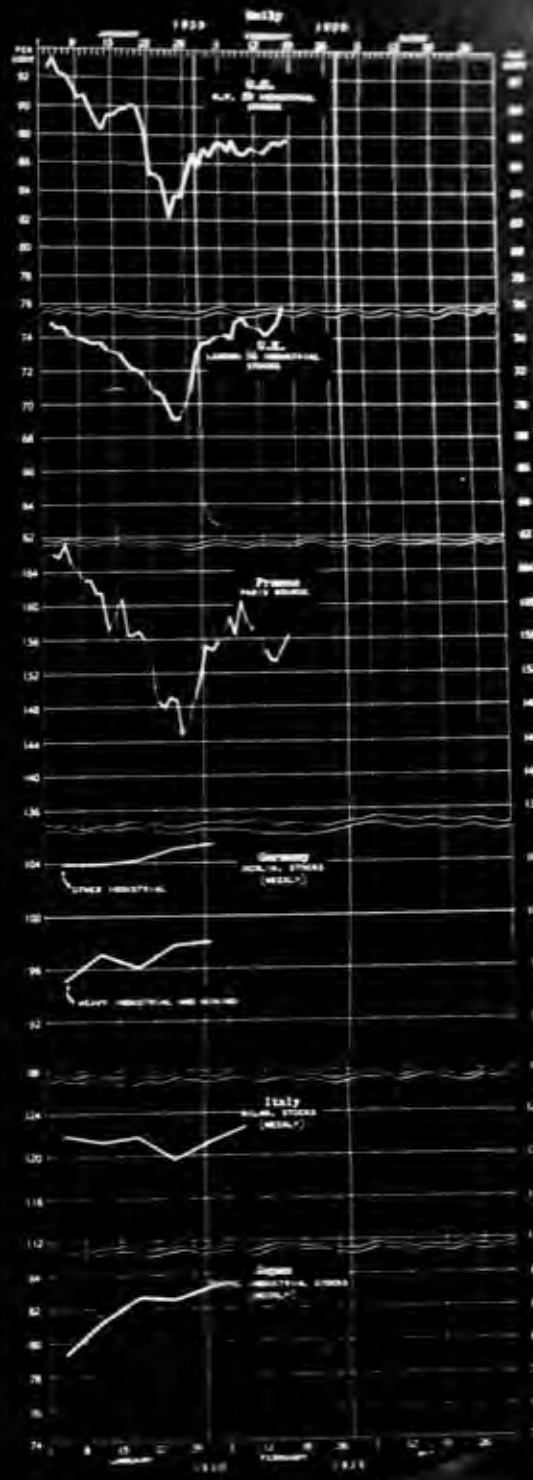
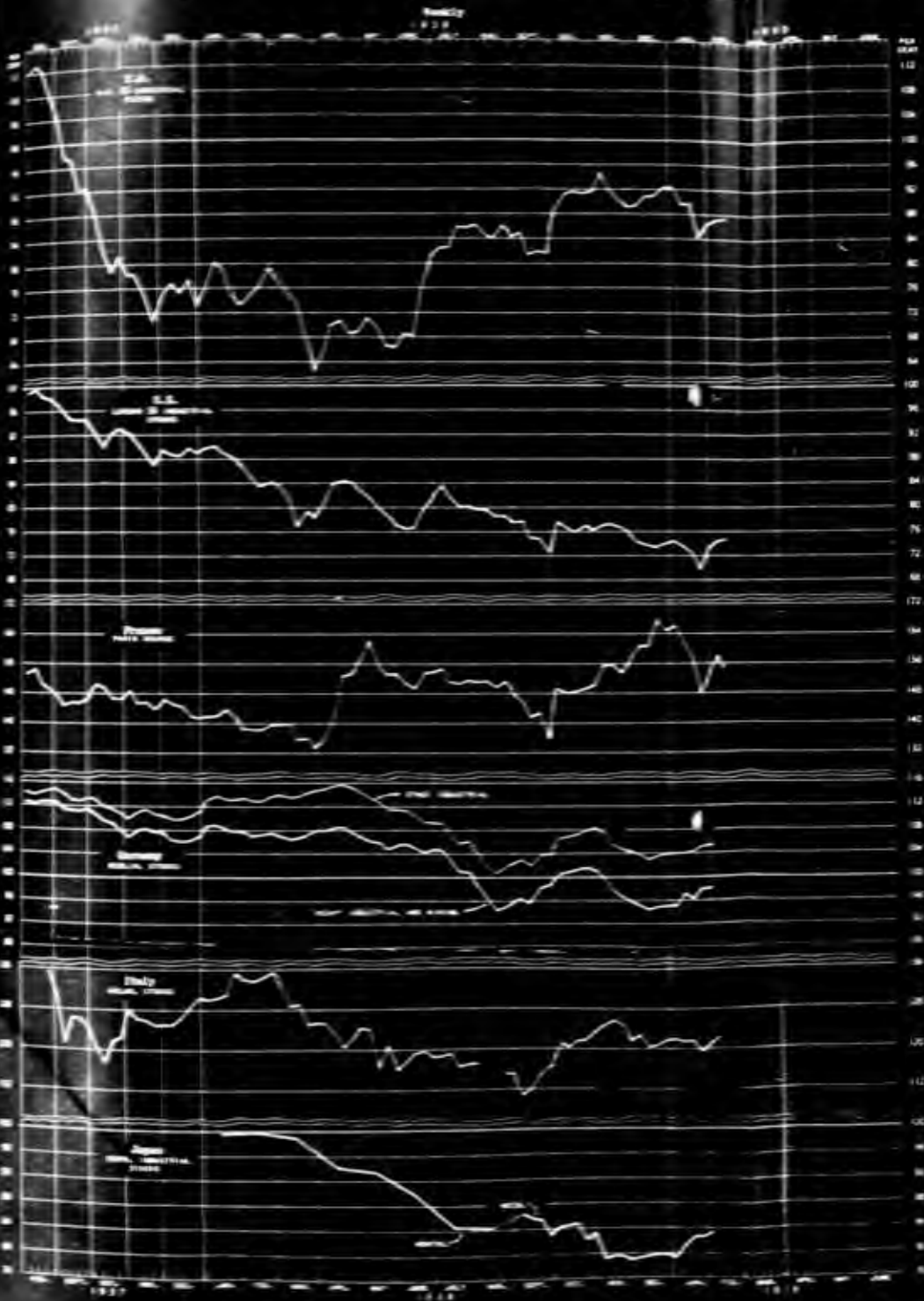
Weekly
(AVERAGE OF DAILY)
1938



Daily
1938 1939



INDICES OF THE LOW AND DISCOUNTED SECURITY PRICES



February 20, 1939.

SUMMARY OF BUSINESS CHECKConducted by Tri-Continental CorporationScope of Survey

From the middle of January to the middle of February the staff of Tri-Continental Corporation conducted a business check, in the course of which officials of about 125 companies, trade associations or government agencies were interviewed. Geographically, the survey was concentrated in the East and Middle West, and interviews were held in important cities in Massachusetts, Rhode Island, Connecticut, New York, Pennsylvania, Delaware, District of Columbia, Ohio, Michigan, Indiana, Illinois and Wisconsin. Industrially, the check included talks with officials in retail trade, and in the textile, leather and shoes, container, household furnishing, construction, building material and equipment, automobile, automobile accessory, rubber, non-ferrous metal, metal fabricating, iron and steel, machine tool, heavy machinery, electrical equipment, farm equipment, oil and oil equipment, chemical, coal, railroad, rail equipment and public utility industries.

Background for Check

A careful analysis of trade, government and corporate reports and a consideration of the various factors which usually make for a continuation or change in direction of business activity had led us to believe for some time that, following the sharp rise in industrial production in the latter half of 1938, there would probably be some pause or moderate decline in the early months of 1939. The very sharpness of the rise — a rise which resulted chiefly from increased output of consumers' goods and of industrial raw materials (especially steel) which are used in the manufacture of automobiles and other durable goods — made it reasonable to expect some correction. Our studies, however, of such factors as incoming orders, the trend of labor costs, the rising level of consumer incomes, the prospect for some

increase in farm income (despite the relatively poor outlook for wheat and cotton), the favorable trend of retail trade, the level of inventories, the relationship between production and consumption of consumers' goods, the level of activity in the capital goods industries, and the level of commodity prices, and such information as can be obtained from the study of banking and financial figures indicated the absence of serious maladjustments which usually precede a relapse in business. Recognition was given to the possibility of disturbing foreign developments, but it was felt that any news short of actual outbreak of a major European war would not seriously influence the course of domestic activity. Nor was this point of view changed after considering the possibility that there might be a moderate decline in government spending later in the year. But, while not expecting any severe or prolonged decline in production, we also felt that any sharp pick-up from the year-end level would depend largely on a sustained increase in activity in capital goods industries, which by the end of 1938 had recovered only a small part of their losses since 1937.

The purpose of the survey just completed was to check and supplement the above point of view, and especially to try to gain further information regarding the capital goods outlook.

Summary of Findings

In general, the check tended to confirm our tentative conclusions that there would be a pause, or decline, in business early in the year, but that such a decline would not be severe or prolonged. As to capital goods, prospects are not clear but it was quite apparent that there were no important programs among the large corporations which would indicate boomlike conditions comparable to those in late 1936 and early 1937. In fact, capital expenditures of most of the industrial companies covered in our check, according to present plans, will be less in 1939 than in 1938. Many of the companies interviewed, however, had completed extensive expansion and modernization programs in the past three years, and we do not feel that

any generalization regarding aggregate expenditures should be made on the basis of the information we received. Reports from numerous machinery and equipment producers, to the effect that the current level of new orders is well above the average for 1938, suggests the possibility of a better capital goods year than indicated by the expenditure budgets we obtained.

Following is a brief summary of our findings on the other important points covered in the survey:

New orders held up well in January, but many lines (notably steel and textiles) failed to register the usual seasonal gains in production over December. Yet the trend of orders and inquiries gave encouragement to the belief that production would soon turn upward again.

Inventories were reduced sharply during 1938 but at the year-end were still as large as, or larger than, at the end of 1936, when industrial production — as measured by the Federal Reserve Board index — was about 15 per cent higher. Current inventory policies are, for the most part, on a conservative basis.

Prices of most heavy goods appear firm and satisfactory for producing worthwhile profits given a good volume, but prices were characterized as distinctly unsatisfactory in such lighter lines as textiles and leather, and in some steel products.

Labor, with a few exceptions, is reported as quiet and efficiency high.

Profit margins are improving and expected to improve further from the low level of 1938, but generally it appears that margins will be lower — assuming comparable volumes — than in the last recovery because of higher wage rates and taxes.

Government deficit spending is apparently given less weight as a factor influencing business activity by most business men than by some economists and government officials.

+

Business sentiment appears to be cautiously optimistic regarding the outlook for business, and there was a complete absence of speculative spirit. Generally, less discouragement was expressed regarding Washington developments than when we have checked in the past. The foreign situation, while disturbing, apparently is not a major factor in present plans.

Looking both at the economic analysis of the situation and the results of our interviews, we come to the conclusion that a business relapse is unlikely, but rather we expect operations to be well maintained near the recent levels until activity in basic industry increases substantially. At the moment such an increase is not apparent, but as business maintains the improved level of activity and profits it would not be surprising if capital goods industries by the end of the year make a better showing than suggested by some of the information now at hand, particularly in view of the relatively low level of such industries at the present time.

The subsequent sections report the findings of the check in greater detail.

Incoming Orders, Backlogs and Production

In most heavy lines new orders have held at or increased from the December level and are substantially above a year ago. This is true especially for steel, machine tools (for domestic market), various heavy machinery lines, building materials and chemicals. Orders for rail equipment are spotty, for oil equipment poor, and for farm equipment below a year ago despite recent improvement. Buying of automobiles has been encouraging. Orders for certain textiles and leather products have shown some decline following sharp gains late in 1938. In practically all cases orders are running well ahead of the comparable period of 1938, but well below 1937, and for many concerns are not as large as in the early part of 1936. Unfilled orders generally have increased moderately, but are not large. Production in most cases seems to be supported by the level of incoming orders. The current rate of inquiries, especially for heavy equipment, encourages the belief that new orders are not likely to decline appreciably in the near future.

Outlook for Capital Expenditures

The majority of industrial companies we interviewed had modest plans for capital expenditures in 1939. It should be noted, however, that concerns we mentioned are for the most part large enterprises and financially strong. They are companies, by and large, which expanded capacity and modernized equipment in 1936 and 1937, not being severely affected at that time by the restrictive influence of the then heavy tax on undistributed earnings. It is quite possible that in the current recovery it will be the second-line, smaller companies which will spend money for more modern and cost saving equipment in an effort to compete successfully with their larger competitors. In fact, in several industries where we checked with both large and small companies, it was the smaller companies whose expenditure budgets for 1939 compared more favorably with 1938 and earlier years. And the relatively favorable reports from machinery and equipment manufacturers indicated that certainly some concerns were ordering more for capital improvements than in 1938.

The danger of generalizing regarding capital expenditures as a whole, based on the sample covered by our check, is illustrated by the following analysis. We obtained estimates of 1939 capital expenditures from about 60 industrial companies, and in the case of about 50 of these companies the estimates could be compared with expenditures of the preceding three years. Aggregate expenditures of these 50 concerns account for perhaps 15 to 20 per cent of the capital expenditures of all industrial and mining companies. Based on present plans, it was indicated that these 50 companies in 1939 would spend 15 per cent less than in 1938, 55 per cent less than in 1937, and 50 per cent less than in 1936. But, by eliminating from the figures the 10 companies having the largest expenditures in 1937, the picture is greatly altered. Thus, present plans would indicate that the remaining 40 companies in 1939 would spend 10 per cent more than in 1938, only 30 per cent less than in 1937, and nearly 15 per cent more than in 1936.

-3-

Our checks with railroads indicate that they will continue to hold expenditures to a low level, although many of them plan to spend more than in 1938 on rails. Prospects from the private electric utilities were somewhat more encouraging, although the utilities do not now expect to spend much more than in 1938, such an expenditure would be approximately as large as that in 1937 and perhaps 60 per cent more than in 1936. (In 1936, however, capital expenditures of private electric utilities were only one-eighth as large as estimated aggregate expenditures of all industrial companies.)

In answering questions relating to capital expenditures, many of the officials emphasized that their plans were subject to upward revision in the event of better-than-expected business conditions. "We have no program now on deck, but eventually must replace machinery." "We will have to modernize our shop one of these days." In most cases, however, it appeared that the failure to have larger budgets was based primarily on lack of need, i. e., capacities are already adequate, rather than on less tangible factors. As for "venture" capital, there seems little doubt that worries over Administration policies is a deterrent to expansion.

As was the case in 1936 and 1937, most capital expenditures will be for machinery and other equipment, aimed at saving costs and eliminating labor. Such plans as were uncovered for building new factories were chiefly for new products (notably in the chemical industry) or in connection with decentralization programs.

Inventories and Buying Policies

Inventories, almost without exception, were sharply reduced in 1938, but in most cases are still as large as, or larger than, at the end of 1936. This fact is in line with data developed by our own studies, which suggest that, with inventories still at a fairly high level, we cannot expect the same impetus to increased production from the building up of inventories as occurred in 1936 and 1937.

-7-

Current inventory policy is generally conservative. Present levels are not considered burdensome, but in very few cases are additions being made.

Price Trends

Most heavy lines have lost a part of the price advances made in 1936 and 1937, although generally prices of such products still seem to be as high as, or higher than, the 1936 average. Although price cutting is reported in some lines, generally the recent trend has been firm. We checked the situation quite carefully in steel, in view of recent rumors of weakness, and received unanimous reports denying the rumors. Realized prices for steel in the first quarter of 1939 should average higher than the fourth quarter of 1938, and there is some talk — still in the hope stage — of more satisfactory prices in the second half.

In some lighter lines, especially cotton and wool textiles and leather products, prices are unsatisfactory.

Labor Situation

Except for the widely publicized factional strife among the automobile workers and some talk of a possible coal strike when the present wage agreement expires on March 31, the labor situation appears quiet and labor efficiency is high. This latter observation checks with our own studies, which show that in November and December output per man-hour for manufacturing industries as a whole was above the peak level of 1936 and much higher than the average for 1937 or 1938.

Some of those interviewed stressed the unfavorable social implications of a forced high wage rate policy. "When we have to pay 50 cents an hour to a girl worth 28 cents an hour, we find some way of eliminating her completely. Does this help the consumer purchasing power upon which the sale of our product depends?"

Profit Margins

With higher volume and increased efficiency, profit margins have already shown a marked improvement over 1938 levels in most lines. There were sporadic cases where the view was expressed that on comparable volumes profit margins would again be

high as in 1936 and 1937. By and large, however, it appears that price changes and efficiency gains have not been enough to offset higher hourly wage rates, increased taxes and the like, and that margins will be lower than in the last recovery.

Views on Importance of Government Spending

We approached the subject of government spending and its importance as a factor influencing changes in business activity indirectly by asking those interviewed for their explanation of the 1937-38 business decline. A great majority blamed the recent depression on un sound inventory accumulation by business itself, but many in turn placed the blame for business's lack of wisdom in this respect on governmental policies with respect to labor and to raw material prices. "Business men accumulated inventories because they expected higher prices and higher labor costs and because they feared that strikes would interfere with shipments." Some mentioned the President's statement about prices being too high and some mentioned Federal Reserve policy. Very few mentioned the decline in government deficit spending until reminded of it, and then stated that perhaps it was a contributing, but minor, factor.

The rather general agreement of business men to this viewpoint certainly is not conclusive as to the lack of importance of changes in deficit spending on the trend of business activity. But it suggests that if such spending is curtailed in the latter half of 1939 — which our checks in Washington indicate will be the case unless a new program is inaugurated — the psychological effect on business men's plans will be less than is assumed in some quarters.

Business Sentiment

The restrained nature of business men's optimism at the present time is reflected not only in general views on the outlook, but specifically by policies regarding capital expenditures and inventories. In our opinion this is a healthy state.

Generally, the individuals with whom we talked seemed to be less worried over political factors than when we have checked in the past. Domestically, the chief disturbing factor appears to be the nature of numerous recent executive appointments, but encouragement was expressed as a result of signs of congressional independence and — in the later interviews — of the outcome of the negotiations between the T.V.A. and Commonwealth & Southern. Quite a number of those interviewed continued to express a deep alarm regarding the longer term implications of recent social and economic tendencies. This, of course, is a real deterrent to long term planning for capital expansion. Many of our contacts were worried by the January market decline.

The foreign situation was very much on the minds of those interviewed, but did not seem to be a factor directly influencing intermediate term plans.

In the recent business check we did not cover specifically the outlook for construction. This was done in a study made in the latter part of 1958, the results of which were summarized in a recently released pamphlet. We shall be glad to send a copy of the pamphlet to any reader of this memorandum who has not already received one.

EDA

GRAY

LONDON

Dated February 20, 1939

Received 2:55 p.m.

Secretary of State

Washington

253, February 20, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. From a reliable source I understand that the 1938 balance of payments statement will be issued towards the end of this week and will show an adverse balance of about pounds 55 million as compared with an adverse balance of pounds 52 million in 1937. The most noteworthy changes are a decline in income from shipping of pounds 30 million and from investments abroad of pounds 20 million as compared with the previous year; a reduction of pounds 43½ million in the adverse visible trade balance and a credit item of pounds 12 million for silver replacing a 10 million debit for 1938. My impression is that as in recent years the Board of Trade has again sought consciously or unconsciously to minimize the size of the adverse figure.

Two. The one million pound revolving credit to Franco Spain referred to in paragraph one of my 214, February 13, 6 p.m., is definitely being negotiated

and

EDA - 2 - #253, February 20, 6 p.m. from London

and with the end of the war in sight the number of city institutions having interests in Spain and willing to participate has increased considerably. The security consists of assets in Great Britain which have been acquired by the Franco Government from Franco nationals but I gather that the amount of the security falls short of the amount of the proposed credit.

Three. The foreign exchange market was again inactive and the British authorities have probably not had to intervene. Gold was fixed at 148 S 5 D, a ~~penny~~ premium and of the 201 bars sold a few were taken by the fund; 75 were married.

KENNEDY

KLP

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 21, 1939, 1 p.m.

NO.: 333

FOR THE TREASURY DEPARTMENT.

Yesterday on the exchange and security markets trading was almost at a standstill. Practically no change in the spot and forward rates for the franc. In early trading the fund obtained a small amount of sterling.

Irregular security market, and for the day's trading most securities showed slight losses. On the market rumors are circulating that the Berard mission to Burgos was encountering difficulties, and the effect was depressing.

Because of the Shrove Tuesday holiday the exchange market is closed today. No special importance or interest to unofficial trading in exchange between banks this morning.

JOURNAL OFFICIEL for February 20 published a decree to the effect that interest rates were reduced on six-month Treasury bonds from 2 1/4 percent to 2 percent, and on one-year Treasury bonds from 2-3/4 percent to 2-1/2 percent.

Early in March German-British trade conversations are to open in Berlin. The French financial press is commenting widely upon them, and it is apparent that hopes are entertained that the scope of negotiations might eventually be widened and serve to clear the way for amicable discussion

of

- 2 -

of other existing obstacles to a peaceful understanding between the two countries. The fact that it was at Berlin's invitation that the negotiations were undertaken is given some importance. It is also observed that the discussions will be going on at the very time when a new international crisis might develop, namely, around the fifteenth of March, according to rumors circulating in financial circles.

END OF MESSAGE.

BULLITT.

1111222
- 2 -
EA:LW

Treasury Department

TELEGRAPH OFFICE

590 W 72 NL

TOWNS PALM BEACH FLA FEB 20 1939

1939 FEB 21 AM 8 42

HON HENRY MORGENTHAU JR

DEAR HENRY: RAYMOND STARR IS A CAREFUL AND ABLE LAWYER STOP MOST OF ALL HE IS A MAN OF PROFOUND INTEGRITY STOP IN MICHIGAN HE WITHSTOOD ATTACKS OF PLEADERS AND THOSE WHO WENT FOR PRIVILEGES AND FAVORITISM STOP HE WAS THE ONLY ATTORNEY GENERAL I CAN REMEMBER OF MY TIME WHO WAS DISCRIMINATING ENOUGH TO SELECT A STAFF OF SCHOLARLY LAWYERS OF IMPECCABLE INTEGRITY STOP HE IS VERY WORTHWHILE CONSIDERING BEST WISHES

FRANK MURPHY

542A

February 21, 1939.
11:12 A.M.

Bell: Yes.

H.M.Jr: Is it on?

B: Yes.

H.M.Jr: The light?

B: Yep.

H.M.Jr: It's red?

B: Ah - yes.

H.M.Jr: What?

B: Yes - is that all I do?

H.M.Jr: That's all you do.

B: All right.

H.M.Jr: Now, Dan, what I want to say to you is I've been thinking a lot about fiscal affairs, see?

B: Yes.

H.M.Jr: And I've got an idea to work on which may not be any good but I want your help and, at the beginning, I don't want to tell anybody about it but you.

B: I see.

H.M.Jr: See?

B: Yes.

H.M.Jr: And that is this - ah - we just, as you and I know, don't have any fiscal policy and there's just these deficits and so forth and so on. Now what I'm going to say - I'm groping but I've got an idea and I want to develop it with your help and that is this - we've got the regular departments already segregated, haven't we?

B: Yes.

- H.M.Jr: And the revenue - ah - I think pays about for that doesn't it? Hello
- B: Well - ah - it all depends on what you put in there.
- H.M.Jr: Well anyway let's go back as though this government was back to where it was ten years ago, see?
- B: O.K.
- H.M.Jr: On that basis.
- B: On that basis plus your Social Security - ah -
- H.M.Jr: Without Social Security.
- B: Well on that basis plus Social Security, plus - ah - say the Agriculture - why you're just about balanced.
- H.M.Jr: Well now my thought is this - this is what I'm groping for. The Bureau of the Comptroller of the Currency taxes the banks of the _____ and raises enough money to pay for itself, see?
- B: Ah -
- H.M.Jr: Hello.
- B: ...practically, yes.
- H.M.Jr: Practically - well it could if it wanted to.
- B: That's right.
- H.M.Jr: Now what I'm thinking about is - I'd like to explore that idea much further. Now - ah - and that is the thought that if the federal government is called on to do certain things for a particular industry that industry should raise the money and be self-financing, see?
- B: Ah-ha.
- H.M.Jr: Now - ah - if, for instance - that goes particularly for Social Security, see?
- B: Yes.

- 2 -

- H.M.Jr: And the thought is from what - the last Cabinet Meeting I gathered from what Hopkins said he's gotten the President to change - that he doesn't want to increase the tax from 2% to 3%.
- B: Oh he does not.
- H.M.Jr: Well that's what I gather. On the other hand, this new plan that their bringing in is going to put a great additional burden on the Treasury.
- B: Sure.
- H.M.Jr: And if they're going to put additional burdens on the Treasury it should be self-financing.
- B: That's right.
- H.M.Jr: Now as to Public Works - my thought was this - I want to get a figure - an overall figure - rough figure of how much money we have put into Public Works which will finance itself through revenue, see? Hello.
- B: Yes.
- H.M.Jr: Let's say for round figures its 500 million dollars. I don't know - it may be a billion dollars. Ah - we go to the public and sell them those bonds and the money that we get from that becomes revolving fund, out of which Congress can vote additional funds for self-liquidating projects but the new self-liquidating projects have to be limited to this self - to this revolving fund. Hello.
- B: Yes - I get it.
- H.M.Jr: Now you take for instance - what I'm trying to do is I want to set everything aside and balance the budget - ah - or make the things pay for itself with the exception of Relief and Armaments, see?
- B: Ah-ha.
- H.M.Jr: Hello.
- B: Yes.

- 4 -

- E.H.Jr: And make Relief and Armaments off by one side and see if we can't get a picture where the budget would be balanced, except for those two items. Now as regard to Agriculture I've got quite a revolutionary suggestion to make and that is this - instead of having a processing tax and make the consumer pay for controlling the products of the farmer, have some kind of a tax on the farmer himself. If he can't supply and demand keep down his production of hogs and corn and wheat and cotton and a federal authority has to police him, then let the farmer supply the money in order to do the policing of the farmer, see? Hello.
- B: Yes, I - I - ah.....
- E.H.Jr: Well I - I - I'm giving you this thought.
- B: I don't quite get it - ah.....
- E.H.Jr: Well - I mean - after all if Agricultural income is around 8 billion dollars, is it?
- B: Something like that - 7 or 8.
- E.H.Jr: All right, now they - they - in order to keep it or raise it why should the man who eats the breakfast food and wears the undershirts pay a tax so that the farmer can get more money?
- B: You say why should he or why shouldn't he?
- E.H.Jr: Why should he?
- B: Well - yes, I get that.
- E.H.Jr: Now if the farmer wants 500 million dollars to regulate himself, let's tax the farmer. Let's put a sales tax on his products but collect it from the farmer and not from the consumer.
- B: Yes, not from the processor.
- E.H.Jr: No. In other words - in other words - if the banks want to be regulated and they're willing to contribute money to be regulated - that's the way we run the Comptroller's office.
- B: Yes.

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- H.M.Jr: If the farmers want to vote to be regulated, let them raise the money to regulate themselves. One makes as much sense as another.
- B: Well it does - ah - up - it does for the expenses of regulation but how about the subsidies?
- H.M.Jr: There shouldn't be any.
- B: Well then that's O.K.
- H.M.Jr: There shouldn't be any.
- B: If you want to cut down production to regulation then he ought to pay for the administrative expenses of the regulation.
- H.M.Jr: Yes.
- B: That's what you mean.
- H.M.Jr: Yes. Now the other thing - that I'm leading up to is this - I read in the paper to-day that England's new Armament Program - they're not going to raise any new taxes, see?
- B: Yes.
- H.M.Jr: So they're going overboard.
- B: Yep.
- H.M.Jr: Now this whole armament program is the curse of the whole world.....
- B: Yes.
- H.M.Jr:and it's the curse of all the Treasuries.
- B: That's right.
- H.M.Jr: And I want you to get for me and if you need help you can get them without telling why.....
- B: Yes.
- What the costs of the armament programs are of the principal countries of the world.
- B: Yes.

- 6 -

H.M.Jr: See?

B: Yes.

H.M.Jr: What I'm leading up to is that I'm thinking of making a speech. I haven't made one since November '37 - that it's hopeless for any Secretary of the Treasury to run the Treasury on a decent basis until we have a world-wide disarmament program.

B: Yes.

H.M.Jr: See?

B: Yes.

H.M.Jr: And just as long as this thing continues - I mean one country after another is going to go overboard and we're all - the whole world is headed towards inflation and complete disequilibrium.

B: Yes.

H.M.Jr: See?

B: Yes.

H.M.Jr: Do you get it?

B: Yep.

H.M.Jr: And the whole curse is - ah - this terrific race for armaments is getting more and more and more. Now I know what I'm saying is kind of rough but I - I've been thinking about it and I wanted to make a record of it - I'll see that they give you a copy.

B: Allright.

H.M.Jr: And - but I want to get the whole picture - how ^{much} is the world paying for armaments to-day? It must be a staggering figure and I haven't seen anybody use it.

B: It hasn't been used for a few years - it was used a few years ago several times in speeches and articles but I think we can get something on it. You may have a little difficulty getting say Italy's and Germany's.

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- H.M.Jr: Well now, for instance, we have Heath who is our financial agent in Berlin. Hello.
- E: Yes.
- H.M.Jr: He just got back. Now he would know. And we can ask Merle Cochran in Paris to get us the best estimate on the Italian one.
- E: Yes.
- H.M.Jr: I mean - you may find that Harry White may have that, see?
- E: Yes, all right.
- H.M.Jr: I don't want anybody else to have the whole picture that I talked to you about, except yourself until we get along.
- E: All right.
- H.M.Jr: There's just too damn many leaks.
- E: All right, I'll see what we can do with it.
- H.M.Jr: If you want anybody to help you, you can have Gene Duffield. Do you like him?
- E: Oh fine.
- H.M.Jr: What?
- E: Fine.
- H.M.Jr: Well would you like to have him help you?
- E: Yes, when I get a little further along I think I would.
- H.M.Jr: Right.
- E: Because all you want now is figures.
- H.M.Jr: Figures and I want you to be thinking about it.
- E: Yes - yes.

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- E.N.Jr: Because here we're going along and nobody has any ideas; we're all drifting and I'd just like to paint the picture and - I mean - first there's disarmament and then the possibilities - I mean is there any possibility of our ever digging ourselves out?
- E: Yes.
- E.N.Jr: And I think there is.
- E: Well - and we certainly have got to begin to think about it - there isn't any question about that.
- E.N.Jr: Well - and you're - as far - you're fresh - got some - ah - something well - I - I'd like your help.
- E: All right.
- E.N.Jr: You take Good Roads. Good Roads don't belong in Agriculture any more than Public Health belongs in the Treasury.
- E: That's right.
- E.N.Jr: and I'd make a pool of all public works. But the main thesis that I have that I want to set up - the unemployment and the armaments costs - principally the armaments - of the world.
- E: Yes. Ah - take - take Public Works, for instance - of course, some of them will be self-liquidating in part and whole. But take a thing like Good Roads - it would not, of course, be, in any sense - ah - liquidating on its present basis - self-liquidating on its present basis. Would you be willing to say - at least give consideration to the transfer of gasoline tax to the revolving fund?
- E.N.Jr: Yes. They'd be for Good Roads.
- E: Yes.
- E.N.Jr: Yes.
- E: Or maybe the automobile taxes.....
- E.N.Jr: Yes.

- 9 -

- B:for the revolving fund in order to finance those?
- H.M.Jr: Absolutely. Now you caught on.
- B: Yes.
- H.M.Jr: I mean if the people want good roads - well whatever the automobile and gasoline taxes - that goes for good roads and no more.
- B: Yes.
- H.M.Jr: See?
- B: Yep. All right.
- H.M.Jr: And if they want harbors deepened and so forth let the Merchant Marine pay for it.
- B: Let them put a tax on navigation.
- H.M.Jr: Yes.
- B: Of course now we're subsidizing it. (Laughs)
- H.M.Jr: Well - let's face it.
- B: Call it a subsidy.
- H.M.Jr: What?
- B: Call it a subsidy, eh?
- H.M.Jr: Well yes it's a subsidy. Let's see how many things we can make self supporting.
- B: All right, I'll look at it - take a look at it.
- H.M.Jr: How - what do you think of it?
- B: Well I think it's all right. I think - ah - it can be effused and to the extent of having everything earmarked, you know.....
- H.M.Jr: I know.

- 10 -

.....in the Internal Revenue.

H.W.Jr: Well I'd like to go down that Avenue, see,.....

B: Yes.

H.W.Jr:Dan - in other words, I want with your help now to work on this thing and see if I can get something out and the whole thing I want to lead up to is the cost of the armaments and just what it's doing to this world. Now I don't think anybody in this country has made a speech on that in a couple of years!

B: Yes.

H.W.Jr: What?

B: That's right - I don't think they have.

H.W.Jr: And I'd like to.

B: All right, I'll see what we can get together.

H.W.Jr: But I want to keep it very secret.

B: O.K. All right, I won't tell anybody.

H.W.Jr: That's right.

B: All right.

H.W.Jr: Thank you.

B: All right, I'll go to work on it.

H.W.Jr: Thank you.

February 22, 1939

TELEGRAM TO THE PRESIDENT

(VIA WHITE HOUSE WIRE)

THE PRESIDENT:

I thought you would be interested in the results of the latest Gallup poll. ^{Paragraph} The Institute conducted its national survey of voters on the issue raised after President Roosevelt's conference with the Senate Military Affairs Committee two weeks ago. Quote If Germany and Italy go to war against England and France comma do you think we should do everything possible to help England and France win comma except go to war ourselves Question Mark Unquote The vote is Yes sixty nine percent no thirty one percent Only six percent said they had not yet informed an opinion on the issue period The party vote in the survey is Democrats yes seventy one percent no twenty nine percent Republicans yes sixty nine percent no thirty one percent other party voters yes sixty five percent no thirty five percent Paragraph One reason for this sentiment is made clear by a second question in the

-2-

Institute survey period Voters were asked quote If Germany and Italy defeated England and France in a war comma do you think Germany and Italy would then start a war against the United States question mark end quote The vote is yes sixty two percent no thirty eight percent stop Best regards

Henry Morgenthau, Jr.

February 22, 1939

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Note: Duffield and Foley each got a 140
complete copy of everything here
except the letter to the President
dated February 22d. This was done
on instructions of Mrs. Klotz.

McH

Feb. 24/39

*att to ~~Robertson~~
reels 5/15/39*

February 22, 1958.

My dear Mr. President:

I beg to acknowledge receipt of your memorandum of February 17th enclosing a copy of a letter from Mr. Frederic Delano.

I am enclosing herewith a summary of the meeting that Mr. Delano refers to. I would like to have an opportunity to discuss this with you on your return as I think the subject is too important to be dismissed without further consideration.

Yours sincerely,

The President

(Via White House pouch)

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The President

(Via White House pouch)

✓ C. H. ...
143
THE WHITE HOUSE
WASHINGTON

February 17, 1939.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

I agree with F. A. D. Will you talk with him and between you work out legislation that will allow us enough to capitalize self-liquidating investments of proven value, such as the Panama Canal and Boulder Dam -- leaving all others to some future date?

F. D. R.

FREDERICK DELANO
 41 NORTH AVENUE BUILDING
 WASHINGTON, D. C.
 1110 LEONARD AVENUE
 NEW YORK CITY

Washington, D. C.

February 16, 1939.

The Excellency

The President of the United States.

My dear Mr. President:

I spent three hours Monday with a committee that is considering the text of a proposed bill to set up a corporation entitled "The National Resources Finance Corporation, and although there were some twenty-one present, most of them young lawyers representing different bureaus of the Departments, it was astonishing the amount of suggestion and criticism that developed. But my feeling about the bill aside from minor textual points is that it is fundamentally objectionable and not only will not pass, but will arouse a great deal of criticism against the Administration. It will be criticized on the ground that it is thinly-veiled window dressing; and secondly, that because of the emphasis on power development, it will be misunderstood as reopening a good many things which have been settled or shoved to one side.

My notion is that in the first six years of your Administration you have accomplished a wonderful task. In many fields the battle has already been won, and the next six or eight months must be employed in consolidating your gains and in rectifying errors of detail so as to perfect your work. To my mind the next six months in Congress are of such vital importance that it would be unwise to reopen sore subjects or seriously debatable questions.

This does not mean that I have changed front. I believe it ought to be possible to capitalize self-liquidating investments of proven value, such as the Panama Canal, Boulder Dam, and other investments, which have been completed and which have shown earning power. There is no reason why such as these might not be taken over by a general holding corporation which would re-finance them and reimburse the Treasury of the United States, so that these items would no longer be included in the debt structure. When, however, you include with such projects those not yet constructed and which at best have not the same certainty of being self-liquidating, I think you reopen a battle which is unnecessary and which may do more harm than good. Under the circumstances, and considering the critical period immediately ahead of us, I venture to suggest that the effect of such a bill as this would be very harmful.

May understand that I am expressing simply my personal opinion.

Respectfully submitted,



copy

February 14, 1939

To: The Secretary
 From: Mr. Hanes

The following is a summary of the opinions expressed at the meeting yesterday on financing power projects through an agency of the Treasury. These opinions are all stated in full in the transcript accompanying this summary.

Name

Statement

Frederick Delano

Expressed the opinion that this Bill "would raise particular hell" in Congress during a period which is going to be crucial for the Administration. He suggested revising it to cover only completed projects, but to embrace any self-liquidating asset in order to remove the emphasis on power.

Mr. Burlew
 (Interior)

Agrees with Mr. Delano that an attempt to pass such a Bill at this time would be unwise.

Mr. Smith
 (Power Commission)

Said the Commission has not formally passed on the plan. His attitude during the meeting was one of helpfulness provided the Power Commission was given real authority.

Mr. Standford
 (TVA)

Said his Board had not considered the plan, but that his personal preference was for an attempt to do this financing within the framework of existing agencies, notably TVA and Reclamation without concentrating financing authority in a new agency.

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Captain Merrell
(Army Engineers)

Sees no objection to the Bill.

Mr. Jones
(Power Policy
Committee)

Said in a statement filed after he had been called away from the meeting that he supported the underlying theory of separating self-liquidating assets and thought the machinery for doing so should cover new projects as well as existing ones, and that the Secretary of the Treasury should be the financing officer with power to review the financial statements of the projects through any device he chooses.

EXCERPT FROM TRANSCRIPT OF MEETING RE
GOVERNMENT POWER CORPORATION HELD IN
MR. HANES'S OFFICE FEBRUARY 13, 1939.

Hanes:

I want to get an expression here - Mr. Delano, I know, has got something he wants to say - as a matter of fact, I'd like to have each agency here express, if they would, just their viewpoint as to the general policy of this thing, because I think the President is interested to have all the agencies of the Government express a frank opinion as to the general policy, not the specific bill or the provisions thereof.

Mr. Delano, have you got anything?

Delano:

Yes. I realize - I hate to say anything that may seem derogatory when I know men have worked very hard to solve a very difficult problem. But, fundamentally, as I see it, the next six or eight months are exceedingly critical months for this Administration, and I would hate to see a bill introduced in Congress which to my mind would raise particular hell.

Now, that isn't - that doesn't mean that I am against the idea of not treating as debt self-liquidating assets. I think that they ought to be handled separately. And perhaps if it had been two years ago or three years ago we could have done just what we're contemplating now.

What I'd like to suggest is that we try to remove from this bill the features of it which will be particularly contentious. I think one thing that would help would be to make it only apply to completed projects. Anybody who has ever known construction on a large scale knows that costs often greatly exceed estimates. And if you're going to have a general authorization to cover costs and even capitalize the operating expenses during development, which is considered a very improper thing by conservative corporations, why, you're going to be up for a tremendous lot of criticism.

And then I think the question of the great emphasis on water power is going to raise a good deal of question. Here's the T.V.A. that just after a long hard battle has made an adjustment on water power

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that is, I think, going to have a good deal of benefit in smoothing the ruffled feathers of a good many big corporations; but I think when - just as soon as this bill is introduced in its present shape, they'll say, "Well, here's the thing all over again; they're going into a general development of water power and competing with private corporations."

Well, I pretend to be and I think I am a liberal, but I'm - John Dewey defined a liberal - he said a liberal was a man who was able to see both sides of the question, and I think it is awfully important to see both sides of the question, especially in the next six or eight months. I would a great deal rather see a bill that permitted the development - or the reimbursing of the Treasury for construction of self-liquidating projects, and that might include toll bridges, transmission lines, housing, reclamation, irrigation, water works; those are things that occur to me. But I would then like to put it on a basis which even the intense partisans on the opposite side cannot upset. Say, "Why, you admit that the Panama Canal cost over 400 million dollars; you admit that that has an earning basis. Now, instead of having that part of the debt of the United States, we propose to reimburse the United States for that expenditure and let it stand on its own feet."

Hanes: Dig (?) itself out.

Delano: Yes, dig (?) itself out.

And so with other things. I hope - I'm not trying to knock this idea at all.

Hanes: That's exactly what we want, the frankest sort of expression, because we're not helping anybody if we've got some secrets here. We have certainly got none. We're just carrying out the instructions given us by the President.

And I'd say again that if there is any confusion in anybody's mind - I heard the President talk about this thing at some length, and if there is any confusion in somebody's mind that he was thinking, or we were thinking, in terms of issuing bonds to the full extent of the cost of any project, why, get it out of your mind right now, because it's

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just not in the cards.

Delano: I think what I have said is in keeping with Secretary Morgenthau's quote from the President's message.

Hanes: Well, thank you, Mr. Delano.

Now, Mr. Burlew, would you like to express an opinion?

Burlew: I agree in the main with Mr. Delano, for various reasons he's given, and particularly for the irrigation features. And I don't see where the security of the reclamation projects adds anything to the bonds, because we've got a revolving fund which we spend from year to year. That's my principal question - is just what security the reclamation fund would bring to these bonds.

Hanes: You think there is some doubt as to the wisdom of the Administration trying to pass any sort of legislation at this particular time which would contemplate the recapitalization or reimbursement of the Treasury for funds already put out on completed projects?

Burlew: Yes, sir.

Hanes: Who will speak for the Federal Power Commission? Do you want to speak for them, Mr. Smith?

Smith: I don't believe we can speak for the Federal Power Commission at this time. Mr. Seavey, our Acting Chairman, was supposed to be here and was taken ill, so we're pinch-hitting for him, and I'd better not - I haven't discussed this feature with him.

Hanes: Do you (Blandford) want to say a word for the T.V.A.?

Blandford: Well, I would like the record to indicate that neither the staff nor Board of Directors has had time adequately to explore the proposed bill or, more recently, the second draft, and cannot picture at the moment the full implications of the proposal.

It should be said that, while the opinion is somewhat personal and curbstone, there is complete subscription to the paragraph quoted from the President's budget

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message, and as a matter of fact in our fiscal planning and our conversations with the Bureau of the Budget we have been moving rapidly in that direction within our own statutory authority.

Whether some present prospect - and on that I'm inclined to support Mr. Delano - whether some present prospect of considerable extension of the number of agencies administering such projects - I think it would be very profitable and appropriate to explore such an interesting, constructive formula as has been tentatively expressed in this bill. I think it is realistic to come back to the realization that there are two agencies, practically, for the purposes involved here - the Bureau of Reclamation and the T.V.A. - and as I hastily go over this bill I inevitably think in terms of almost amendment of the T.V.A. Act; almost every paragraph suggests some question. And from that viewpoint it is a bit exciting, with all our other distractions.

And whether some immediate necessity of progress along this line - I think our studies should include, in the absence of a large number of new agencies working on water projects, the exploration of moving in the direction of the President's budget message under the respective statutes of the two agencies, cooperating perhaps in its financing plans with the Bureau of the Budget, as an alternative, until some more larger picture develops.

I do hope there will be ample opportunity to explore the relation of this proposed bill to our own statute.

Burlew: I hope the same thing for the Bureau of Reclamation.

Welford: I walked out, Mr. Burlew. I wonder if you made mention that Bonneville is interested in how this thing turns. It's in the Department, but on a different basis than Reclamation.

Blandford: We mentioned Bonneville before in listing the number of projects.

Actually, in terms of administrating this thing year

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In and year out, it seems the big bulk of the relationship is with E.W.A. and the Reclamation Bureau, imposing a lot more legislation and a lot more facilities and agencies on two agencies at least one of which is just feeling its way out through some very complex situations and reviewing policies and checking with a considerable number of agencies at the present time.

Chair: Well, is there anyone else that wishes to be heard first? Captain, do you want to say anything?

Smith: The only thing I could say for the War Department is that, though it has only had a brief period to examine the provisions of this bill, it has given it some study and is aware of no objection to the general purpose of the bill. This bill applies to very few projects already constructed by the War Department, although it does apply to some - will apparently apply to several projects now authorized but not yet constructed, and we can so far see no serious objections to financing self-liquidating features of future projects in the manner proposed by the bill; as far as the War Department is concerned, it seems to be a matter of financing, and we see no objection to it.

Chair: Thank you, sir.

Chair: Anybody else want to say anything about the policy matter?

(The following statement was submitted by Mr. Ben Cohen, and was called out during the discussion:)

"I am sorry that I was called out of the meeting and could not hear all of the discussion about the underlying theory of the proposed bill. I think, however, that it is extremely important that some machinery be created for the separation of the self-liquidating portion of the public debt from the balance, and that that machinery should cover new projects as well as those already constructed. Moreover, I think that it would be better to have the control over the financing of self-liquidating projects concentrated

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in the Secretary of the Treasury, who would be acting for the President. This would not, however, involve a duplication by the Treasury of the work of the agencies concerned but would involve a review of their work. If the data submitted is not sufficient, the Treasury or any agency that the Treasury might use would not itself set about gathering new or additional data but would merely require the agencies concerned to submit more adequate data."

Can We Make Socialism Pay?

Asking the Times - Feb. 14, 1939

It floats its own bond issues for these projects, and amortizes the investments by charging tolls.

So prosperous is the Holland Tunnel that the Port Authority is being besieged by agitators for lower tolls—a reasonable and worthy agitation, we believe.

Similar fortunate experiences have been had with the Triboro Bridge Authority and the Henry Hudson Bridge Authority. Robert Moses being chairman of each. The Henry Hudson Bridge at Spuyten Duyvil is the most spectacular moneymaker of all these structures, because the toll is only a dime.

We have believed since the beginning of the TVA that it ought to pay its own way and yield a reasonable profit—and the same for all other Government public works which can be made to earn money.

The charges for their services should not be below cost; the general taxpayer should not be stuck for deficits they may incur.

We haven't seen figures to substantiate the persistent vague charges that TVA is concealing deficits by juggling its books.

But it seems to us that a positive test, and a positive check would be furnished by some such system as Mr. J. J. J. proposes, whether it shocked orthodox Marxists or not.

With a lot of bondholders sitting around waiting to clip and collect on their coupons as they fell due, a lot of voters would be taking a poignant and personal interest in seeing TVA make money. Where your treasure is, there at least a part of your heart is also.

Offhand, and speaking as laymen in these matters of finance, we can't see any valid objections to J. J. J.'s idea. We'd like to hear from anybody who can.

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We have received the following letter:

Editor: We have all been listening for a long time now to deal promises about what valuable national assets such

Letter From A Customer

things as the TVA are going to prove to be. Power is going to be cheaper; therefore more people are going to use it; therefore more electrical appliances of all descriptions are going to be bought, and business is going to benefit accordingly, at least in these power project areas.

Furthermore, these projects, or many of them, are going to pay their own way. The people who say TVA conceals its true costs and shoulders deficits off on the general taxpayer are just misguided rugged individualists or plain liars.

I am in a fog over all this; don't know how much of it to believe and how much to discount. But I think I know a way to verify it—and incidentally stimulate private investment, which is now pretty timid for one reason or another.

Why not take TVA, for example, out of the general Government assets and liabilities classification, and float a bond issue covering its costs up to now and the probable cost of completing the job? Make these bonds yield interest at, say, 3 per cent, and sell them to the general investing public just like any other bonds.

And why not do the same thing with other Government projects which it is claimed are going to prove self-liquidating? If these dips into socialism are so sound, why not let the investing public in on this good thing?

J. J. J.

Our offhand reaction is: Well, why not?

Of course, we're not experts in finance, and maybe there is some fatal flaw in J. J. J.'s proposal. But we think the letter is worth passing on to our readers, and we'd like to have some discussion.

We think it is probable that orthodox Socialists and Communists will be horrified by this proposal to make Government enterprises of the TVA type pay interest to bondholders. The notion is highly un-Marxian if we know anything about Marxism.

Marx Might Not Approve

Nevertheless, schemes like the one J. J. J. proposes are in operation in New York and New Jersey, if nowhere else, and up to now they are paying out well.

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The Port of New York Authority is an independent corporation, set up jointly several years ago by the States of New York and New Jersey. Its job is to build and operate various public improvements of the kind that can be made to earn money—as distinguished from such things as parks and playgrounds, which cannot be made profitable in terms of dollars and cents for all the profit in social welfare that they yield the community.

This job the Port Authority has performed and is performing very well—too well in the estimation of some people. It built and operates the Holland and Lincoln vehicular tunnels under the Hudson, the George Washington Bridge over the Hudson, and the Bayonne, Goethals and Outerbridge Crossing bridges between New Jersey and Staten Island.

February 23, 1939

This is draft of a statement, prepared by Mr. Gaston, for the Secretary to use at his press conference today.

The Secretary decided, however, to make the statement in his own language. Excerpt from his press conference is also attached, giving his exact words.

8, 30. A.M. July 23, 1939 ¹⁵⁵

The President is reported to have said (last Friday) that so far as he was concerned business need have no fear of increased rates.

In his budget message (Jan. 6) he said he did not favor any drastic increases in taxes, but suggested Congress might consider raising new revenue for the National defense program and farm parity payments.

I am in thorough agreement with the President that we ought not to consider at this time any substantial increases in tax rates.

Our best hope for higher government revenues is in recovery, not in higher tax rates. It is better to avoid any increases at all than to risk interfering with recovery.

Right now I think our tax studies ought to be directed toward removing any obstacles to recovery rather than toward any immediate increases in revenue. I think if Congress were to give our entire tax structure very careful study from that point of view, we might be able to discover reforms that would really aid business.

It would need to be a broad study that would consider effects on consumers as well as producers.

We are still badly in need of better coordination of the federal tax system with state and local tax systems. I'd very much like to see this Congress give a real push to the project of federal and state co-operation in the tax field.

That's just one of many tax subjects that are worth attention.

February 23, 1939.

EXCERPT FROM SECRETARY'S PRESS CONFERENCE OF
FEBRUARY 23, 1939.

"We are studying taxes continuously. We have a large staff at work. I am very glad that the President made that statement. Speaking only for myself the thing that bothers me is that businessmen I see have what I would call a 'what's the use' attitude about going ahead. I feel that that attitude is holding back normal business, that it is preventing businessmen from expanding their businesses and taking normal business risks. I sincerely hope that Congress will take a careful look at the tax law and see whether there are any deterrents that are holding back business and holding back businessmen from making future commitments. Businessmen ought to feel that the administration wants them to go ahead and take risks and that the administration wants them to make money. Tax legislation should be of a nature that is not a deterrent to businessmen. We want them to make profits. After all the President's message and his recent statement speak for themselves. I am merely saying how I feel personally. Of course we must have additional revenue, but in my opinion the way to make it is for businessmen to make more money."

Asked whether he had any definite ideas for changes in the tax laws, the Secretary said he didn't want to be more explicit at this time. He added "If Congress decides it will take a look we shall be glad to put out studies at their disposal. I hope they will."

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Asked whether the Treasury had prepared any tax bill, the Secretary said that he personally had not seen any tax legislation for introduction at this session.

FEDERAL RESERVE BANK
OF NEW YORK

February 23, 1939.

Dear Secretary Morgenthau:

Enclosed is a copy of a memorandum which we have prepared in response to your request to Mr. Harrison that he let you have a statement of our views on the suggestion that the amount of the weekly issue of Treasury bills be reduced at this time. We have listed what appear to us to be the favorable and unfavorable aspects of this proposal. Included are matters of lesser as well as of greater importance, as you will see, and we certainly would not give equal emphasis to all of the arguments, but the net result of our review of the proposal shows a preponderance of unfavorable consequences.

Yours faithfully,



Allan Sproul,
First Vice President.

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

Enc.

TREASURY BILLS

Suggestion: That the Treasury reduce the weekly issue of Treasury bills from \$100,000,000 to \$50,000,000, thus reducing its borrowing by this means, over a period of thirteen weeks, from \$1,300,000,000 to \$650,000,000; and that the difference be offset by borrowing approximately \$500,000,000 in cash, through a treasury bond or note issue, at the time of the March 15th financing.

Favorable:

1. This procedure would enable the Treasury to raise additional funds on an intermediate or long term basis, in advance of its requirements, but without immediately increasing the total public debt except during the short period while the amount of the weekly bill issue is being reduced.

2. The amount of unexercised borrowing power, in the form of Treasury bill issues, would be increased, so that if market conditions at any future time became unfavorable to the sale of longer term issues, and the Treasury was in need of funds, a very substantial amount could be obtained through increased offerings of Treasury bills.

Unfavorable:

1. This procedure would reduce still further the supply of securities in the section of the government security market where the demand is keenest and where the supply is least adequate at the present time. In fact, there is a very limited supply of short term paper of any kind in the money market at the present time. Up to a few years ago, several billion dollars of such paper, including call loans, bankers acceptances, commercial paper and Treasury certificates and bills, was available. The following table compares the present situation with that existing in 1926, before the great expansion of brokers loans incident to the stock market boom of 1927-29:

(Based on amounts, in millions of dollars)

	<u>Jan. 31, 1936</u>	<u>Jan. 31, 1937</u>
Brokers loans	\$3,500	\$ 600
Acceptances	800	200
Commercial paper	600	300
Treasury certificates	800	-
Treasury bills	-	1,300
Total	<u>\$5,700</u>	<u>\$2,400</u>

The decline in yields on these types of paper almost to the vanishing point, and the fact that the only yield obtainable from Treasury notes maturing in less than two years at present market prices is the expected value of exchange rights for refunding securities, indicates clearly a shortage of high grade paper of short maturity. If Treasury bill issues were cut to \$50,000,000 a week, the total volume of paper maturing of the types included in the table above, would be reduced to \$1,700,000,000, or less than one-third the volume at the end of January 1936.

The amount of Treasury bills now outstanding (\$1,700,000,000) compared with a high figure of \$2,653,000,000 in August 1937, and the amount of Treasury notes outstanding (\$8,500,000,000) compared with a high figure of about \$11,324,000,000 in March 1936.* This represents a reduction of \$2,343,000,000 in bills and \$3,428,000,000 in notes, or a total reduction of \$5,771,000,000 in short term securities in less than three years.

The yield on Treasury bills at the present time is negligible. If the total amount of Treasury notes outstanding, \$85, or \$3,189,000,000, are currently selling on a negative yield basis. Therefore, only about \$5 (or \$3,379,000,000) of the total amount of notes and bills outstanding (\$9,800,000,000) provide a positive yield for the investor. And the only notes with a positive yield are those having a maturity of two or more years.

*This situation may be further appreciated next month by the refunding of \$2,394,000,000 June 1939 Treasury notes. These notes are largely held by commercial banks. These needs for short term securities are the greatest.

The demand for Treasury bills is largely concentrated in New York and Chicago and, to a lesser extent, this is also true of London. It is at these centers that the proportion of demand deposits to total deposits in banks is highest, and the greatest concentration of inter-bank deposits centers. Despite the present credit reserve situation, it is necessary that an adequate supply of very short prime obligations be available in these markets if they are to function properly.

2. A further reduction in the market supply of short term obligations will, however, exacerbate the existing tendency of banks to adjust their position, in response to the changing outlook in demand for credit, by means of shifts in their intermediate and long term portfolios. This practice is very unsettling to the market for government securities.

3. It is not necessary to reduce the volume of Treasury bills now outstanding in order to pave the way for larger offerings at some later time - a vast largeness of Treasury bills would readily be absorbed under any easy market conditions that appear to be within the range of probability for some time to come.

The experience of the London market seems pertinent in this connection. For a number of years from 2 to 4 billion dollars of British Treasury bills have been kept outstanding without difficulty, even in years of tight money conditions. It is true that there are two practices in the London market, which have no parallel here, that have aided in handling over this much larger volume of Treasury bills in the London market in tight money periods. The first is the practice of permitting the bidder to specify the day of the week on which he wishes to take up his subscription (this might be done here); the second is the practice of putting in bids for Government departments that are made available for investment, on condition when enough bids from the market are not forthcoming at satisfactory prices. Neither of these practices, however, is of such consequence in periods of easy money conditions. Under

conditions such as those now prevailing in this market, it is probable that the London market would readily absorb a much greater volume of Treasury bills than has been outstanding at any time to date.

There is reason to believe that this market also could absorb a much larger volume of Treasury bills. It has, in fact, absorbed as much as \$2,650,000,000 of Treasury bills, and at a time (1937) when the volume of surplus funds was much less than at present. If the supply of bills were increased gradually, it is believed that the amount of the weekly issues could readily be raised to \$200,000,000 or \$250,000,000.

4. The cost to the Treasury of that part of the government debt represented by Treasury bill issues is extremely small. If the amount of bills outstanding is to be reduced, and the amount of the reduction is to be replaced through the issuance of other longer term securities, the interest cost on the public debt will increase. Likewise, the amount of new money required will increase by the amount of the increase in the interest cost.

5. The present distribution of United States Treasury bills (February 8, 1939) is as follows:

	(Millions of Dollars)
Federal Reserve Banks	\$513
Reporting Member Banks	454
Others	333

If the amount of Treasury bills outstanding were reduced from \$1,300,000,000 to \$650,000,000, the Federal Reserve System could not maintain its present bill portfolio on any reasonable basis. It would have to do either one of two things: let its holdings of Treasury bills and its total holdings of government securities decline, or increase its holdings of Treasury notes and bonds by the amount of the reduction in its holdings of Treasury bills. A reduction in Treasury bill holdings, of the amount indicated, would hamper the System in the exercise of its open market function. An increase in Treasury note and bond holdings, of this amount, would cause an undesirable and sharp rise in prices in the government security market, as well as lengthening the maturities and decreasing the liquidity of the System portfolio.

6. In general, and for reasons of long range policy, it is believed to be undesirable (a) practically to extinguish the Treasury bill as a money market instrument, even temporarily; (b) further and unnecessarily to force banking institutions of the country into purchases of longer term government securities.

February 21, 1939.

FEB 23 1939

My dear Senators:

I am enclosing copies of my letters to Senators Vandenberg and Lodge in regard to the stabilization fund.

These may be of interest to you.

Sincerely yours,

Secretary of the Treasury.

Hon. Robert F. Wagner,
United States Senate.

REJ:skm 2/22/39

February 25, 1939.
11:48 a.m.

Mr: Hello.

Operator: Senator Harrison.

Mr: Hello.

Mr: Hello.

Mr: Pat?

Mr: How are you?

Mr: Fine. This is Henry Morgenthau.

Mr: How have you been, Henry?

Mr: I've been pretty well.

Mr: I've got a friend of yours down here now, talking to him on things, trying to find out what's going on.

Mr: Good. Pat, I made a little statement on taxes and I'm sending you up a copy of it by hand.

Mr: Are you taking an issue with the President?

Mr: No. And -- who's there with you; Johnny Hanes with you?

Mr: Yes, Johnny Hanes is here.

Mr: Tell him 'good morning' from me.

Mr: Yeah.

Mr: And I'm sending you this up by hand and after you've read it I hoped you'd give me a little backing.

Mr: Well, I'll be glad to see it because I just want to find out because I thought you were going to have to have a session and a talk up there.

Mr: Well, I don't know but I -- I talked about what I -- the boys asked me, you see, about this statement of the President.

Mr: Yeah.

Mr: And so I had to do a little answering, and so I did a little talking on taxes.

- 2 -

- H: Yeah.
- HJR: And I said I didn't -- as far as I was concerned, I wasn't figuring on any new taxes.
- H: Well, I'll be glad to see it, Henry. Henry --
- HJR: Yeah?
- H: I'm going to drop up there and just. -- I've talked some with Johnny Hanes about it, but I want to talk to you both about another thing that in my opinion is very, very important.
- HJR: Right.
- H: And that's with reference to -- you may come in here on a -- increasing this forty-five million action.
- HJR: Yeah.
- H: I just want to give you the reaction down here on it, and what, in my opinion, will happen.
- HJR: Well, when you're ready, you let me know and I'll come and see you.
- H: Well, I'll come up there. I'll just drop in on you.
- HJR: And -- well, anytime. I'm always delighted.
- H: All right, Henry.
- HJR: And this is on the way up to you.
- H: All right, thank you.

February 23, 1939.
11:54 a.m.

EMr: Hello.

Operator: Congressman Doughton is in the hospital. His secretary is on the line.

EMr: Thank you. I'd like to talk to--

S: All right. Go ahead.

EMr: Hello.

Secretary: Hello, Mr. Secretary.

EMr: Is this Miss Doughton?

S: No, this is Miss Bambridge.

EMr: Oh, Miss Bambridge--

S: Yes sir.

EMr: At my press conference this morning I was asked about the President's statement that he made about no new taxes.

S: Uh-huh.

EMr: And therefore, then I got talking a little bit, see?

S: Uh-huh.

EMr: And I'm sending somebody on the Hill -- up with a copy of what I said to Mr. Doughton.

S: Uh-huh.

EMr: And that I thought that if he liked it and would back me up on what I said, I'd appreciate it very much.

S: All right, sir.

EMr: So when it comes up -- it ought to be up within the next half hour --

S: Yes, sir.

EMr: If you'd -- is Mr. Doughton very ill?

S: Well, Mr. Secretary, he has had -- he still has a temperature and still has a terrible cough, and he isn't allowed to have visitors.

Mr: Oh.

S: And we haven't been allowed -- they haven't allowed us to take up any business matters with him at all, but I'm sure that Dr. Campbell will let us take this down to him.

Mr: Well, and will you tell -- as soon as he can receive visitors, I'd like to call on him.

S: All right, sir, I certainly will let you know.

Mr: Just as soon as he receives -- he feels like it, I'd like to call on him.

S: All right, sir. We certainly do appreciate it.

Mr: Thank you so much.

S: Good bye.

February 23, 1939.
12:05 p.m.

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WMr: Hello.

S. B. Parker: Yes?

WMr: Henry Morgenthau, Jr.

S: How are you?

WMr: Fine. I'm taking the liberty of calling your attention to my statement on taxes this morning.

S: I'll certainly get right after it.

WMr: Would you ask one of your men to show it to you?

S: Yes, I'll -- I'll take care --

WMr: The United Press ticker carried a pretty good story on it.

S: All right, that's fine. I'll take a look at it.

WMr: I'd be interested in your reaction. I went much further than I ever have before.

S: Well, that's fine. I'm -- I'm out home. I've had a little cold.

WMr: Oh, I'm sorry.

S: I don't have immediate access to the office, but I'll take care of it and have them send a copy out.

WMr: Take a look at it, and --

S: Will do.

WMr: If you --

S: Would you like to have us give you a ring?

WMr: Yes, very much.

S: Well, I'll -- I'll do it.

WMr: I'd like very much -- I got an awful lot of favorable comment on that editorial you wrote about Father Coughlin.

- Q: Oh, you did, eh? Well, I'm interested in that.
- A: You'd be interested also -- Frank Murphy said it was the best thing he'd ever seen on the subject.
- Q: Uh-huh. Well, that's swell. I'm awfully glad to hear that and I -- we got quite a few letters -- of course, from Coughlin -- I don't know whether the country is kicking about it. They're not saying very much.
- A: Not saying very much?
- Q: No. The only point somebody made was that Coughlin hadn't said that you were actually there. You know, he did have some wessel wording about that --
- A: Oh, yes.
- Q: That paragraph, and one -- one letter referred to the fact that the conference was by long distance phone -- Transatlantic telephone.
- A: They -- they're not accusing me of mental telepathy?
- Q: Well, it's approximately that, yes.
- A: Well, that's -- that's going to be hard to disprove.
- Q: Well, I tell you, that fellow is getting to be a pretty bad menace to this country.
- A: Yes, he --
- Q: Although I think fewer people are paying attention to him, even -- even despite the -- oh, the heat that is evidenced by such a meeting as this Bund session up in New York. I think that Coughlin is getting less attention than he did two or three years ago.
- A: I don't think there's any question about it. I don't know how these radio people do the checking, but certainly from my mail and the White House mail, it's practically nil.
- Q: Well, I never hear anybody say anything about what Coughlin has said.
- A: I don't either.
- Q: Whereas two or three years ago it was a weekly sensation.
- A: That's right.

P: Going on the air and -- what's he going to say -- a good deal of conversation about it. I don't hear it any more.

WMr: Well--

P: He's such a complete blatherskite that -- I guess they work themselves out in time.

WMr: Yeah.

P: Well, I'll take a look at that --

WMr: And give--

P: I -- I don't know whether I'm going to agree with you or not, but I'll give you a frank reaction.

WMr: Well, I think you're going to be pleasantly surprised.

P: Well, that's good.

WMr: And after you've read it, agree or no agree, call me up.

P: Will do.

WMr: Thank you.

P: O. K.

WMr: Good bye.

Thursday
February 23, 1939
12:10 p.m.

HMJr: Hello.

Operator: Speaker Bankhead.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Speaker
Wm. B.
Bankhead: Hello, Mr. Secretary. How are you?

HMJr: I'm fine. How are you?

B: All right.

HMJr: Mr. Speaker, at my press conference this morning the boys asked me about a statement that the President made about "no new taxes".

B: Yes.

HMJr: And so I said a little piece about it -

B: Uh huh.

HMJr: And I sent you a copy up by messenger and it ought to be there in a few minutes.

B: All right. I - one of these newspaper men made some reference to it at my press conference this morning.

HMJr: And if you like what I said I would appreciate it if you'd back me up.

B: All right. That I will.

HMJr: Thank you so much.

B: All right. How are you getting along?

HMJr: Well, I think all right. What do you think?

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- S: Oh, I think things are levelling off a good deal.
- EMr: Yeah.
- S: I think so.
- EMr: I think the way you've handled some of this legislation recently has just been grand.
- S: Well, we've tried to use as good judgment as possible on it.
- EMr: Ah -
- S: And try to get as - quick results. I think we've done pretty well.
- EMr: The way you handled that Export-Import Bank and Commodity Credit why -
- S: Yeah.
- EMr: I think you taught the republicans a good lesson.
- S: I hope so.
- EMr: Yeah.
- S: Ah - Henry, I ah - I've been gradually trying to assemble a little information up here. I don't often speak on the floor but I ah - some of these days before long I may want to take the floor and answer some of these specious arguments that these fellows are constantly throwing at us. And there's one phase of it that I think has been probably pretty fertile in the last campaign - that is our spending program.
- EMr: Yeah.
- S: I wish you'd see if you can't have a - collected and sent to me within the next few days, unless it's too much trouble, -
- EMr: Nothing's too much trouble.
- S: - A brief summary, particularly of the amounts that have been spent that properly charge to recoverable assets.

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HMJr: I see.

B: Because - and I'd also like to have a very definite statement from the Treasury records of the amount of deficit that Hoover left when he went out of office.

HMJr: I see.

B: That's been somewhat controversial.

HMJr: Now, I'll tell you what we'll do. Now, I'll get it together for you at once and I'll have Mr. Herbert Gaston bring it up to you and go over it with you -

B: Ah - that'll be fine.

HMJr: And if there's something else you want you can tell him.

B: All right. That'll be fine. Thank you very much.

HMJr: And you just tell him - ah - he'll be up there within from one to two days with it -

B: Yeah.

HMJr: And if you're not satisfied or want some more he'll get it for you.

B: All right. Thanks very much.

HMJr: Thank you.

February 23, 1939.
2:55 p.m.

- Mr: How are you, Biffle?
- Biffle: Just fine, thank you. Well, we had some nice discussions today. About fifteen Senators were present when your message was discussed.
- Mr: Oh, really?
- B: Your press statement, and then I asked Senator Barkley to insert it in the record.
- Mr: Well, that's nice. How does he like it?
- B: Oh, very much indeed. We had about fifteen or eighteen Senators in there.
- Mr: Is that right?
- B: And we had a nice luncheon and the matter was brought up and it was discussed, and it was very pleasing to those present.
- Mr: Who all were there?
- B: Well, let's see -- Guffey was there, Truman was there, Linton was there, Green, Adams, Barkley, the Vice President --
- Mr: How did he like it?
- B: Very good.
- Mr: Hh-huh.
- B: And -- well, I can give you a list of them.
- Mr: Oh, no, no.
- B: And there were three or four more there.
- Mr: Was anybody at all cynical?
- B: No, there were two or three didn't say -- didn't have anything to say one way or the other. Senator Stewart was there, Schwartz, Dornay, Clark of Idaho, Truman, Hill, and Van Nuys, Bailey --
- Mr: For heavens sake!
- B: So it was very well thought of, Mr. Secretary.

WJr: Well, I appreciate your bringing it up. You're going to have them put it in the record, huh?

B: Yes, I've already had it put and I asked for an insertion of it in the body of the record instead of in the appendix.

WJr: Well, that's fine.

B: It's going to be in the record tomorrow morning.

WJr: I was surprised to see the way this evening's papers have picked it up.

B: Yes, I -- Senator Barkley just brought over a copy of the paper and showed it to me.

WJr: Fine.

B: It's very good, very nice, huh?

WJr: Well, --

B: Anything you need that we can do, don't hesitate to call me.

WJr: Well, that goes both ways.

B: Thank you very much, Mr. Secretary.

WJr: Good bye.

B: Good bye.

February 23, 1939.
4:25 p.m.

Mr.: Hello.

Operator: Mr. Parker. Go ahead.

Mr.: Hello.

Mr.: Hello, Mr. Secretary.

Mr.: How are you?

Mr.: All right. I promised to call you back, and I'll give you the headlines. Then if you want to read the details, read our editorial tomorrow.

Mr.: All right.

Mr.: I liked your statement and the point that I see about it is that I hope you follow through, for God's sake.

Mr.: (Laughter) Well, I'm ready to follow through.

Mr.: Well, what I mean to say is, it doesn't make any difference what the tax rate is. If business doesn't come back you can't raise enough money to pay the bill anyway.

Mr.: You can't pay what?

Mr.: I say, it doesn't make any difference what the tax rate is. If business doesn't come back you can't raise the money anyway.

Mr.: That's right.

Mr.: And in that respect we're discussing it and wishing you well and hoping that there's more of it.

Mr.: Well, I was very sincere when I made the statement, and as far as I'm concerned, I'm going to see it through.

Mr.: Yeah, well, I certainly hope you do, because well, it's a part of a pattern and I don't know of any man in the whole Administration, unless it is Mr. Roosevelt himself, that could do more towards helping to see it through, but we've got around to the point where what you say about what's the use is the state of mind of business. Now, regardless of what the argument is as to what caused it, that's state the state of mind.

WJr: Well, that's what I -- that's what I decided.

S: Yeah.

WJr: And it's -- I have talked to some people that I think are very fair and they control a lot of money, and their attitude is "what's the use"?

S: Well, if you can crack through on that one and bust down that attitude why there's -- the country's productive capacity is sufficient to balance the budget with the present tax rate, the tax rate you have now, or even a reduced one, perhaps.

WJr: Well, --

S: That's just a matter of arriving at that volume.

WJr: Well, --

S: I would -- we aren't going into a discussion tomorrow of the taxation phases. I think, as I've told you before, some things could be done that would very greatly improve the tax machinery of the country, but all we're saying is it doesn't make any difference what your tax rate is, if you don't have the volume that this country -- where volume is everything -- and after all it's a capitalistic country and that -- that means that you pull out with volume. Unless you get the volume, why what the hell?

WJr: Well, I said that.

S: Yeah. That's exactly right, and I -- I, all I'm saying is I hope you follow through and help break that "what's the use" state of mind which does absolutely exist, and has for months.

WJr: Here's the point. I used the old fac simile of the -- leading the horse up to the trough.

S: Yes.

WJr: Now the horse is perfectly sound; the trough is full of water.

S: Yeah.

WJr: But we can't make the horse drink unless he's -- unless he's thirsty.

S: That's right.

SMr: Now what we've got to do is make this horse damn thirsty.

S: That's right. Give him salt.

SMr: What?

S: Give him some salt.

SMr: Yeah, and I'm going to do all I can. I'm just going to push the way I've never pushed before.

S: Well, that's swell and I'm awfully glad to hear you say that.

SMr: I'm going to do it right out in the open.

S: Good!

SMr: And, -- right on the records, right to the press. If anybody doesn't like it, it's just too bad.

S: Well, that's swell, and I'm awfully glad to hear you say that and I hope I'll have a chance to check in with you from time to time.

SMr: Right. I appreciate your --

S: By the way, I intended to say when I was talking with you the other -- other day and I forgot about it -- I met your Mr. Hance for the first time a few -- oh, it must have been a month ago, or such a manner. I think he's a damn fine man.

SMr: I think you met him at my house, didn't you?

S: No, no, I met him -- I had dinner with him.

SMr: Oh.

S: As a matter of fact, we had lunch and we had dinner later on.

SMr: Fine. Well, I think he's a swell guy.

S: You do, eh?

SMr: Yes, I do.

S: Well, I'm glad to have your personal appraisal of him, because I had not known him before. I had merely known of him.

- WJR: No, I think he's swell, and I'm tickled to death. He's a tremendous help to me.
- B: I imagined he would be. He's a soft, shrewd sort of a fellow that doesn't make a whole lot of noise but I think works with people -- is the type that would work with friends and enemies.
- WJR: That's right.
- B: And a very great asset, and I picture here where if we don't cut out some of the caterwauling why we're all going down the sink.
- WJR: You're right.
- B: O. K. I hope to see you soon.
- WJR: I hope so.
- B: Bye, bye.
- WJR: Good bye.

RE POSITION ON TAXES AND BUSINESS* February 23, 1939.
11:20 a.m.

Present: Mr. Foley
Mr. White
Mr. Lochnead
Mr. Bernstein

H.W.Jr: I've made up my mind that from now on I'm going to say what I think. I mean there's so many people come in here and say, "Oh, what's the use?" I have a man, a friend of mine, that controls a hundred million dollars worth of capital through investment; he was in here and he said, "In '35 or '36 I made a lot of money; had a huge tax; in '37 I lost it. I'm worse off than I was in '35. I'm going away for two months and we're not going to take any risks or do anything." And he controls a hundred million dollars. It's pretty hard to go up against that kind of argument, because I think there's a lot on their side.

Foley: You hear an awful lot of that, too.

H.W.Jr: What?

Foley: You hear an awful lot of that.

H.W.Jr: And another man yesterday at the house for two and a half hours - very friendly to the Administration, and he just says that nobody wants to take any chances; they just don't want to take any chances.

That's plus what the President - what the hell the President had in mind I don't know.

White: The risks of business enterprise have unquestionably become greater. The incentives have not become greater; they've become a little less, to the extent that any tax that hits them is a reduction in incentive - some worse than others.

H.W.Jr: (To messenger) Show this (ticker dispatch on statement that no new taxes would be asked of Congress) to Mr. Gaston; after he's read it, I want it back, please.

White: whether you can reduce taxes enough to compensate
*Meeting originally intended to discuss correspondence with Lodge and Vandenberg on stabilization fund, which was side-tracked and taken care of at a later meeting.

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for the additional risk is a problem.

- E.S.Jr: Harry, it's a state of mind: "Now, what's the use?" You talk to any business man who is reasonable - they're scared to death of Washington. They're not making any future commitments, they're not going ahead. And all the talk about creating new lending agencies and all that - the money is all there, it's dirt cheap, you can't give it away. It's the old thing of taking a horse up to the trough and trying to make him drink; you just can't make him drink unless the incentive is there. The trough is full - all the capital in the world, cheapest rates we've ever had. And this fellow - he's scared; I think he's got good reason to be scared.
- Salter: The risks are greater, the incentive is less.
- E.S.Jr: He's got good reason. Listen, what you fellows went through with this power crowd
- Foley: That's the same thing.
- E.S.Jr: What?
- Foley: Sure, that's the power thing.
- E.S.Jr: Here we're approaching something which we think is a liberal movement, definitely liberal.
- Foley: They're scared of it.
- E.S.Jr: And they're scared of what?
- Foley: What they don't know.
- E.S.Jr: Well, here's one concern out of five; they have power, they build it with Government money, and they're scared to be audited by a Government agency. Isn't that what it boils down to?
- Foley: Didn't want the Federal Power Commission to have anything to do with it because they don't like the Federal Power Commission.
- E.S.Jr: And now must the X.Y.Z. Power Company, which isn't in the Government, feel about it?

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- Foley: It's the same thing.
- H.A.Jr: well, I decided I'd go off on the deep end today on this.
- White: Oh, that statement is a very good statement, not the deep end. The deep end will be when the question arises as to what taxes shall be reduced, if that's the way the problem should be discussed.
- H.A.Jr: Well, the best illustration I can give is the one given in this book, "In Search of Soviet Gold." when the Soviets decided they had to get gold, they tried every method under their system of government; they couldn't get it, so Mr. Stalin read Bert Harte, he got an American mining engineer, and he decided that just the one way to get new gold was to use the profit motive.
- Have you read the book?
- Foley: No, I haven't.
- H.A.Jr: He told these fellows, "You go out there; we'll let you keep forty thousand gold rubles for yourself a year." They set up special stores where they had special prices, everything on the gold basis. Nobody could touch with it, nobody could interfere with it. They went out and found gold. They let the people keep it - the benefits for what it would buy. and it's the one successful trust in all of Russia, as far as I can tell. And just one thing found the gold; that was the profit motive. "Let the fellows who find the gold - let them live better, be housed better and eat better than anybody in Russia; they'll go out and find it." and they did, and nobody could interfere with it. And it's the only one in Russia.
- Foley: Very interesting.
- H.A.Jr: Now, we've got the same thing. we've got the gold, we've got the business, we've got the productivity. but you haven't got the motive. And I say without giving up one inch of our basic reform we can make these fellows make an honest living.
- And I say, get it when they die; make the estate tax

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just as heavy as anybody wants to make it, and when they die take it away from them; but when they live let them enjoy it. I mean that's the way I feel.

(To messenger returning ticker dispatch from Gaston)
Thank you.

Gaston says he's asking for a rewrite of the first lead.

But I mean that's the way I feel, until somebody can tell me something better. Everybody talks about the capitalistic system. I say, what is the capitalistic system except a chance to make a profit?

White: Profit is the gas, and if the machine isn't going give them more gas, give them enough gas.

Lockheed: In that connection, did you read Lyons' book - Eugene Lyons' "Assignment in Utopia"? Well, it's really - it's a long book; but what you say there - that's what he arrived at, practically the same thing, in Russia. And he tells where they went out trying to get minerals - tried every way, sweated them out, tortured them

E.A.Jr: Forced labor, everything. When they got all washed up, just one way: they let the people live better, eat better, be housed better, than any other class in Russia. And their whole business life is on the gold basis; everything they buy is on a gold basis. And the fellows go out and look for it.

And I think if we let our boys go out and look for it and say, "You can keep it and God bless you," they'd do it again.

Lockheed: The same thing over in Russia on their collective farming.

E.A.Jr: Don't you think so, Ed?

Foley: Sure.

E.A.Jr: And there's nothing about it - I'm not saying - one reporter said, "What about Amie?" I said, "I'm sticking to the Treasury."

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White: What about what?

H.H.Jr: "What about Amlie?" - the effect of Amlie on business confidence.

Foley: Well, if we can make the capitalistic system work in this country, the incentive for an influx of subversive ideas disappears; we can have these meetings up at Madison Square Garden, don't have to worry about them. But if we have a depression, the thing reoccurs, it's going to "happen here." And we've got to make it work.

White: That's why in one sense the Treasury is the greatest arm of defense - have the responsibility for the greatest arm of defense against the kind of enemy which is most effective; that rests here.

Foley: That's right.

White: Not only here; but that's one aspect of it.

Foley: It's the greatest weapon the United States has - the Treasury.

H.H.Jr: I told this same man here yesterday - I said, "When I was in Fama Credit, during the winter the farmers in North Dakota would have ten or twelve feet of snow, and as the winter went on and they couldn't get out, they'd get more and more red, radical, and more and more discontented. But spring comes, they see a little bit of a green blade of grass, and they begin to take hope. You show a fellow just a bit of profit and he'll go after it, he'll want that green blade of grass to grow"

Foley: And grow a crop.

H.H.Jr: "... grow a crop."

And before he was using it on me and he said, "All these things that the business man is complaining about against the Administration and the President..." - he said, "With a few exceptions, the die-hards, take it from me, the average business man wants this country to go ahead, and I do." This fellow is really

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a man of great influence, very fair. He said, "Forget everything but a few die-hards who are worrying about '40. But get us going, and get business going, and we'll be thinking about profits and not about Washington." He said, "We'll forget the President called the press a lot of liars, and everybody else."

I feel it, and I'm going to work like hell for it, because I think we can do a lot here. I can't do anything about the other principal complaint, and don't want to get in on it. That's the Labor Relations board. Let Harry Hopkins handle that.

I think it's all right.

Kalter: It's the appropriate line to take.

Foley: Lot of interest in Harry's speech.

White: That's the appropriate line to take. Be a little more difficult when they come to specific ...

H.A.Jr: Well, Harry, I'm going to approach this thing from a different attitude than I ever have before; I'm going to look for these things myself. And you don't have to look awfully hard. And I think that we have to take our share of the responsibility: too little looking as to what the deterrents are, and too anxious to collect the revenue; and as for reform, I think we may have gone a little bit too far.

White: Unquestionably room for good investments. You might say, "If you're in doubt about this tax and yet if business feels it's a severe deterrent and if they seem to have a reasonable approach, let's forego the half billion dollars in taxes in the hope of getting two or three or four billion dollars more in the course of a couple years as a consequence of general increase in income taxes." It's good business analysis. And also I think the point that Ed is stressing is the one that possibly we've got to give a little more importance to, and that is, the important thing right now is to have recovery

H.A.Jr: That's why I thought you'd be enthusiastic.

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White: ... and that you should take some financial risks in an attempt to get that. The prize is great, so even if you're not certain of the particular measure you use, you can afford to err on the side of reduction in revenue, since we already are so liberal with actual expenditures in an attempt to achieve the same end.

However, we must bear in mind that every tax is a deterrent, with the exception of estate taxes and certain income taxes, but some are more of a deterrent than others, and the thing to do is pick on those that are the most, and try to reduce them.

H.H.Jr: Well, you wait, I've got an entirely new theory I've worked out on balancing the budget. I've got Bell working on it. Entirely new approach. Three or four days in the country is good for me. I've got Bell started on it.

All right. Well, what are you gentlemen here for anyway? What are you fellows in here for anyway?

Lockheed: When we've got the country started, we won't have to answer these letters, these fellows won't need to be answered.

H.H.Jr: What's that?

Lockheed: I said, if we get this thing started, we won't be troubled with this kind of letters either.

White: Well, these letters are from the guys that want to be in, and recovery won't help them.

Lockheed: That's all right.

H.H.Jr: My dear Senator:

"I beg to acknowledge receipt of your letter of February 17, 1939, asking for further information with respect to the stabilization fund.

"On February 8, 1939, I furnished you certain information relating to the stabilization fund in reply to your letter of February 2. Senator

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Vandenberg, having read the exchange of letters between us, wrote to me on February 14, 1939, asking

(Gaston comes in)

Herbert, I had a thought. I think if you could have, very fast, made - oh, about 10, 12 copies of what the U.P. is saying, or whichever is the best, then I want to get copies up by messenger to Barkley and Pat Harrison and Bob Wagner and the Speaker, Loughton, and Sam Rayburn. You see? And I want to get it up to them on the Hill, you see?

Gaston: The U. P. story or the Dow-Jones?

H.A.Jr: Whichever one you think is better.

Gaston: The only thing wrong with the U. P. is that lead sentence.

H.A.Jr: They've sent a new one.

Gaston: Oh, they've sent a new one.

H.A.Jr: What I'd like to do just as fast as possible - get it up there - I'd like to say, "I am sending up my statement by hand. I hope you back me up."

Gaston: You'll call them up?

H.A.Jr: I'll call Barkley, Pat Harrison. But I want this awful fast. Pat Harrison - who did I say?

Waley: Bob Wagner, Bankhead, ...

Gaston: Bankhead, Loughton, and Rayburn.

H.A.Jr: Bankhead, Loughton, and Rayburn.

Do you think that could get out of here in 10, 15 minutes?

Gaston: Photostats, maybe.

H.A.Jr: I'd rush it. Send two messengers, one on the Senate side

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- Gaston: Send it in an envelope, without any comment, and you'll talk to them.
- E.H.Jr: Put in each one a visiting card.
- Gaston: Six.
- E.H.Jr: (Hands Gaston visiting cards) Do you think it's a good idea?
- Gaston: I think it's a good idea. You didn't see the new lead?
- E.H.Jr: Yes, it's there. But if you could rush it, and I'd send two messengers, one on the Senate side, one on the House side.
- White: I hope you're having your tax section recommend specific taxes that you think ought to be - I mean examine them.
- E.H.Jr: Will you rush it, Herbert?
- Gaston: Yes. There's no new U.P. lead here.
- E.H.Jr: All right. The thing came in, anyway.
- (Gaston goes out)
- Now, what's the business
- Foley: Stabilization letters.
- E.H.Jr: "On my return from Boston I find your letter of February 6 regarding May I respectfully call your attention to the fact that in my letter I asked you to tell me" Well, that's Lodge's ...
- Foley: This very roughly is the suggested reply.
- (H.M.Jr reads letter silently)
- E.H.Jr: (On phone) Gaston.
- I think that's all right.
- Foley: I don't think those fellows

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- White: Just a few slight changes we'd like to make.
- H.M.Jr: Listen, fellows, get together and give me something like that and I'll sign it.
- Foley: Here's the Vandenberg.
- (H.M.Jr reads letter to Vandenberg)
- H.M.Jr: Well now, do you want to change this again?
- White: Yes, just a couple slight changes; but if the general idea is acceptable
- Lochhead: As long as the general idea
- Foley: You gave us the idea, put it down for 11 o'clock. Didn't have time to get it together.
- H.M.Jr: Get it in so I'll get it in the mail tonight.
- White: Is it time to raise this other?
- H.M.Jr: What's that?
- (On phone) Herbert, something like that memo you sent in to me would be perfectly good. - Yes, something like that. - Yes. - Speed is the essence. You approve of what I'm doing? - Fine. - Hello? - And send one to the clerk of that Committee up there, whatever the man - Banking and Currency Committee - the clerk, what's his name? - Oh, what's the clerk - I mean Barkley's clerk.
- Foley: Oh, you mean Biffle.
- H.M.Jr: (On phone) Biffle. Send one to Biffle and one to Colonel Halsey. Biffle and Colonel Halsey. - Thanks.
- Lochhead: Mr. Morgenthau, Bernstein was talking the other day, when we talked about it, the way we should handle these, and it gets down to the question of centering everything on the Committee, and say we're going to give at the proper time all the information they need - Bernstein said it might be a good idea to

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prepare a statement, if you wanted to use it,
divide it into three sections

H.H.Jr: Listen, I'm going to follow what I said on taxes.
I'm going to get - I can't put my mind on what
you say.

White: Will we have another chance on this?

H.H.Jr: You bet your sweet life. I'll give it to you
when I'm I want to merchandise this.

RE LETTERS ON STABILIZATION FUND

February 23, 1939.
3:45 p.m.

Present: Mr. Lochhead
Mr. Foley
Mr. White
Mr. Bernstein

E.W.Jr: Now, I've got a suggestion which can be done quickly. This will go in the mail tonight. Then I'd write a little letter to Senator Barkley, put a copy of this in it, and to Senator Wagner.

Foley: Well, one of those goes to Wagner.

Bernstein: Lodge's letter will already go to Wagner.

E.W.Jr: And to Barkley too. And that should go tonight.
Do I sign anything else?

Foley: Yes, there are three of them.

E.W.Jr: You can hurry on this, see? A copy should go to Wagner and to Barkley, you see, of both the Lodge ...

Foley: ... and the Vandenberg.

E.W.Jr: Yes. See?

Foley: Yes.

E.W.Jr: Now, do I make myself clear?

Foley: Yes.

E.W.Jr: The Lodge letter and the Vandenberg letter will go both to Wagner and to Barkley.

Foley: That's right. Now, Somers is going to call his Committee together tomorrow and talk about taking up stabilization legislation, so Larry has gone down to see him and we'll have something to report on that when he gets back.

E.W.Jr: All right.

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Foley: Harry has a good idea here about a way to proceed in connection with getting an extension of the Stabilization Fund and the other powers, and we talked about it this morning when we met on these letters. I thought we ought to bring it to your attention; if you approve, we'd start work on it right away.

S.S.Jr: What's the idea?

White: Well, you

S.S.Jr: If you've heard that, start those letters. Could you use the phone outside, then come back? Just use the phone.

Foley: May I take the letters?

S.S.Jr: Who do you want? I can get her.

Foley: I'll be right back. (Foley goes out)

White: How may have seen this.

S.S.Jr: No, I haven't.

White: It came out two years ago.

S.S.Jr: Yes, I did see it.

White: I thought we might get out, with a cover just like that - that's just Treasury - and include all those and include all the other already public added statements, the Vandenberg letter, the statement of monetary policy before Harvard, and the Mexican - all the international matters, in some nice form like that; and then, before it finally appears, to get Senator Wagner, if he would be the appropriate person, to write you a letter in which he is asking some dozen questions. We haven't worked over carefully the questions, but they'll relate to gold, Stabilization Fund, tripartite agreement, and so on; and that will give us an opportunity to answer them. It will be a pretty lengthy answer, but it will be a comprehensive answer which will sort of indicate very clearly what is being done, and indicating the importance of what is being done, the coherence, the consistency of what is being done. It will be an ample defense of our entire

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gold and monetary policy.

H.H.Jr: Including silver?

Walter: Silver isn't mentioned here, but it has nothing to do with this, so we can leave it out.

H.H.Jr: Good. You said entire monetary policy. In fact, it's our commodity policy now.

Walter: O.K., that's a commodity. Although I wouldn't mind writing a letter defending even that.

H.H.Jr: You can sign it, my boy.

Walter: Yes. Now, I can enumerate some of the questions, if you like.

H.H.Jr: What? No.

Walter: What do you think of the idea?

H.H.Jr: I think it's swell. I've just got one suggestion, that it be a joint letter from both Somers and Wagner. Be better if we can get both.

Walter: First thing to do is draft the letter from them to us. Could they write a joint letter like that? I don't know if it's been done.

H.H.Jr: Why not let's start it?

Bernstein: This will be a precedent.

H.H.Jr: If I give it to Somers, Wagner will be sore, and if I give it to Wagner, Somers will be sore. Let them both sign.

Walter: Give them each a letter asking the questions.

H.H.Jr: Let them both sign a letter, and they say, "Inasmuch as you're going to appear before us on this legislation, we'd appreciate if you'd explain the following things. Signed, Senator Wagner and Congressman Somers."

Walter: I'll sketch some of these questions.

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H.W.Jr: Yes.

White: Something like: Why has so much gold come into the United States? Will it continue to come indefinitely? What will we do? And so on. The answer will be a long one; it will have to be a long one.

H.W.Jr: It ought to be done over a week-end. Get the questions Thursday or Friday, and I'd answer them for Monday morning release.

How long would it take you?

White: Today's Thursday. Well, I think - we'll try - we'll shoot at Monday, but we'll probably hit Wednesday.

(Foley comes back)

H.W.Jr: I suggested that both Wagner and Somers sign it, because if I give it to Wagner Somers is sore, if I give it to Somers Wagner is sore. Let them both sign it.

Foley: That's right.

H.W.Jr: Joint letter.

Foley: Joint letter, sure.

H.W.Jr: Why not?

Foley: Good idea.

H.W.Jr: I think so.

White: All right. The letter will be so long and will follow apparently so quickly after the short letter that it won't look like a plant, will it?

Foley: It has this advantage, Mr. Secretary. It will focus our thinking so that we have something to go by in connection with all the inquiries in connection with all the proposals that are coming in.

Lochhead: It will serve the purpose of a textbook. No such thing as a textbook for the last ten years.

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- H.A.Jr: I think it's all to the good. I'm for it. The quicker the better.
- Let me just ask you another question. Supposing I decide I wanted to make everything I had on the Stabilization Fund public. What document have I got to make public? That great big report that I take over to the President?
- Lochhead: That's the only thing you've got - the complete record of the Stabilization Fund.
- Foley: You'd have
- H.A.Jr: Who'd I have to show it to?
- Foley: You have to get a clearance from the President before you ...
- H.A.Jr: Because the ...
- Foley: ... law provides you show it to him.
- H.A.Jr: I said that. You corrected me on that.
- Foley: You said only to him. I mean insofar as your relations with the President are concerned, I think before you make anything public you've got to get a clearance from him. But if he says, "Give it to anybody you want," I think you're all right.
- H.A.Jr: All right, let's say he gives a clearance tomorrow. What'll we do? We've got one volume. How do I make it public?
- White: Give it to the Chairman of the Committee.
- Lochhead: You mean one or two.
- H.A.Jr: There are not more than two or three.
- Lochhead: That's right.
- White: Give it to the Chairman for the examination of the Committee.
- H.A.Jr: What would they see in it?

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- Lochhead: Classification of the different types of business we've done, where the profits were made, and the expenses.
- H.M.Jr: Breakdown.
- Lochhead: It's broken down, it's segregated in various categories, yes.
- H.M.Jr: I'm wondering if we had two copies, one for each Chairman. I mean how many copies are there?
- Lochhead: I'd have to check with Dan Bell to see how that was done. I'll find out how many copies altogether there are.
- H.M.Jr: What was running through my mind: if I'm going to do it, I'd much rather do it voluntarily than be forced to do it. I mean what happens, Archie, supposing we did it. The last one would be - it would be up to June 30, '38?
- Lochhead: Yes.
- H.M.Jr: What?
- Lochhead: That's the last complete one - June 30, '38. Oh, I don't see - my point is, I think if you gave it to the Committee - I don't think you'd want to turn it out to the newspapers as a press release.
- H.M.Jr: The way we do - this list of salaries over \$15,000 goes to Chairman Bob Doughton - one copy. Right? Well, it does.
- Foley: Should.
- H.M.Jr: It did, I mean - salaries of over \$15,000.
- Foley: It's right in Hanes's office.
- H.M.Jr: Who? Well then, up to this year, it used to go when he's changed it. It went to Doughton; then Doughton would let them - drive them crazy - they'd thumb through it, pick out what they wanted. But just one copy went to Doughton.

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- Foley: Yes, I think that's right. I don't think we've made it available to Harrison, but that was by arrangement between the two Chairmen.
- H.V.Jr: I'm thinking if one goes to each Chairman - if the boys want it, they can be given no explanation; just say, "Here's the order, here's the report. Now, anybody can thumb through it that wants to. It's at the disposal of both Chairmen."
- Foley: They can make it available to members of the Committee, members of Congress, or to the public generally, if they want to; it's up to them.
- White: There's one thought with respect to that that occurs to me. That's all right with that kind of a report, because anybody could understand it and read it. I haven't seen the report you would have, but I take it it would be mostly figures and mostly transactions and they might think they're getting something which needs to be analyzed by a high-grade accountant in order to divulge the things they suspect will be there, and they'll be looking for a lot of things which aren't there. I wonder if in the light of that it would be better to have some kind of a summary to show them.
- Foley: If they ask for it.
- Lockhead: I'd rather have them look at the actual audited figures.
- H.V.Jr: The other thing - "Now, Christ, you wanted it, here's the God-damn thing; look at it, what have you got?"
- Bernstein: In this letter that Harry's going to get up, he can really sort of summarize what all these transactions come to.
- White: Interpret them.
- H.V.Jr: My inclination is, if the President gives me the word, I'd give them the whole business.
- Lockhead: I don't think we can do quite the same thing as on the silver investigating committee.
- Foley: Certainly the best thing you can do - I mean if

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consistent with what you've been doing, it's all right.

H.M.Jr: Have you looked at it?

Lochhead: One thing - when the silver investigating committee wanted to know what we did in all these transactions, I had this whole big volume, all this thing made up by the Federal Reserve; then I took out all the indexes, all the summaries. It was just simply - it was all the transactions.

H.M.Jr: You took all the summaries out.

Foley: There's no summary on this.

Lochhead: Yes, it's pretty complete.

H.M.Jr: The summary?

White: I'm not so sure about giving them just the mass of figures, because they'll suspect that you're trying to obscure something in a mass of data.

H.M.Jr: I don't agree with you. Well, you people have got a week; think it over, take a look at it.

White: If you're going to show it to them, let's take a look at it.

H.M.Jr: See what's in it. I don't know. Why not take a look at it?

Lochhead: I'll get a copy of that down tomorrow.

H.M.Jr: Take a look at it, see whether it means anything to you.

Foley: All right.

White: I think that would be the test - what reaction

Foley: If it means anything to me!

(Hearty laughter)

That's twice today. First Duffield and then you.

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E.A.Jr: What did Duffield do to you?

Foley: He said I was getting so fat I couldn't get on my coat, had to have somebody hold it.

E.A.Jr: We've had a good day all around.

White: That wasn't what I meant, but it's all right.

Foley: It's O.K., Harry.

Lockhead: I think it would still be valuable, no matter what we decided to do on it.

My dear Senators:

I beg to acknowledge receipt of your letter of February 17, 1939, asking for further information with respect to the stabilization fund.

On February 8, 1939, I furnished you certain information relating to the stabilization fund in reply to your letter of February 2. Senator Vandenberg, having read the exchange of letters between us, wrote to me on February 14, 1939, asking additional questions with respect to the stabilization fund.

As you know, the Senate Committee on Banking and Currency, of which you are a member, has before it for consideration a bill to extend the powers under the stabilization fund. I assume that that Committee will hold hearings on the bill in the near future. The President has advised the Senate, and I have advised the Banking and Currency Committee, that the Secretary of the Treasury and other representatives of the Treasury Department will be available to discuss with that Committee the problems relating to such legislation. Although I am always glad to discuss in correspondence with members of Congress matters affecting Treasury policy, it seems to me that the appropriate time and place to consider questions you may have

with respect to the stabilization fund is at the Committee hearings.

Sincerely yours,

(Signed) H. Morganthau, Jr.

Secretary of the Treasury.

Hon. Henry Cabot Lodge, Jr.,
United States Senate.

REF:AL:BB:HDW:BJ 2/23/99

My Dear Senators:

Reference is made to your letter of February 14, 1939, in which you ask a number of questions with respect to the stabilization fund.

As you know, the Senate Committee on Banking and Currency has before it for consideration a bill to extend the powers under the stabilization fund and I assume that that committee will hold hearings on the bill in the near future. The President has advised the Senate and I have advised the Banking and Currency Committee that the Secretary of the Treasury and other representatives of the Treasury Department will be available to discuss with that committee the problems relating to such legislation.

Although I am always glad to discuss in correspondence with members of Congress matters affecting Treasury policy, it seems to me that the appropriate time and place to consider questions you may have with respect to the stabilization fund is at the committee hearings.

Sincerely yours,

Secretary of the Treasury.

Hon. Arthur H. Vandenberg,
United States Senate.

① 100-100000-100000 2/23/39

IN RE: NEWS BROADCASTS

Feb. 23, 1939.

STATION WJSV 6:00 P.M.

"Two really important things happened in Washington today. The New Deal flashed a harbinger of hope for business and Congress acted to sooth fears concerning America's security.

For business and industry there is no better news than what Secretary of the Treasury Morgenthau had to say. He came out against increased taxes; in effect hinted that taxes may be cut.

Morgenthau urged over-cautious industrialists to strike out and forget what he calls "what's the use" attitude. Observers see a lot of significance in this. They feel the emphasis is the increasing tendency of President Roosevelt and other New Dealers, to be more conciliatory to business men."

STATION WJAL 6:15 (Identical with Station WJSV at 6:00 P.M.)

STATION WJAL 6:45 P.M. (Lowell Thomas)

"And Secretary of the Treasury Morgenthau, spoke some encouraging words for business today -- encouragement on the subject of taxes.

He said the administration doesn't intend to slap on any new taxes at this session. Quite the contrary. He suggested that Congress look over the present tax laws and see if it can't eliminate a few that may be detrimental to business. And with that encouragement the Secretary advised business men to drop what he called a "what's the use" attitude. "You can't tell what the government is going to do next, so 'what's the use'?" No need for that, argued the Secretary."

STATION WJSV 11:00 P.M.

"Meanwhile the New Deal has sent out a welcome word to business. Secretary of the Treasury Morgenthau has assured industry that no new taxes are contemplated, and urged it to take the bit in its teeth and expand. He told an over-cautious business world to forget its "oh, what's the use" attitude.

WOL - 11:00 P. M., February 23, 1939.

205

reference to Secretary Morgenthau.

FK

WRC - 8:00 A. M., February 24, 1939.

Esso News Reporter

206

No reference to Secretary Morgenthau.

WHH

WEC - 6:00 P. M., February 23, 1939. 207

Case News Reporter

No reference to Secretary Morgenthau.

WHH

- 11:00 P. M., February 23, 1939. 208

minute news reports
reference to Secretary Morgenthau.

WHH

DL - 11:00 p.m., Feb. 23, 1939

209

ans-Radio Press - Frank Young, Announcer
reference to Secretary Morgenthau.

BN

W M A L

4:45 P. M., February 23, 1938.

BILL COYLE

Good afternoon everyone. A little ray of sunshine focused on the business world at Secretary Morgenthau's press conference today.

Last week President Roosevelt took time out on his way South to reassure business men to the extent of saying they need have no fear of new taxes, and today the Secretary of the Treasury expanded on the President's statement. He sent out word that the American business men not only need not worry about new taxes but may hope for improvement in present taxes, improvements designed to aid business. The Cabinet officer said, "I sincerely hope Congress will take a serious look at the tax laws and see if there are any deterrents holding back business and business men from making further commitments."

At the same time, as spokesman in the Administration, he said, "I think the businessman ought to feel that the Administration wants him to go ahead and take normal business risks and make money."

Business men, at present, are taking what Morgenthau calls a "What's the use" attitude, an attitude that prevents expansion and keeps business from taking normal business risks.

And in summing up his own attitude, the Treasury Secretary said he doesn't know what Congress will do but in making his own financial plans he is not counting on any new tax legislation.

February 23, 1939.

Memorandum on the Secretary's Press Conference,
Thursday, February 23, 1939.

Frank Goodwin of Central News asked whether the Secretary could comment on the President's statement on taxes, made just as he was leaving for the Caribbean. The Secretary's reply was substantially as follows:

"We are studying taxes continuously. We have a large staff at work. I am very glad that the President made that statement. Speaking only for myself the thing that bothers me is that businessmen I see have what I would call a 'what's the use' attitude about going ahead. I feel that that attitude is holding back normal business, that it is preventing businessmen from expanding their businesses and taking normal business risks. I sincerely hope that Congress will take a careful look at the tax law and see whether there are any deterrents that are holding back business and holding back businessmen from making future commitments. Businessmen ought to feel that the administration wants them to go ahead and take risks and that the administration wants them to make money. Tax legislation should be of a nature that is not a deterrent to businessmen. We want them to make profits. After all the President's message and his recent statement speak for themselves. I am merely saying how I feel personally. Of course we must have additional revenue, but in my opinion the way to make it is for businessmen to

- 2 -

make more money."

Asked whether he had any definite ideas for changes in the tax laws, the Secretary said he didn't want to be more explicit at this time. He added "If Congress decides it will take a look we shall be glad to put our studies at their disposal. I hope they will."

Asked whether the Treasury had prepared any tax bill, the Secretary said that he personally had not seen any tax legislation for introduction at this session.

GROUP MEETING

February 23, 1939.
9:30 A.M.

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

E.M.Jr: Do you have something?

McReynolds: I have this Custom House matter in my file. As I understand arrangements have been made to turn it over to Ickes and he in turn is going to turn it over to the German association. I told Procurement. They have everything ready and all they have to do is send a letter turning it over to him and he, as nearly as I can find out, intends, if he gets it, to turn it over to that association. I told the boys not to turn it over until they had instructions to do so.

E.M.Jr: Is Mr. Ickes in town?

Duffield: No.

E.M.Jr: Why not wait until he gets back.

McReynolds: All right. Of course, we are not under a legal necessity --

E.M.Jr: Who actually handles that?

McReynolds: Well, Procurement.

E.M.Jr: Would it be you or Foley who should go over to see Mr. Ickes when he comes back.

Foley: I think I can do it. We have a request from the Assistant to the President of Temple University who came down to see me at my invitation -

- E.M.Jr: I know all about that. Now, I would wait until Mr. Ickes comes back and either you or Ed Foley see him personally.
- McReynolds: All right.
- E.M.Jr: This has to do with the old Custom's House Building - disposition of Government property. Will you leave it that way?
- McReynolds: Yes, I will leave it that way.
- E.M.Jr: Is there anything else?
- McReynolds: No, I haven't anything else.
- Duffield: Do you want to fix a day for the National Association of Manufacturers? They would suggest a week from today.
- E.M.Jr: That is too far off. Tuesday would be a good day.
- Duffield: The Chairman of this Committee of the Manufacturer's Association has been away and will not be back until Thursday. If we have him before next Thursday the Vice-Chairman will have to come in his place and they would very much like to have the Chairman present.
- E.M.Jr: That is all right. We will make it at 11 o'clock Thursday morning.
- Duffield: 11 o'clock Thursday.
- E.M.Jr: Now, will you explain to them that this will not be a publicity stunt? I am doing it for business purposes only.
- Duffield: Yes.
- E.M.Jr: So many people come down here for publicity purposes but I am doing this for business reasons only. Will you explain that to them?
- Duffield: I will do that.
- E.M.Jr: And Mr. Hanes, I would like you and Mr. Duffield present at that time. And if Mr. Hanes does not have a copy of the bulletin I think he should have.

- 3 -

- Duffield: I left one in his office.
- Hanes: I don't know what you are talking about.
- Duffield: National Association of Manufacturers.
- Hanes: Yes.
- H.M.Jr: The people who wrote the bulletin are coming down.
- White: An analysis and criticism of that bulletin will be ready for you by tomorrow.
- Duffield: Do you prefer the Market Committee or the Executive Committee?
- H.M.Jr: The Executive Committee.
- Duffield: 11 o'clock Thursday. What should we do with the Power Financing bill?
- H.M.Jr: I sent it to the President last night. Frederick Delano wrote to the President direct telling him that he was against it and, based on that letter, which is available to Mr. Hanes and you, the President wrote me that he wanted me to go ahead with Boulder Dam and the Panama, so I wrote him back that I was sending him the comments furnished me by Mr. Hanes, and I thought the thing was too important just to dismiss and I would very much appreciate on his return an opportunity to discuss it with him. But Mr. Delano and the President's comments to me will be photostated and a copy will be given to Mr. Hanes and Mr. Duffield and Mr. Foley. I thought it was too important to dismiss. I sent the President the whole Hanes memorandum.
- Duffield: I think there have been some revisions made, haven't there?
- H.M.Jr: Well, I also have some suggestions in connection with that but as far as that is concerned we will talk about it at some other time. I want to make that Fund a revolving fund. I want to explain why and it would take me fifteen minutes to a half hour to do that.

- Duffield: The only other thing I have, sometime at your convenience, no hurry, I would like a meeting of the editors of the bulletin.
- H.M.Jr: When is the deadline?
- Duffield: It is on the next issue; not the one that is about ready to come out, but the one that will come out in March.
- I have just one little thing I need your help on.
- Foley: The Post Office Department wants us to approve authority to sell savings stamps in denomination of one dollar.
- H.M.Jr: I am for it.
- Foley: I have your oily letter to Mr. Lamar.
- H.M.Jr: I will have to read that in view of that introduction.
- Foley: We have two replies to make: One to Vandenberg and one to Lodge with reference to the Stabilization Fund. We should get together on that some time.
- H.M.Jr: I agree with you. I would suggest our reply be a reference to some law and advise them I shall report to the President and also, that I shall be testifying before the Senate Committee on Finance in the not too distant future and I will be glad to have all appropriate questions at that time. Try your hand at something like that.
- Foley: We have one that way.
- H.M.Jr: If you will give me something along that line.
- Lochhead: It is just a question of whether you start answering such inquiries.
- H.M.Jr: We will do the Vanderberg letter at 11 o'clock.
- Gibbons: It will be more respectful to the Senate not to anticipate your testimony before the Committee.
- Foley: I have not sent anything over to Jones yet about Brazil.

- 5 -

- E.M.Jr: Well, Mr. Jones is coming over at ten o'clock to see me about that.
- Foley: With reference to the Pearson and Allen column this morning.
- E.M.Jr: I read it very carefully and decided I would sit tight.
- Foley: I talked to Thurman Arnold, about the Bank of America, the criminal violation, and the Comptroller prefers not to have us submit the facts that we have that looks toward criminal violations until the SEC hearings have been consummated and Thurman agrees with us that we should write a memorandum which he is going to O.I., and we are going to put it in the files so if any question ever comes up it will show that the A. G. was consulted.
- E.M.Jr: I think that is important.
- Foley: Drew Pearson came in to me and wanted to interest us in asking Justice for a re-argument in that copyright case of his. I told him we would look into it and let him know.
- E.M.Jr: Why is the Treasury in on that?
- Foley: Well, he thinks that the Customs service is in so far as the exclusion of literature is concerned.
- E.M.Jr: Is the literature obscene? I thought that was the only time the Customs came in on it.
- Foley: They talked to Frank Murphy and Bob Jackson before they left and they said they would cooperate if some request came from some agency of the Government. I don't think we are going to be able to do anything about it, Mr. Secretary.
- E.M.Jr: I don't think it is any of our business but you can give a legal reason for it.
- Foley: Yes, the boys are looking at it and we will have something later in the day. He saw me Tuesday at twelve o'clock.

- Gibbons: He saw me at three or four o'clock and I called Cairns and Johnson and I asked them for a written memorandum. They are working on that now. Just as the Secretary said the whole thing will be legal and there will be no question of seeing anybody about it.
- Foley: Somers wanted a speech on the Stabilization Fund, the reasons why the continuation of it at this time were as important, if not more so than they were in 1937 when the Fund was originally established. It was to be in the nature of an economic paper and I spoke to Harry about it and I think Harry has somebody working on it.
- H.M.Jr: When you people are ready I will be glad to see it.
- White: Speech or statement?
- Foley: It is a speech.
- H.M.Jr: Well, where is that legislation?
- Foley: Still in committee. He has not done anything about it. He said he made some statement to the President that he would like to see it made permanent. He has done a little talking but he has not moved at all. He has not done anything. I don't think there is anything to do right now, but I do think by the first of next week unless somebody does something and we have some favorable reports to give you, you might talk to Wagner and to Glass.
- H.M.Jr: Well, we will both remind each other.
- Gibbons: The only thing outside of Pearson coming in, he did not tell me he had seen Ed but he came in to see me and as I told you I asked Cairns and Johnson to give me a memorandum, to look into it legally, and the only thing I have outside of that is Senator Bailey has written John and I both, asking for a job. He is on a rather important committee now.
- Hanes: He voted against us yesterday and he will get no job if I have anything to do with it.
- Gibbons: Well, I guess I am not up to date.
- Foley: The majority leader voted against it.

- Hanes: No, he wasn't at the meeting; King and Bailey and Radcliffe.
- Foley: Well, he said, "Radcliffe and Bailey and Alben".
- Hanes: No, I saw Barkley last night; I had dinner with him last night and he said he did not vote against it. He said he might have if he had been there but he wasn't there.
- H.M.Jr: Well, my favorite Senator on the twenty-four hour basis is from North Carolina, Bob Reynolds.
- Hanes: And keep it on the twenty-four hour basis.
- H.M.Jr: I said "on a twenty-four hour basis". I re-read the testimony and Reynolds was good. "Now, Mr. Secretary, this is what you mean, isn't it", and I would say, "Yes", and he would say, "I just wanted to know your attitude, Mr. Morgenthau, just what your attitude is".
- Hanes: He was our best witness.
- H.M.Jr: Absolutely, so he is still our favorite Senator.
- Hanes: Number one.
- H.M.Jr: As of today.
- Gibbons: The only thing concerning Bailey is with reference to the Coast Guard plans and he has already committed himself to us.
- H.M.Jr: Well, you fellows will get together and do a little swapping around. Is it because of Kitty Hawk that he is interested?
- Gibbons: Internal Revenue.
- H.M.Jr: They want a Coast Guard station, don't they?
- Gibbons: Yes.
- Hanes: That is Lindsay Warrens district.
- H.M.Jr: All right.
- White: You asked for the deposits of the various

- 8 -

countries. I have that information this morning. I have it in pencil. If you want it now you may have it or shall we type it up?

H.M.Jr: I would like to have it now.

White: You asked me some time ago about the Anglo-German coal discussions. I have that.

H.M.Jr: I want to talk about that. And would you be sure and read yesterday's Times, Chamberlain's speech on Government expenditures and war expenditures and debts, particularly the last paragraph.

White: I have here the copy of that bulletin which I don't know whether you have ever seen or not, but this is what I had in mind and this is the letter that I thought might go to Senator Wagner.

H.M.Jr: Why don't you bring that in at eleven - Stabilization Fund!

White: Yes.

H.M.Jr: Let us do that at 11 o'clock.

White: That is all.

H.M.Jr: All contact with the State Department hereafter, officially, will be by Mr. Lockhead.

Foley: Do you think we should discuss recognition of Franco in connection with the pending litigation involving silver? If they are going to do it they'd better settle the suit.

H.M.Jr: Thank you. If anything is going on in the State Department between the State Department and the Treasury, from now on I expect Archie to know what it is.

Foley: If it is all right with you, then Archie and I will get in touch with Warren and ask if we can go over and talk with him about that.

H.M.Jr: Yes, but I want Archie to carry that load for me. And Mack, you might find out how many places Mr. Taylor is a director. I would like Mr. Eanes to take his place with the Red Cross. The Under Secretary has always been a member of the Red Cross for the Treasury. If that is agreeable to

- 9 -

you. I don't know how it ever came about, but the Under Secretary has always been with the Red Cross. I think you became Chairman of their Finance Committee or something like that. And get what other information is necessary. It is only three or four times a year. I have always had one policy with them and we have kept them in better shape. Whenever they had funds to invest I invested them in United States Governments. They criticized me in 1936 but in 1937 they boasted it was the only trust fund that did not shrink. They tried to make a campaign issue out of it in 1936, because it was suggested that California Utility Bonds be purchased but I said, "No, put it in Governments". They tried to make out I was against all public utilities; that I did not want Red Cross funds invested in anything except the Governments. They had the worst bunch of trash when I came in. All kinds of junk. We cleaned it all out and put it into Governments and they are very much pleased now. We have had all kinds of things. They come in and say "Would you buy this", or "Would you buy that". And "What would you do with this", and I would say, "After all, I can not be a tipping barrel". And they were quite nasty about it in '36. They tried to make out I was against all public utilities because I did not want the Red Cross to buy Utility Bonds.

Lockhead:

The foreign exchange situation is very quiet despite all the war news. It is not affecting the exchanges. There is a steady flow of gold over this way. But a great deal of gold and dollar balance is being built up by the Central banks. I think we have noticed that in the last week or two. The largest increases in capital have been in Central bank deposits.

White:

The total gold in-flow so far is pretty heavy this year.

R. E. J:

That is why I was asking. Kinner let me read a second instalment which has entirely to do with the birth of the tri-partite agreement. They have done a beautiful job. It is really quite thrilling when you read it. He let me read all of it. It is the second instalment. They have three instalments now, but the second one is really a beautiful job. They asked me for any changes I might wish to make but there was only one word that I

- 10 -

suggested be changed. It had nothing to do with me but was in connection with somebody abroad. I thought it was a little bit unfair and he said, "You are right, we will change it". But they have done a beautiful job. George?

East: I have nothing, Mr. Secretary.

East: I haven't anything.

East: I haven't anything.

Polay: I was out at Alsop's last night. He gave a little dinner for the Editor in chief of the Louisville-Courier Journal. Earnie Lindley and Secretary Wallace were there and when they got to discussing the foreign situation, Wallace stood up for you pretty well. Lindley was not so sure, but Wallace did a pretty good job.

E.A.Jr: On what wasn't he sure?

Polay: About interference with foreign policy. Wallace said you "had leaned over backwards", and what you have done, "You have done at the President's direction".

E.A.Jr: What did Lindley think I had done?

Polay: Well, he was not so sure.

E.A.Jr: But, Wallace!

Polay: Yes, I was surprised. I don't know whether he did it because I was there and he thought I would tell you or whether he was sincere, but he did come to your defense.

E.A.Jr: Well, that will help me in making up my mind as to which Iowa candidate I am for.

East: Lindley is a pretty strong isolationist.

Polay: So is Agar, Editor of the Louisville-Courier Journal. He has apparently been talking to Houghton's friends over in London. He has just got back. He is a very strong isolationist. It was very interesting. The opinion was pretty well divided.

- 11 -

- H. W. Jr: Did they get down to particulars or just general policy?
- Foley: Got down to plain talk pretty soon.
- Hanes: Did you see the Gallup Poll on public opinion?
- H. W. Jr: I not only saw it, but by 10 o'clock yesterday the entire Poll was on the Naval radio to the President. I sent the whole thing to him.
- Hanes: Did you notice the division between the Republicans and the Democrats?
- H. W. Jr: One per cent. I quickly put the whole thing on the radio to him. I was down here for half a day yesterday and I wanted to be sure he got it. I thought it was very significant.
- Hanes: I think it will have a good wholesome effect abroad - the Gallup Poll. I should think that would have a very wholesome effect on the dictatorships. They have been laboring under the impression that the American people were not for this sort of thing.
- H. W. Jr: That is the reason I sent it to the President. I will have to leave now, gentlemen. If you have something on your minds I will see you.

RECAPITULATION OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 23, 1939, 4 p.m.

NO.: 345

FOR: TREASURY.

More active exchange market today, with dollars moderately offered and a fair amount being gained by the fund. Continued pressure on the belga and the guilder. The latter's weakness is interpreted as resulting from transfers of capital induced by anxiety over conditions in Europe. The belga's drop seems to be mainly attributed to the impression that because of Socialist opposition the Pieteret Government will not last long. The ~~news~~ press announces, however, that the Finance Minister, ~~Hurt~~, has been able to persuade the Socialists to cooperate with the new Government in an economic program which is ~~in progress~~.

On February 23 the Bank of France invoiced to the New York Federal Reserve Bank gold bars for shipment on the MANHATTAN in the amount of 29-1/3 million francs.

END SECTION ONE.

BULLITT.

24-1111

PARAPHRASE. SECTION TWO OF TELEGRAM NO. 349 OF
FEBRUARY 23, 1939, FROM PARIS.

The February 16 statement of the Bank of France issued today showed a decrease in the commercial portfolios of 915,000,000, and a decrease of 467,000,000 in note circulation, and a decrease of 555,000,000 francs in current and deposit accounts. Gold reserve ratio 63.19 versus 62.72.

In the financial press it is announced that three months Treasury bonds issued in florins due for payment on February 28 and March 1 have been extended by the Government; in November these bonds were issued for a period of three months. The right was reserved by the French Government for extension of them four times for three months at a time. It is recalled that the total credit is 100,000,000 francs.

END MESSAGE.

BULLITT.

HEB

PLAIN

London

Dated February 23, 1939

Rec'd 4:08 p. m.

Secretary of State,
Washington.

262, February 23, 6 p. m. (SECTION ONE)

FOR TREASURY FROM BUTTERWORTH.

With reference to the British Government's plans to borrow £350 million of the funds required for increased expenditure in the coming fiscal year discussed in my 259, February 16, 6 p. m. and 258, February 21, 5 p. m. two long analytical articles by the city editor have appeared in the TIMES. They were undoubtedly approved and probably inspired by the British Treasury as an offensive defense. As such they merit note.

The first article after stating that the extent of the increase in the amount to be borrowed has brought the defense borrowing problem on to an entirely new plane and admitting that the policy naturally causes criticisms sets forth its purpose as "intended to suggest that, even though a long series of large budget deficits may and probably would have disastrous effects tantamount to national

bankruptcy

FEB

2-#262, From London, Feb. 23, 6p.m.
(Sec. One)

bankruptcy a temporary budget deficit, even though large, can be maintained under present conditions in this country without inflation and without any other perceptible damage to our financial stability."

It then asserts that there is no essential difference between the direct effects on the financial and industrial structure of Government loan expenditure and private capital investment. It is admitted that armaments are not revenue-producing "but we are considering direct effects -- not the long-term value of the asset. Even on the test of the value of the asset armaments can pass muster. The economic value of £350 million worth of houses and public works would not be wholly questioned. And is there any more reason to question the practical value of armaments? Houses are to protect us from the elements: armaments to protect us from the lower elements of humanity". After this caustic flight the article develops along Keynesian lines, the arguments that (a) expansion of capital expenditure does not create inflation when there is under employment, and that (b) "in fact capital expenditure over a period tends to create the savings which it needs". The quantitative relation between the amount of capital expenditure likely in

PEB

3-#262, From London, Feb. 23, 6p.m.
(Sec. One)

in 1939 (including the £350 million of Government loan expenditure) and the gross investment figures of Colin Clark (page 444 Economic Journal September 1938) is examined and the conclusion drawn that the total capital expenditure in 1939 is likely to be £900 million as compared with £895 million in 1937 and that "there is no reason to think especially in view of the actual experience in 1937 that such an amount is beyond the capacity of the nation's economic structure to absorb without inflation."

It is admitted that if defense borrowing continues to rise heavily in excess of present intentions or if private commercial activity greatly expands, tax yields will increase but not proportionately and increased rates of taxation would be appropriate to limit consumption in an orderly manner. "It may well be that at the time of the 1940 budget, if there has been no relief from defense expenditures by then, increased taxation will be the appropriate policy. But it is more than doubtful whether with over 2,000,000 people unemployed it could be the appropriate policy in 1939."

The second article is devoted to the national debt and the methods by which the funds can be borrowed; the possibility

REB

4-#252, From London, Feb. 23, 6 p.m.
(Sec. One)

possibility of increasing the Treasury bill issue is mentioned and also the question of confidence, the most serious dangers to which would be (a) inflation, and (b) a belief that as in 1931 recurring deficits were being financed by borrowing. "But it is natural that the same suspicion does not arise when a Government is borrowing to meet essentially non-recurring expenditure in a wholly abnormal period — particularly where in case of that expenditure leading to a high level of business activity a very large part of it at any rate could be covered out of revenue."

The article ends: "But on balance it may be concluded that as far as we can look ahead any necessary loans can be absorbed without causing any heavy fall in gilt-edged prices. If private business activity were to expand with unexpected rapidity some control or limitation of private capital issues might of course be necessary just as limitation of issues for overseas borrowers is already in force. But there is no reason at present to think that any special restrictions beyond those already existing will be necessary in order to keep the market in proper trim."

(END SECTION ONE)

KENNEDY

HPD

HEB

GRAY

London

Dated February 23, 1939

Rec'd 4:10 p. m.

Secretary of State,
Washington.

208, February 23, 6 p. m. (SECTION 770)

That these articles constitute a rationalization of the policy which circumstances have dictated to the British Treasury seems obvious, especially in the light of a remark by Simon in a private conversation with the head of one of the merchant banks that his "problems at the Treasury are unsolvable". These articles may also be regarded as containing a warning that today expedients are not an indication of permanent policy, and that an improvement in industrial activity may well be expected to cause a more severe tax policy in future years.

(END OF MESSAGE)

REMIEDY

HPL

ONE

GRAY

London

Dated February 23, 1939

Rec'd 4:14 p. m.

Secretary of State,
Washington.

253, February 23, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

ONE. The statement of the 1938 British balance of payments was published today and conforms to the data set forth in paragraph one of my 253, February 20, 7 p. m.

TWO. The article on the forward gold position to be found on page 350 of the issue of the ECONOMIST now reaching the United States is worthy of note; inquiries on the city indicate that it portrays the position with reasonable accuracy.

THREE. The Dutch guilder is being offered from Holland. According to information reaching the city from Amsterdam the guilder's depreciation in the past six weeks from 8.60 to 8.80 today is due to financial and economic considerations. Reliable Dutch sources convey the impression that the Dutch monetary authori-

ties

LMS 2-No. 263, February 23, 7 p. m., from London.

ties as a matter of policy are prepared to see the guilder move to about 9.00.

Four. Reference is made to paragraph two of my 244, February 17, 6 p. m., in connection with the weakening of the belga to the dollar gold point. Today the forward belga has been notably weak.

Five. In general the foreign exchange market has been more active with sterling firm even in terms of dollars although the French fund has been the main recipient of the dollar offerings. Gold was fixed at 148 shillings 4 pence nearly a penny premium, and of the 180 bars sold 55 were given by the British fund; 18 were married.

KENNEDY

NPL:EMB

FS

GRAY

London

Dated February 24, 1939

Rec'd 1:05 p.m.

Secretary of State,
Washington.

255, February 24, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

The Ambassador again had the group of leading London bankers to dinner at the Embassy last night enumerated in No. 268, March 30, 7 p.m. which also contained an account of the discussion on that occasion.

It is symptomatic of the present state of mind of the governing class of this country that, although the individuals present have gained a measure of confidence in recent weeks in that they take comfort in the amount of progress that is being made since Munich in the British armament programme and equal if not greater comfort in their conception of the new attitude of the American administration and people towards the European democracies as well as some comfort out of the difficulties facing Germany, they have not a sufficiency of confidence in the future to permit them to discuss economic and financial problems as such. The political element assumes overriding dominance. Consequently, whenever the economic or financial

PS 2-No. 265, February 24, 1 p.m. from London

financial aspects of the current situation began to bulk large in terms of the future, the carnality of the international political situation came to the fore to smother the discussion: it was always pointed out that the political element was the unpredictable dynamic factor to which economic and financial considerations were entirely standardized.

In the circumstances there are only the general convictions of the gathering which stand out:

(one) That the international political situation is precarious but from the country's point of view it is better than at any time since Munich;

(two) That, as Lord Catto and Mr. Arthur Villiers emphasized particularly, the President's recent steps are more responsible than any other immediate happening for the second thoughts that are taking place in Germany and for the ensuing feeling of solidity in England.

(three). That the British armament programme has in recent months made very real if uneven progress and that, as Mr. Colin Campbell stressed, without this large public expenditure Great Britain would be in a slump.

(four) That, as Mr. Robert Brand emphasized, Germany will find it so difficult as to be almost impossible to readjust her war preparation system for peace time purposes and,

(five)

PS S-No. 265, February 24, 1 p.m. from London

(512x) that England can for the time being stand the
 shock of the armament race but, if war does not eventuate
 in the not distant future, England also will have
 tremendous problems to meet and although one of them
 arises out of the current armament expenditure, the
 meeting of them will nevertheless entail further Govern-
 ment spending. The word inflation was avoided but the
 spectre of it hovered about.

ENCLOSURE

JENNINGS

0371507

RECEIVED

1942 FEB 24 11 15 AM

REB

PLAIN

London

Dated February 24, 1939

Rec'd 3:25 p. m.

Secretary of State,
Washington.

267, February 24, 5 p. m.

FOR TREASURY FROM BUTTERNORTH.

1. With reference to the information on Germany contained in paragraph 1 of my 197, February 8, 6 p.m. there is quoted below the sequel to the information contained in paragraph 2 of my 136, February 1, 4 p. m. "The German budgetary deficit of last year of about six billion marks is to be covered by savings on the part of the armed forces amounting to ~~six~~^{eleven} billion marks, while the balance was financed by the issue of five billion marks of new Rentenbank notes and the re-issue of Reichsbank notes which have been withdrawn from circulation for replacement with new notes. I understand that General Groen of the army has immediately responded to the call for economy and that in the army economy is being enforced. The navy, however, is said to have filed a protest and is going on with its original building program, *et cetera*. The air force is said to have ignored the demand for economy and is relying

on

REB

2-#267, From London, February 24, 62

on Field Marshal Goering to prevent any decrease of expenditure."

2. Sterling has been strong today on a somewhat busier market with the British fund buying dollars fairly steadily in moderate amounts and moving their price from 4.69 to .69-3/32.

Of the 154 bars of gold sold at the fixing 9 bars were married and the British fund supplied only a few. The price was 148S 3-1/2 giving a premium of 1/2D at 4.69. Purchases were practically all for arbitrage and there was no after fixing dealing.

The spot belga rate was steady with the Belgian authorities operating and also dealing in forwards the discount for which narrowed from 25 to 18. The guilder continued offered around 8.80-81.

KENNEDY

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 24, 1939, 4 p.m.

NO.: 356

FOR THE TREASURY DEPARTMENT.

Today there was a fairly active exchange market, with dollars again somewhat offered. A moderate amount was obtained from the Chase Bank for the fund. Continued pressure on the belga and on the florin. There is comment in the French financial press that authorities in Belgium and the Netherlands possess ample resources to defend their respective currencies and that it is possible that in both cases they might favor a lower level or an "Adjustment" of the value of these currencies. It is pointed out, on the other hand, that Colijn has always favored orthodoxy, and that Gutt seems to tend more towards deflation than devaluation of the currency.

On the bourse a better tendency was in evidence, with fractional gains in rentes. There are signs that a moderate improvement is taking place in certain branches of French economy although less outstanding than in the financial situation. A reduction instead of increase is reported in the number of unemployed for the first time in several months. During the 7th week of 1939 cars loaded exceed by 9200 the figure for last year. There is an appreciable improvement in the index of production of the chemical, paper, textile and automobile industries.

Iron

- 2 -

Iron and steel production also show improvement.

The financial press published a message from Rome to the effect that it is officially stated that to date the total debt of Spain to Italy is four billion gold pesetas. It is added that recently arrangements were concluded between Burgos and Rome which provide for the settlement of the debt by payments spread over a ten-year period.

END OF MESSAGE.

BULLITT.

GROUP MEETING

February 24, 1939.
9:35 A.M.

PRESENT: Mr. McReynolds (In the Office of the Secretary)
Mr. Bell
Mr. Foley
Mr. Gibbons
Mr. White
Mr. Haas
Mr. Hanes
Mr. Lochhead
Mr. Gaston
Mrs. Klotz

H.M.Jr: The reason I am late this morning is I have been so busy reading about myself and having a good time. It is a new experience.

McReynolds: Jack has the News broadcasts he picked up last night as they came over the radio.

H.M.Jr: Will you give those to me this morning?

Would you write a letter to the Secretary of the Navy for me, in the kind of language which would be most helpful, and to Captain Kraus complimenting him on his assistance and wording it so that his detail to us is terminated. You might say, "On the termination of his assignment I wish to do so and so". Use the kind of language which would be helpful to him.

McReynolds: Yes. That is a nice thing to do.

H.M.Jr: We wrote a letter to Admiral Peebles formally terminating his assistance to the French, finishing it.

McReynolds: Then recommending the President designate Johnny Hanes on the Red Cross. That is the only thing that he has to do. Then the Red Cross people do the rest of it. Put him on the other Committees.

I have the record of the various assignments that Mr. Taylor had. Do you want to go over them now?

H.M.Jr: Yes.

- 2 -

McReynolds: Of course, that takes care of the Red Cross end of it. The Directors will do the rest. He is on the Board of Directors of the RFC as an alternate for you.

H.M.Jr: I am not a Director any longer of the RFC and have not been for two years.

McReynolds: But he is assigned to attend. Do you want anybody to be assigned to attend?

H.M.Jr: I am not a Director.

McReynolds: No, I know you are not.

H.M.Jr: No, there is no reason.

I think the way we will do it is this: We will go over this tentatively. It is mostly banking matters. Mr. Hanes is handling banking matters. If it is agreeable to him we will say, as far as banking matters in the RFC are concerned you handle them. My thought was inasmuch as I told Archie to handle the State Department, that is Commodity Credits, I thought I would put Archie as a director of Commodity Credits because that hooks up with the State Department. So that part of the RFC work which is Commodity Credits we will let Archie do, but the banking stuff, loans to industry and anything like that you take it. Does that seem like a natural division?

Hanes: Surely, I think it is very good.

H.M.Jr: Banking loans to industry or anything like that. That is RFC but on this electric home and hour, or whatever they call that thing, I would rather let McReynolds handle that because he seems to be in constant contact with Tommy Corcoran, so it will be natural. See him blush.

McReynolds: My circulation is getting better.

H.M.Jr: The two (referring to Mr. Bell) of you, Doctor Daniels seems to have had an effect on you.

McReynolds: The Board of Trustees and Executive Committee, Import and Export.

- 3 -

- H.M.Jr: That being foreign we will let Archie take that.
- McReynolds: And the Farm Mortgage Corporation?
- H.M.Jr: Put a question mark. I don't know how to handle that one.
- Hanes: What will we have to do with that?
- H.M.Jr: Really nothing.
- Bell: Largely financing. That is selling their bonds and switching them and so forth.
- H.M.Jr: I have a reason if it is that. Let us just put a question mark.
- McReynolds: Then there is this commercial policy committee. I don't know whether that is still working or not.
- H.M.Jr: Put a question mark after that.
- McReynolds: Munition Control Board.
- H.M.Jr: Well, that is over at the State Department.
- McReynolds: That would be Archie. Committee for cooperation with American Republics.
- H.M.Jr: Question mark.
- McReynolds: And that is all of them. Wayne has resigned from the ones that it was necessary to resign from.
- H.M.Jr: Now, this Doctor Shaw that Doctor White brought down. I will say that his services will terminate at the end of the week. And on this other fellow, Edwards, I wish McReynolds, Archie and White would have a little talk about him and bring in a recommendation to me.
- Mrs. Klotz: They have.
- McReynolds: I have not talked to Archie about it. You don't want to talk to Shaw? He wants very much to talk to you.
- H.M.Jr: All right.

- 4 -

McReynolds: There is a letter to you here.

H.M.Jr: From Shaw?

McReynolds: There is a letter here from Shaw that he gave to Harry and Harry said he did not think you should be bothered with it. I am not sure in view of the way this thing came up that you would not want to read it.

H.M.Jr: What is it about?

McReynolds: It is just about his assignment here.

H.M.Jr: I just appointed a committee on that.

McReynolds: On Edwards?

H.M.Jr: Well, the same committee can handle Shaw. If there is any question I would rather pay him a week or two extra. I want to be fair. I don't want to just turn him out.

McReynolds: O. K. We will take care of him.

Mrs. Klotz: It is more than that.

McReynolds: He expected to get a month here.

H.M.Jr: Well, I would give him a month.

McReynolds: He can write to you. You don't need to keep him here all that time.

H.M.Jr: Keep him here. We may be in on this Brazilian thing tomorrow. But if he expected a month's pay give him a month's pay.

McReynolds: All right.

White: He will send us some material when he is down there.

H.M.Jr: There has been an upset and these people have got to realize after all - I mean I did not know Mr. Taylor was going to resign.

McReynolds: I have one more idea. I don't know, you may not think well of it.

The most effective operating Vice-President of

- 5 -

General Motors, a fellow named Earl Dawson is an outstanding operating man in General Motors. Do you know him, Johnny?

Hanes: No, I don't know him.

McReynolds: He has the best record as an operating man and he is a chap about fifty. He wants to quit General Motors.

H.M.Jr: Good.

McReynolds: And with your permission - he has a background - his family is Democratic but he is non-political.

H.M.Jr: Good.

McReynolds: Never mixed up in politics. I would like to hire him as an Assistant Secretary. I would like to bring him in and talk to him about that job because I don't think there is a better man in the United States for that business as an Assistant Secretary than he.

H.M.Jr: What state does he come from?

McReynolds: I don't know; from Michigan formerly, of course.

H.M.Jr: Swell, go ahead.

McReynolds: I will talk to him. I know him. I have talked to him a good many times.

H.M.Jr: Is that the way you get these big Buicks?

McReynolds: No, no, it is one of the other guys. I would not be willing to recommend the fellows that I get those from. I would not want to break that contact with General Motors.

H.M.Jr: All right, Meck, that is O.K.

Mrs. Klotz: Who is blushing now?

McReynolds: That is all I have to say.

H.M.Jr: All right. Well, tell us all about how you told PHA to go ahead and not to mind about creating a deficit.

- 6 -

- Bell: Well, I had a lot of fun yesterday. The Appropriations Committee of the House called me up there and said - well, it was the deficiency committee headed by Woodrum. He is head of the independent office committee. He was interested from the standpoint of the actual appropriations in the independent appropriations bill. He was also interested because it went up as a deficiency item, so he merely asked me to explain the situation.
- E.K.Jr: Could you?
- Bell: Oh yes, I did. I had a story pretty well concocted before I went up and I showed them where by operating on a deficiency basis over the past four years we would have saved several million dollars, and the outstanding example was with the Securities and Exchange Committee. Their first estimate was five million five, and we cut it to four million two with the understanding that if it was not enough we would send up a deficiency. Not only was not enough but they have assumed a great deal more work in their holding companies and the Maloney Act and Section 10 of the Bankruptcy Act, and for 1940 they are still not up to their five million five. So I told them that if I had operated on the basis of not sending deficiencies I would have to send the five million five in the first instance. They all went for it and said that was fine and that that was the way to handle it.
- E.K.Jr: You are lucky you could think that one up.
- Bell: I had about ten of them.
- E.K.Jr: So.
- Bell: Yes I did. I had about ten that worked the same way, so it worked all right. And I called Senator Adams and told him that I was sorry on account of all of the publicity he and I were getting, and that I had been called before the Appropriations Committee on the matter and I did not want him to think I was trying to go over his head or anything like that. And he was swell about it. He said "Stop worrying about it". He said "It is just a flurry and it will be over in a few days".

- 7 -

H.M.Jr: Do you want to see me about this at eleven?

Bell: Yes.

H.M.Jr: Is that a good time?

Bell: That is a fine time. The only thing I have is a compromise case of a railroad which was prepared by Mr. Foley's office, and I think while I agree with the principles involved here, I think you should know the history of the railroad compromises for the past ten or twelve years.

H.M.Jr: Not now, Dan.

Bell: It will only take a minute and I want you to be familiar with it. Back in 1926 or '27, I think it was, we asked the Attorney General for an opinion on a certain matter in connection with 210 loans, and in that opinion he certainly strongly intimated that you had no authority to compromise railroad loans. On that basis the Secretary has recommended in three different annual reports, I think it is, that legislation should be secured to authorize the Secretary to compromise railroad loans. Bills have been introduced and reports made on them and the Committee in the Senate particularly turned us down on the compromise legislation.

Now, the Attorney General has come along and granted an opinion that you have authority under an old revised statute to compromise railroad loans.

I think it is very unfortunate that we did not have that opinion ten years ago because we could have had a lot of money in the Treasury. In the meantime some of the roads have been sold right out from under us because we did not think we had that authority.

I raise the question at this time for you to decide as to whether you want to exercise that authority at this time, in view of the legislative history, without doing something on the Hill, either going to the Committee and asking the Committee -

H.M.Jr: Definitely, go on the Hill.

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- Bell: Now, I understand from Mr. Foley's office there is a Bill being introduced to give you that authority to exchange securities.
- Foley: Yes.
- Bell: I think that affords an excellent opportunity to lay the whole history of it before the Committee.
- H.M.Jr: Yes.
- Foley: The early decision of the A.G. we always thought was wrong.
- H.M.Jr: But in view of what Bell tells me I would definitely get some sort of expression from Congress.
- Bell: I think that is right. That is all I have.
- Duffield: The Manufacturers Association says 11 o'clock next Thursday is fine.
- H.M.Jr: All right. Now, let us see, 11 o'clock next Thursday. Johnnie will you make a note of that - next Thursday.
- Hanes: Yes.
- H.M.Jr: For this Committee. I think they call it "The Depression Committee".
- Duffield: Yes. The only other thing is that Frederick Delano wants to submit the list of recovery questions to his industrial committee. Shall I say it is fine.
- H.M.Jr: Yes.
- Duffield: That is all.
- Gibbons: I have to see the Vice President at ten o'clock.
- H.M.Jr: All right. Give him my regards.
- Gibbons: I will tell him you are on the Texas border matter and will tell him that we will do nothing down there on your instructions, without consulting him.
- H.M.Jr: Particularly the borderline case. I could not help that one.

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- Foley: Archie and I are going over to see Judge Moore at half-past ten, on the Spain silver issue. Somers said he talked to Wagner and Wagner had some question in his mind as to the extension of power to re-value the dollar.
- H.M.Jr: Who did?
- Foley: Wagner.
- H.M.Jr: That is all right, I know about that. A little bird told me that.
- Foley: Glass is sick or is not very well and that is why Wagner told Somers he had not done anything so far with the proposed legislation. Somers is getting his committee together today and is going to try to start his hearings next week.
- You knew that the Export-Import Bank was continued until June 30 of 1941.
- H.M.Jr: Yes.
- Foley: With \$140 million dollars total outstanding loans. I have an affidavit here for you to sign on silver and a letter.
- H.M.Jr: What is it about?
- Foley: This was the fourth shipment of the silver. It is exactly the same as the other affidavits.
- H.M.Jr: Another shipment coming in?
- Lochhead: That has been in for some time.
- Foley: This has been in. This is an old one.
- H.M.Jr: There is no more coming in, is there?
- Foley: No. No. And here is the letter.
- H.M.Jr: What letter is that?
- Foley: To Pearson.
- H.M.Jr: Oh yes. What time will you be back?

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- Foley: Back about eleven or quarter after eleven.
- White: The figures for exports that just came out show a drop of 50 million dollars.
- H.M.Jr: Where?
- White: In our exports for January. No explanation can be offered. We don't know to what countries or in what commodities. It is probably of some interest to know that the British trade agreement went into effect on January 1. That is a reduction in rates and they expected that a good many British importers would withhold their imports until January 1. That should have showed up this month.
- H.M.Jr: But did not.
- White: Well, we don't know whether it did in England but our total exports dropped fifty-six million, which is very much in excess of any seasonal drop.
- H.M.Jr: That left a total of what?
- White: \$212 million dollar exports. That is a drop of almost twenty per cent.
- Lockhead: What about the imports?
- White: Our imports are about the same, a little bit higher.
- H.M.Jr: Take a look at your three point competition and let me know, will you?
- White: I will do that.
- The Department of Commerce has asked you to appoint a man to represent the Treasury on a committee to study import statistics.
- Now, if you don't want to take an active part in it I suggest that Freeman, who is in charge of the import statistics in the Customs, be assigned.
- H.M.Jr: What do you recommend?
- White: I think Freeman should do.
- H.M.Jr: That is all right. Heck?

McReynolds: Yes.

E.M.Jr: All right.

White: Mr. Heath. I take it you have seen him.

E.M.Jr: Yes, I am going to see him again.

White: That is all.

Lockhead: Mr. Heath tells us that you could get a good man from Germany if you want, any moment. Mr. Schacht has intimated to Mr. Heath he would be very interested in an offer from this side and there is - no, I mean that was borne out about three years ago. He rather facetiously made the same hint to Cochran and Cochran thought it was pretty serious at that time. Now, he spoke to Heath before he left. He put it up to him pretty straight, that he would be very glad of an appointment over here because his appointment on the other side is really an attachment to the payroll and no active participation in German business.

Hess: Can he get out?

Lockhead: He feels that he can get out.

E.M.Jr: All right. We have not come to Hess yet.

Hess: I have nothing this morning.

Hanes: Nothing.

Lockhead: I have nothing except sterling is pretty steady. Just a shade over 4.69 and 15. That is the first time it has reached that level in over three months. Guilders are still weak, though money is still coming out of Holland.

E.M.Jr: I got this note from Gaston which I will read: "Doughton's secretary phoned that Doughton would be very glad to see you at the Naval Hospital as you suggested. He asked if ten this morning would suit you. He approves heartily what you said yesterday; he has been thinking of saying something like that on his own hook. He would like to issue a statement supporting you". He said "If you will write out something you could bring it to him for editing and approval". "His secretary would like

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advance word of your visit".

Well, I think this: If you and Hanes could collaborate I would not then wait for my visit. I was going to see him tomorrow morning but I would try to get over to see him right away. If you fellows could collaborate and see me, and if he is interested I would get it out at once. I would not let it cool off. I think if it could be gotten to him this morning so it could go out right away.

- Gaston: We will do it through Meekins, his secretary, I think, and you are going up there tomorrow morning. Do you want to let Meekins know what hour?
- H.M.Jr: I telephoned the office and said I would come around to see him tomorrow, but I would not hold up the statement. Get that statement to Bob down at once.
- Gaston: Meekins says he is feeling pretty well but he has a bad throat and the doctor told him not to talk.
- H.M.Jr: I would do it through Meekins and get it out and released. I would like to get it if possible within an hour.
- Gaston: Yes, we can.
- H.M.Jr: With the help of Hanes.
- Hanes: Yes.
- H.M.Jr: Don't you think so, Johnnie? There is no sense of waiting.
- Hanes: No, do it while it is hot.
- H.M.Jr: That is what I thought. I guess we are all through.
- McReynolds: Ed, didn't you want to mention to the Secretary the Annenberg matter?
- Foley: I went over the other day to see Thurman Arnold about the Bank of America matter and so forth, and he talked about the Annenberg case.

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He has a case on the anti-trust side and apparently he hasn't got an awful lot of material, and what he wants to do is to present the anti-trust case to the same grand jury that the tax case is presented to.

McReynolds: He wants to tie them up together, as a matter of fact.

Foley: Well, he said he would not do that; he would have them separate but he would like to have his man in the grand jury room at the same time the tax witnesses appear before the grand jury, and when we were through then he would develop his case.

He said the theory was that if he goes before a separate grand jury and he comes out with nothing it is going to look very bad. Senator Guffey is being sued personally and there are a lot of implications. He thinks that if he appeared before the same grand jury with us there would be a chance of the Government getting something.

E.M.Jr: I am not a lawyer but I feel on this thing very strongly. I have been on this thing before. I think it is the stupidest argument I have ever listened to.

McReynolds: And so do I.

E.M.Jr: I think it is childish and I think it is crack-pot. We have, if we ever had a grand case, if there ever was a case prepared well it is this one. This case has been prepared well. We have a one hundred per cent well prepared case and because this fellow has a lot of fish water he wants to dilute our case and instead of going in alone and standing on his own feet we will come out and our case will be weakened by his weak case. Now, let Thurman Arnold stand on his own feet and why, in the eyes of the public, I mean, why weaken our case which is a strong case by putting in his when he says he has no case.

Foley: He does not admit that. He says he thinks he has a case, Mr. Secretary, but it is not as well prepared as our case is.

E.M.Jr: Let him do it on his own. Senator Guffey called me up yesterday. He has been after me and after me

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and I said "Senator, if you don't mind telling me what you have on your mind", and he said "I want to get after you fellows on the Annanberg case to get after the Attorney General", and I said "It is no use, you are wasting your time coming down to see me because the thing is in the lap of the Attorney General", and I said "If you want the case hurried up go see the Attorney General". I said "There is no use your coming down here on that one".

- Hanes: He just telephoned a minute ago. He is coming here to see me.
- H.M.Jr: I said "We have delivered the case tied up with pink ribbons to the Attorney General and it is over there". But for Thurman Arnold, who is a wise cracker and a smart Aleck and everything else, to get mixed up in this thing, who hasn't got any case, I resent it on the part of the Treasury. We stopped it once before before election when he wanted to go off half cocked. Where is the Attorney General anyway?
- McReynolds: He is in Florida. Thurman is Acting Attorney General. That is the trouble.
- H.M.Jr: If you want me to call him up I will call him up and I will say practically what I have said to you.
- Mrs. Klotz: No.
- H.M.Jr: With a little sugar on it but not too much.
- Foley: Well, I don't think that is necessary. I told him that we would have to talk to you about it.
- H.M.Jr: Well, I object.
- Foley: Well, I can tell him that. He may want to see you.
- H.M.Jr: That is all right. I object to his having anything to do with tying up the new cases. I object strenuously.
- Foley: Well, I can tell him that. I will tell him that I reported to you what he asked and that you do not want the cases tied together.
- H.M.Jr: Right.

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Polley: And he may ask to see you.

H.S.Jr: That is all right. Johnnie are you with me?

Honest: Yes.

H.S.Jr: Do you think I am right?

Honest: Yes.

H.S.Jr: Maybe you think more of Thurman Arnold than I do.

Honest: It is not a question of that. I heard about this before. I did not see any sense in committing our case with his - weakening our position. I agree with you absolutely.

H.S.Jr: It would be just the same as though Tom Jewey were approached by somebody else who wanted to sue Hines for libel and would say "I think I have a libel case and I want to get in the grand jury with your case where you are suing him for breaking the lottery law; I can't prove my case, but I would like to ride in on your coat tails". Now, I don't care. It is not that this is my case. Let this straight. When I went into this thing two years ago and the President asked me to look into this thing on the question of monopoly, I said it would be the most difficult case that this Administration ever went up against and that it would take all the courage and backbone that we have got. Now, we just can not get licked. Let us give Thurman Arnold a one hundred per cent mark for his sincerity, but anybody that wants to weaken this case chalks up a question mark in my mind: "Does he want us really to win the Amenberg case" - anybody outside of the Treasury. "Does he really want us to win the Amenberg case". Now, what is in this room, one hundred per cent in this room. But anybody that wants to add water to the orange that we have prepared, a case that has taken fifty men two years to prepare and cost us, - I don't know what, if he wants to weaken that I can not help but chalk up: "Does he want us to win the Amenberg case". Now, Amenberg is just a plain everyday crook. The only difference is that he is a rich one and anybody - that is very much in this room, but you can say it and I know what I am

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in as I told Johnnie, I think, the other day, this case, the SEC against the Bank of America is a pink tea party compared to this one. It is just a pink tea party.

Now, that is how strongly I feel. Is that O.K?

Foley:

O.K.

(Meeting concluded)

FEDERAL RESERVE BANK
OF NEW YORK

February 21, 1938.

Dear Mr. Secretary:

Corporate security financing continues on a low level and will probably remain small in amount for several weeks to come, but the outlook is now a little more encouraging for the second half of March and the month of April. The Texas Corporation yesterday announced its intention to register, within the next few weeks, \$40,000,000 of 3 per cent debentures, for new capital. One or two other smaller issues are reported as ready to go into registration shortly.

This week, the only corporate flotations were the arrangement of a private sale of \$11,500,000 Cleveland Cliffs Iron Company first mortgage 3 1/2 per cent bonds of 1951, for refunding, and the marketing of \$4,500,000 Central Maine Power Company first and general mortgage 3 1/2 per cent bonds of 1968, also for refunding. The latter are now quoted at a small premium. Municipal bond awards this week totaled only about \$8,800,000.

Owing largely to the \$106,200,000 of North American Company debentures and preferred stock offered on February 1, corporate issues this month amount to about \$155,000,000. This is nearly ten times the January figure and 50 per cent higher than that for February 1938. The total, nevertheless, must be regarded as disappointing, in view of the comparatively steady and high prices for high grade bonds. The amount for new capital, only \$15,000,000, is particularly unsatisfactory.

Yours faithfully,


Allan Spraul,
First Vice President.

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

February 27, 1938.

Dear Mr. [Name]:

In behalf of the Secretary I want to acknowledge your letter of February 26th, giving a report on the corporate flotation for the year work.

Your comments will receive Mr. Morgan's immediate attention.

Sincerely yours,

E. S. Klotz,
Private Secretary.

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

EW/EM

RE FEDERAL FINANCING SCHEDULE AND
MARCH FINANCING

February 24, 1939.
11:00 a.m.

Present: Mr. Bell

Mr. Haas
Mr. Seltzer

H.A.Jr: Say those few sentences over again.

Bell: I put in this statement a program of financing United States Housing Authority, Reconstruction Finance and Commodity Credit Corporations. This is what they did in February. And then the proposed financing of 200 million in July for Commodity Credit and a hundred million dollars in October for United States Housing, and 300 million in November for R.F.C.

H.A.Jr: Why do you put the R.F.C. off there?

Bell: Well, you're thinking now of bringing it back to May?

H.A.Jr: I see, you'd have had to bring it back to May.

Bell: I'll tell you the reason I didn't do that. It still can be done. We have on June 1 a maturity of 325 million dollars of Home Owners Loan. They'll have in the neighborhood of 140 million dollars.

H.A.Jr: 140 million dollars cash?

Bell: Yes, in their checking account. And I've put into that June expenditure figure 140 million dollars, and using their money to pay off that maturity. So they'll have to refund the 185 million. June 1 is a bad date; it comes too close to our financing. In addition they have a nine hundred and

H.A.Jr: What's this here?

Bell: ... a 950 million dollars which may be called on August 1.

H.A.Jr: Un-nuh.

Bell: I thought there might be a possibility of you refunding, say, on May 15, moving it back fifteen days, see, get it away from our financing - the

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185 million - and at the same time selling all or a part of this and refinancing it at the same time, and getting out of the picture and saving the money.

E.S.Jr: This is which organization?

Bell: This is the Home Owners Loan.

E.S.Jr: I see.

Bell: Now, that Home Owners Loan maturing in a 12 percent, and the one in August callable in the 10 percent. Now, it matures August 1, 1944, which is a pretty good date, but the rate is too high for that ten years.

E.S.Jr: I see.

Bell: Now, they haven't any maturity between '39 and '42, so what we ought to be proposing is use these two combined to put some maturities from '41 and '42 - year notes or something like that - and then stretch the other out to about eight or nine or ten years, 10. You save the interest on 10. At the same time it gives them something which they can use their sinking fund money for.

E.S.Jr: Have you talked to them?

Bell: Yes, I've had a conference with their financial men down there and he thinks this is a pretty good program. Another way you could do it is buy 185 million dollars of their obligations on June 1 for two months; we could do it for two months and then refinance on August 1, when this maturity comes. Of course, you don't like to finance in August, because it's a bad month, although has been, in the market.

But that's our picture now, so we've got to look at it. And over here we've got in November 200 million of the Commodity Credit.

E.S.Jr: I see.

Bell: And a hundred million in September of the Federal

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Farm Mortgage Corporation which we have to take care of too in the same picture.

And that's the reason I put up in there R.F.C. I thought we might be able to do R.F.C. and Commodity Credit in connection with this refunding operation of the Commodity Credit Corporation. The reason I put 200 million dollars in July for the Commodity Credit - they've got about 150 million dollars going out on cotton; so I thought maybe July 15 wouldn't be such a bad market.

R.A.Jr: Uh-huh.

Bell: And that expenditure, see, is in there; about 120 go out after this month, some of it this month.

Now, that gives you with - now our side: 750 in June, 750 in September, and 500 million in December. Those are a long ways off, and that gives you, as you see, pretty substantial balances all the way through; lowest will be a billion 785.

R.A.Jr: Now let me just take a look at this thing. Where are my balances?

Bell: In here.

R.A.Jr: That's ample.

Bell: Well, they're large. And you can cut these down, if you want to, when you get to June. You may have a different picture, you can't tell. And that contemplates - I take it you're going to refund these in March.

R.A.Jr: Yes.

What I want to know from you, in addition to this, is (1) how much more borrowing power has R.F.C. got?

Bell: They've got quite a bit more borrowing power. It's about a billion eight all told, but for general purposes it's about a billion three. See, they've got some things here that's unlimited and some for special purposes. But take their general account and it's about a billion three.

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- S.H.Jr: Uh-huh. Now, this is what I want you to do for me. Harrison told Hanes yesterday that they're considerably worried up on the Hill about my coming up and asking to extend the borrowing power of this nation from 45 to 50 billion dollars.
- Bell: Uh-huh.
- S.H.Jr: Now, would you have your office... Supposing we don't get this, supposing they don't extend it from 45 to 50, see? On the present basis of the budget, where would we be on July 1, '49, see?
- Bell: Uh-huh.
- S.H.Jr: See? Will you give me that?
- Bell: Yes.
- S.H.Jr: Where will we be on July 1, '49? What will be the debt?
- Bell: I think you can get by with your present total limitation. The question is going to come when your 30 billion dollars of bonds - if they just eliminate that 30 billion dollars bonds, I believe you can get by with the 45 billion.
- S.H.Jr: Well, how many bonds can I borrow now?
- Bell: 30 billion.
- S.H.Jr: 30.
- Bell: Uh-huh.
- S.H.Jr: Is it 30? I thought it was 25.
- Bell: No, 30. The aggregate is 45 billion, but the combined
- S.H.Jr: 30 and 15? That doesn't sound right.
- Bell: Uh-huh.
- S.H.Jr: I thought it was 25 and 20?

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Sell: No. There's no limitation on the notes.

H.M.Jr: Oh, there's no limitation

Sell: No, the only limitation is when you reach that in bonds, then you can't go but 15 billion in other kinds of securities. If you add only 10 billion in bonds, you could go to 35 billion in

H.M.Jr: But the aggregate can't be over 45.

Sell: That's right.

H.M.Jr: But I can go to 35 in bonds and only 15 in notes. How about bills?

Sell: That's included in the 15. But if you had 20 billion in bonds, there wouldn't be any reason why you couldn't go to 35 billion in notes.

H.M.Jr: I'd like to take a look at this: where would we be? I think Congress ought to do it. But I'd like a statement prepared on it.

Sell: Got 26 billion worth of bonds outstanding - 26 billion five; now some of those don't belong in the authority, because they were not issued under the second Liberty bond act, so those are eliminated. I've contended that these bonds that are matured down here ought to be eliminated, so that that again gives you more authority, see?

H.M.Jr: Well, will you make a study?

Sell: Yes.

H.M.Jr: Could I have it Monday?

Sell: Yes, sir.

H.M.Jr: Hun?

Sell: Yes, sir.

You haven't announced yet that there will be no cash.

H.M.Jr: No, what I want to do is, I thought I'd have Haas and Seltzer come in now and talk to them, see what

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they have.

Bell: All right.

H.H.Jr: What?

Bell: Yes. Of course, when you announce there's going to be no cash - I don't think it's clear in the Street there isn't going to be any cash, although there have been no comments - your market is certainly going up, don't you think?

H.H.Jr: Yes.

Bell: Would you like to sell some bonds at that time?

H.H.Jr: Well, I'd never sell the week before.

Bell: Well, you've never purchased

H.H.Jr: What could I sell?

Bell: Well, we've got a lot of securities here.

H.H.Jr: (On phone) Tell Haas and Seltzer and Archie Lockhead to come in, please. Tell them it's on next financing.

Bell: I'll make a little study of this, if you want me to, if you're interested.

H.H.Jr: Wouldn't it be interesting? The only place is F.D.I.C.

Bell: No, we've got some Postal Savings bonds which we can switch, and I think we can make a good switch on it. For instance, we've got some $2 \frac{3}{4}$ '45-'47 that are selling for 107.

H.H.Jr: Yes.

Bell: Now, that $2 \frac{3}{4}$ '45-'47 doesn't mean anything to us from the standpoint of Postal Savings. We can sell that bond at 107 $\frac{25}{32}$ and cash down here and buy a $2 \frac{3}{4}$ '60-'65, which goes on the books at 101. So we make about \$4 on the transaction.

We can make switches all the way through. We've bought securities for the trust accounts, have just let them

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lay. Now they're beginning to be short maturities. We're not interested in them from the short maturity standpoint. So we can sell some of these for 108-9, buy these for 103.

Mr. Lockhead has gone to the State Department.

Never mind, thank you.

I don't know whether you'd want to make the switches at this time or whether you'd want to sell the securities when this market starts up and hold the cash until after the financing. At the same time might be a bad time.

I think I'd make the straight switches. I think I'd do the switching next week.

Might want to let me work out a schedule showing how that could be done, and talk to Allan Sproul about it, see how it would fit into their program.

That's right.

But this thing ought to be looked at a little oftener. We could make switches every once in a while just like that, because we don't want the short terms. The 2 7/8s are selling now at a nice 105, see?

Would you sell those? No, those are long ones.

Well, of course, we got a little better yield on that; when we bought it we had probably 2.7 yield, and still we're getting - probably better keep that. And the same is true - we've got three and a quarter, three and three eighths, three and an eighth - they're all selling way up here, 110, 112; but they're giving the Postal Savings a good yield on their original purchase, so we can't reinvest it on the same yield basis even with the premium we get.

Has to be looked at very carefully.

Yes, uh-huh. I think possibly for the time being we ought to switch to just the same coupon rate; take 2 3/4 for short term, switch into 2 3/4 for

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long term. Be rather simple.

H.M.Jr: Well, if you'll prepare on that

Bell: All right.

H.M.Jr: I wonder where those boys are.

(Haas comes in)

Have you got anything for me on this financing?
What to switch into?

Haas: You asked for a memorandum of pros and cons on that bill proposition: whether you should raise new money and retire your bills - financing memorandum. We haven't got that ready yet.

H.M.Jr: Well, on that - and I asked one from Goldensweiser and I asked Harrison to get one for me from their place.

Haas: Well, ours is in.

H.M.Jr: Where is it?

Haas: Miss Chauncey. I can get it; I got a copy of it in my pocket.

H.M.Jr: I want all three. Get one from Goldensweiser and get the one from the Fed of New York.

Haas: All right.

H.M.Jr: And let's have all three of them and have them here.

(Seltzer comes in)

Seltzer: Good morning.

H.M.Jr: Hello.

Let's get all three of them in the morning.

Haas: I thought they probably had sent them in direct to you. But I'll get in touch with them.

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H.A.Jr: Find out from Miss Chauncey. Let's get all three.

Wes: all right, fine.

H.A.Jr: What position do you fellows take on the next financing? Would you just convert or should we raise some new money?

Wes: Well, we haven't made up our mind completely on it. On this bill proposition we sent in some pros and cons, but not a definite recommendation.

H.A.Jr: Oh, come on, give me something to put my teeth into.

Wes: Well, where we stand right now, we're inclined to just turn - I mean I'm inclined to just turn over the notes, because that's rather quite a big job and will amount to about one billion 300 million, and your cash balance is so high; and then you've got your R.F.C. if you want some more cash. And then, if you take up the September notes in June, it's rather a small job and you'll get some cash at that time. That's the way my mind is going right now. I may change it when I send it in in your memorandum, I don't know. I haven't talked this with Larry.

H.A.Jr: Larry, where do you stand?

Wes: At the moment I tend toward just converting, for this reason. Your market is supposed to be pretty high. It's in new ground. Now, the last time the market got into high ground was January '37, just before that big slip-off. Well, if you add unnecessarily to your financing when the market is in high ground, if it's vulnerable it's going to increase your trouble if you have a reaction; if the market doesn't react and instead it merely confirms these new low yield bases, then your financing will not be hurt.

H.A.Jr: Just a second. Will you wait one second?
(heads clippings)

Go ahead.

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Seltzer: The fact that the market is in brand new high ground can be interpreted in two ways. Either it's vulnerable now, in which case the more you finance right now the worse the market will be in the event of a reaction; or the market is going into a permanent or indefinite brand new territory level, a brand new level for yields - perhaps get down to a 2s on your longest-term issue. If it's really doing that, and it is right now down to a 2-5/8 level, then, barring Europe, you won't be any worse, you'll be better off in June. So from those two standpoints it would seem that you just ought to convert.

Now, the international situation is something that I don't know anything about, and that's - this is outside of that. If you feel very nervous about that, then you go ahead and raise new money; all these other considerations then melt away.

H.M.Jr: Now, I've got plenty of money, I've got bigger balances If it wasn't that my bills are so ridiculously low, I'd let my - I'm paying a couple hundred thousand dollars a year to borrow a billion three.

Haas: Twenty-five thousand.

Seltzer: All you pay.

H.M.Jr: No, for a billion three?

Haas: Yes.

H.M.Jr: It's ridiculous. How much?

Haas: Twenty-five thousand; it's in that memorandum.

H.M.Jr: Well

Bell: Have they rolled over sufficient to take up all these low rates now?

Haas: (Nods yes) Well, this isn't your actual bookkeeping charge. It's at .005 percent.

Bell: On the last issue. The earlier ones cost us more.

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- Seltzer: Yes, but it doesn't raise appreciably.
- H.M.Jr: As I say, on that basis it doesn't - let the money around. My inclination is just to do a refunding.
- Bell: That's mine.
- H.M.Jr: Now, with that 75 percent chance of what we're going to do, I'd like to talk a little bit of what we'd refund into, you see? This is a two and a what? What coupon does this carry?
- Hess: Well, two and
- H.M.Jr: Two and something. Two and a quarter, isn't it?
- Bell: Two and an eighth.
- H.M.Jr: Two and an eighth.
- Bell: Two and an eighth.
- H.M.Jr: When did we sell that?
- Bell: I think that's a five-year note. Not sure.
- Seltzer: They're selling at one and $21/64$ to a zero yield - about 10 or 11/32.
- H.M.Jr: Well, I think we ought to offer at least two pieces of paper. Don't see any reason for three pieces of paper at this time. Before when we gave three, at that time we gave them the middle thing for the cash. I think there ought to be two pieces of paper.
- Normally you'd say, "Well, let's reopen the last one we did, the '60-'65." But that's selling at such a premium, I'm not inclined to reopen at this time; it may fit into the picture at some other time, you know.
- Hess: Your two and five-eighths - might do that and let ...
- H.M.Jr: So what I was thinking of - I'd like to take a look at

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a two percent bond, say, with a three-year spread, and a two and a half. How far out could I go on a two and a half?

Seltzer: '54-'57 maybe. It doesn't give you an awful lot of room. I figure you'd get 1 8/32 premium on a '54-'57.

H.M.Jr: Well, in that - '54-'57 or '53-'56. Is it very crowded in there?

Seltzer: Yes. This is the best

Bell: Maturity date '54 hasn't got anything.

Seltzer: Yes, it has; it depends on whether you're looking at it

Bell: I mean maturity date. Call dates would bring some of it in.

Seltzer: See, here's your maturities. You're pretty well crowded in there.

H.M.Jr: I see. Is '50 open?

Seltzer: '50 is open as regards maturities?

H.M.Jr: Well, where would a two percent to a fixed maturity - where would that fall?

Seltzer: I was just figuring that. You'd probably have to make it a ten and a half year - be in '49. '50 would be all right.

H.M.Jr: I mean have we got a fixed maturity in '49?

Seltzer: Haven't any fixed maturities, but you have a couple of call dates.

H.M.Jr: But there's nothing fixed.

Bell: Well, there's - yes, there's a three and an eighth that's fixed; they're callable in '43 but they mature in '49.

Seltzer: Two issues callable in '43, none fixed. You might do a '50, you know, at a two, but you'd have this

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thing: you have that last issue that's selling out of line. On that basis the thing would yield a premium - sell at a premium of one and three eighths; but if you take the other two fixed issues in there that you have out, the premium would be only three eighths of a point, and that's pretty thin.

E.M.Jr: Three eighths.

Seltzer: Yes. Now probably somewhere in there, and if the New Yorkers are just as enthusiastic about such a thing as they were about the thing last time, it might go over very well with a '50.

E.M.Jr: That's 11-year two.

Seltzer: Yes. You can shade it by making it a 10 $\frac{1}{2}$ or 10%.

E.M.Jr: Supposing it came due on the 15th of March, '50. Is there anything in there?

Bell: No.

E.M.Jr: Huh? 15th of March?

Bell: Nothing there. Nothing in June.

E.M.Jr: Nothing in June? What?

Bell: 866 million in September is the only thing.

E.M.Jr: But nothing in March or June.

Bell: Or June.

E.M.Jr: Well, we might be thinking about that; March or June '50, a two percent, huh?

Bell: That's O.K.

E.M.Jr: Huh?

Bell: Very good.

E.M.Jr: As a possibility.

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Seltzer: Right now it looks possibly a little thin; doesn't give you enough protection in the event the market turns. That's my only objection.

H.M.Jr: I know, I'm just ...

Bell: Could do the same thing in March '49. That's vacant.

H.M.Jr: Is it? What's the nearest to that?

Bell: June is vacant also in '49.

H.M.Jr: That would be a 10-year two.

Bell: Yes.

H.M.Jr: What?

Bell: That's right.

Seltzer: '49 would be a little rich, possibly.

H.M.Jr: I mean can you

Bell: Can make it September also. September is vacant in '49. Heavy load in December.

H.M.Jr: How heavy?

Bell: Two billion two.

H.M.Jr: But not fixed.

Bell: Those are callable. No, I don't - no, they're not either.

H.M.Jr: Well, a 10-year two, huh?

Seltzer: 10-year two might be a little rich, but if you're not going to have a long-term that might be all right.

H.M.Jr: Well, there's a possibility between a 10- and 11-year two; that's a possibility, what? Den?

Bell: Yes.

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- H.M.Jr: Between 10 and 11 years fixed two.
Now, would you get out a new 2 3/4?
- Seltzer: Very hard to price it here; when I make a '65-'75 I get up to 2 5/8 points premium.
- H.M.Jr: When you make a what?
- Seltzer: 1965-75 - callable in '65, maturing in '75. On the chart it still looks like a 2 5/8 points premium.
- Bell: Has a 2 3/4 coupon.
- Seltzer: Yes. With a 2 5/8 coupon I can put out the same maturity as you have on this last one, '60-'65, and I get about 1 3/8 premium; have a low coupon, sell at the lowest premium of any outstanding issues.
- Bell: Think there will be buying power there because of the low premium?
- Seltzer: Yes, undoubtedly.
- H.M.Jr: Of course, what I'd like to do - I mean I've come to the conclusion you can't sell, say, a 10-year two and then a long one. One kills the other, I mean. That's what happened the other time. There was a lot of fussing. Know what I mean? I'd rather do this - I'm using 10-year, somewhere in that neighborhood - 10-year two and a five-year, or a five-year and a long 2 3/4, or a 2 $\frac{1}{2}$. I'm not inclined to go out so far this time. What would be the matter with a 2 $\frac{1}{2}$ with a three-year spread?
- Seltzer: It's very crowded in there; that's the principal objection.
- H.M.Jr: Is it awfully crowded?
- Seltzer: It's your most crowded period. See, it's right in here.
- Maas: We sold so much right into there.
- H.M.Jr: Well ...

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Seltzer: Also, a 2 $\frac{1}{2}$ is a little long for a bank, and it doesn't give enough yield to the trustee accounts.

H.M.Jr: I know, but let's say you get out a 10-year two and a five-year.

Seltzer: If you got out a 10-year two, I think most of the banks would take that and keep them.

H.M.Jr: And who would buy the five-year?

Bell: I don't like the short bond and a note very well together; it's kind of ...

H.M.Jr: Well, on the other hand, Dan, if the market is so top-heavy - I mean it's up so high, I'd hate to get out a long bond and then see it fall. I mean this stuff - if it went off a point it would be a lot, wouldn't it?

Bell: I should think so, yes.

ans: The only other alternative you have is going out into longer stuff.

Bell: Start another.

H.M.Jr: well, they won't like a 2 5/8.

Bell: No, they won't. The market won't like it.

Seltzer: well, I think that's just because it's new. Get used to it in a week.

Bell: They don't like the eighth.

ans: Took a 7/8; didn't like it, but we got two billion six out of it. But it did - it cobbled for a long time.

H.M.Jr: where would a 2 5/8 fall?

Bell: '60-'65.

Seltzer: That bond is very popular, and if you put it at 2 5/8 in there, it would fill the same need; might be a little more popular because be less premium.

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H.M.Jr: Of course, I can do what I've never done before - I mean in a sense. I can add Where is that '60-'65?

Bell: It's selling at 103.

Seltzer: Yes, 103-18. You'd have to sell it at 102.

H.M.Jr: Well, they won't like that.

Seltzer: Of course, they're mostly banks.

H.M.Jr: No, but they've got to write it up two points, you know.

Bell: Make a dollar and a half profit on it.

H.M.Jr: Well, that's too much. That's too much.

Bell: Only trouble with it, it's such a large issue to tackle that.

H.M.Jr: Yes, I think

Bell: Do that with

H.M.Jr: Well, we've talked a little bit. Be thinking about it. We can talk about it Monday.

Haas: Henry will be back too. Get the gossip.

Seltzer: You mean adding to this?

H.M.Jr: No, I don't think I'll add, no.

Seltzer: If you just confined this to refunding, your bond issue is going to be a very manageable size.

H.M.Jr: Well, do a little more thinking. I want to talk to Bell some more.

RE POSITION ON TAXES AND RECOVERY

February 24, 1939.
11:15 a.m.

Present: Mr. Gaston.

H.A.Jr: How do we handle this (statement by Congressman Doughton)?

Gaston: Call up Meekins, Doughton's secretary, ask if he will take it to

H.A.Jr: I'd ask him if he could get it out right away, get it still in the afternoon papers, which I think is important.

Gaston: Yes, I'll tell him.

H.A.Jr: Hun? (Initials Doughton release)

Into the afternoon papers. A proposed statement by Doughton. I think that's a peach, Herbert.

Gaston: Right.

H.A.Jr: Thanks.

You'll be interested: Jesse Jones called me up and said, "Gee, that was a bull's-eye, your statement." and he said, "Yesterday would be so much better than tomorrow for the statement." Jesse Jones.

Gaston: Did you read Arthur's column?

H.A.Jr: Yes.

Gaston: Now Mr. Hopkins

H.A.Jr: I just called up Arthur to say I liked it. Arthur Arock.

Gaston: He called up - I guess Johnny told you - as soon as he saw the story on the ticker, he immediately called Johnny up and asked, "What's all this about?"

H.A.Jr: And what did Johnny say?

Gaston: I don't know what Johnny said. The column indicates what he said.

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H.M.Jr: It was all to the good. Wasn't a single sour note in it.

Gaston: No, there wasn't.

H.M.Jr: I do hope he can get that out before 12 o'clock.

Gaston: All right, I'll try it.

Statement by the Honorable Robert L. Doughton,
Chairman of the Ways and Means Committee,
of the House of Representatives.

I am very much pleased by what Secretary Hergertman said yesterday about his ideas for a tax program. It states my own position exactly.

What we need and what we all want is business recovery and a much greater national income. That is the only road to increased revenues which will halt the increase in the public debt. That is the President's position and I am heartily in accord with it.

We shall, of course, have to renew the present excise taxes which expire in mid-year, but I am not in favor of seeking additional revenue by increased taxes at this time.

I welcome Secretary Hergertman's suggestion that we re-examine the whole tax structure with the desirable objective of removing such deterrents to business enterprises and economic recovery as may be found to exist.

Personally I shall strongly favor inviting the Treasury Department to cooperate with us immediately in such a study.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 24, 1939.

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: Pros and Cons of Proposal to Reduce Treasury Bill Offerings from \$100 Millions a Week to \$50 Millions a Week and Raise \$500 Millions in New Money in March

I

Essentially this is a proposal to refund \$500 millions of outstanding Treasury bills, or a portion thereof, by bonds and/or notes to be issued in the March financing.

It is to be observed that the retirement of the bills would take place over a period of ten weeks (if \$500 millions is to be retired), whereas the new cash issue would add \$500 millions to the cash balance at once.

II. Pros

1. The market appears to be in excellent condition, and, barring European disturbances, could be expected to absorb a \$500-million new money issue with great ease. Interest rates are exceptionally low as compared with the past. Conditions may conceivably become less favorable later this year.

2. At a time when market conditions are favorable, it is desirable as a general rule to convert short-dated debt into longer-term debt, so far as is practicable, in order to preserve and enlarge short-term borrowing power for emergencies and for relatively tight money markets.

3. Since a \$500-million new money issue would swell the Treasury's cash balance far beyond any near-term needs (to about \$2,700 millions in mid-March), and since the market is accustomed to large variations by the Treasury in the volume of its bill issues, it would seem proper to let bills run off. The amount of bill issues could again be increased when it suited Treasury convenience.

Secretary Morgenthau - 2

III. Cons

1. The formal advantages just cited lose most of their force when it is recalled that bill money is now costing the Treasury only .005 percent, and that the demand for the bills is so great in relation to the available supply that the Federal Reserve banks still experience difficulty in fully replacing their weekly maturities.

These facts, plus the further facts that the Federal Reserve banks own nearly 40 percent of the total volume of bills outstanding, and that metropolitan banks urgently desire an increased volume of bills (see copy of interoffice communication of Bankers Trust Company, attached to our memorandum of February 15, 1939), definitely indicate that the existing supply of Treasury bills could be very greatly expanded in the event of emergency or otherwise.

2. As a simple refunding or conversion, the proposed plan would be very costly, at least immediately. At the present interest rate of about .005 percent, \$500 millions in Treasury bills costs the Treasury about \$25,000 a year. Converted into 2-3/4 percent bonds, this amount would cost \$13,750,000 a year. Converted half into such bonds and half into 1 percent notes, this amount would cost \$9,375,000 a year.

3. The Treasury's cash balance is now far above the average level attained during the peak World War expenditure year, 1919, when the Government's total ordinary expenditures exceeded \$18.5 billions (see attached chart). The present great balance may be defended, in view of the unsettled international situation, provided it is financed as economically as possible, i.e., mainly by Treasury bills. The substitution of relatively costly bond and note issues for the bill issues might easily call attention to the considerable cost of a large cash balance financed in this way.

4. The maturity distribution of the public debt cannot wisely be arranged according to the single principle "the longer the better." Consideration must also be given to such factors as interest cost, the legitimate desires of the market, and monetary and banking policy. All of these factors suggest that the proposed substitution of notes and/or bonds for \$500 millions of Treasury bills would not be desirable.

(a) Interest cost: Although long-term rates of interest are the lowest in at least a generation, short-term rates are relatively even lower — very much lower — in relation to past experience. Despite this fact, it is prudent to shift a substantial part of the total debt into long-term securities because long-term rates may rise appreciably in the future. But the present saving in interest costs by use of the short-term market should not be sacrificed unduly because interest rates might rise later.

The present proposal would go to extremes in this direction: It would convert short-term debt costing the Treasury only a nominal amount into debt costing the Treasury a very significant amount in interest charges. (It may be noted parenthetically that the computed annual rate of interest on the public debt has increased from 2.559 on June 30, 1936, to 2.582 on June 30, 1937, and to 2.589 on June 30, 1938, chiefly as the result of the refunding of short-term into longer-term securities.)

(b) The legitimate desires of the market: With the present huge volume of excess reserves, but with banking capital-deposit ratios remaining relatively small, the banking system needs a large volume of short-term open-market paper. The commercial volume of such paper has been reduced to very small proportions, and the larger metropolitan banks, in particular, have turned to Treasury bills and shorter-term Treasury notes as substitutes, with the bills preferred. This has been true not only in the United States but also in Great Britain. The British Treasury now has outstanding (the latest available figure is for January 21, 1939) £950 millions of Treasury bills, or approximately \$4-1/2 billions at the current rate of exchange, of which, however, the Equalisation Fund and other government departments probably hold about \$1.5 billions.

It is highly probable that the market's need for a very substantial volume of Treasury bills will exist for a long time to come. So long as this is true, and so long as the bills can be provided without extra expense or inconvenience to the Treasury, it would appear desirable to maintain a significant part of the

Secretary Morgenthau - 4

public debt quasi-permanently in this form. When, as at present, this can be done at an enormous interest saving to the Treasury, the case against reducing the present small volume of Treasury bills would appear to be very much stronger.

(c) Monetary and banking policy: Although responsibility for the banking system is primarily in the hands of the Board of Governors of the Federal Reserve System, the Treasury, because of the size and character of its operations, cannot avoid some share in this responsibility. This share may be limited to accepting the judgment of those in charge of the Reserve System in questions affecting banking policy, when this can be done without serious prejudice to the interests of the Treasury.

The Open-Market Committee of the Reserve System likes to hold a considerable volume of Treasury bills and welcomes substantial holdings thereof in the market because, in the opinion of Reserve officials, this promotes the System's ability to achieve a flexible control of bank credit. It may be argued that unless serious objection can be found on other grounds, the presumption is in favor of the Treasury accepting the judgment of the Reserve officials in this respect.

Further, the monetary policy of the Administration still calls for an expansion of bank credit. The greater readiness of the banking system to purchase short-term rather than longer-term Governments was well illustrated during the calendar year 1938. The net increase in the direct interest-bearing public debt outstanding took the form of Treasury bonds. The volume of Treasury notes and bills was decreased by an amount greater than the total increase in the debt. All of the increase in the guaranteed debt, on the other hand, consisted of short-term securities. The greater readiness of the banking system to expand credit through the purchase of short-term securities is reflected by the fact that the member banks expanded their holdings of Treasury-guaranteed obligations by \$547 millions, whereas they expanded their holdings of direct Governments by only \$320 millions.

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IV. Shall \$500 Millions of New Money be Raised in the March Financing?

Pros

The foregoing discussion has been directed primarily at the proposal to reduce the volume of Treasury bills with the proceeds of a March security offering. It is apparent, however, that a \$500-million new money offering in March may be proposed on its own account, on the ground that the market would be highly receptive and that the money will be needed later in the year in any event. No retirement of bill issues need be coupled with such offering because the saving that would be involved would be negligible.

If it be assumed that such an amount of new money would have to be raised in June anyhow, and would cost 2-3/4 percent in either case, the anticipation of the June need in March would entail an added interest expense of \$3,440,000, or about 2/3 of a point. If half the new money were raised through 1 percent notes and half through 2-3/4 percent bonds, the added interest expense for three months would amount to \$2,344,000. These are not exorbitant prices to pay for insurance in these times.

Cons

1. The principal objection to raising any new money in March is that the Treasury obviously does not need it. The cash balance will approximate \$2,400 millions at the end of February, and is unlikely to be reduced below \$1,300 millions even at the end of May, without any new money.

2. The refunding in March of the June note maturity will by itself constitute a sizeable operation — \$1,200 millions —, particularly if the bulk of the new financing takes the form of long-term securities. In the latter event, the digestion and secondary distribution of the issues may require several weeks and the process would be aided if no new money were being raised.

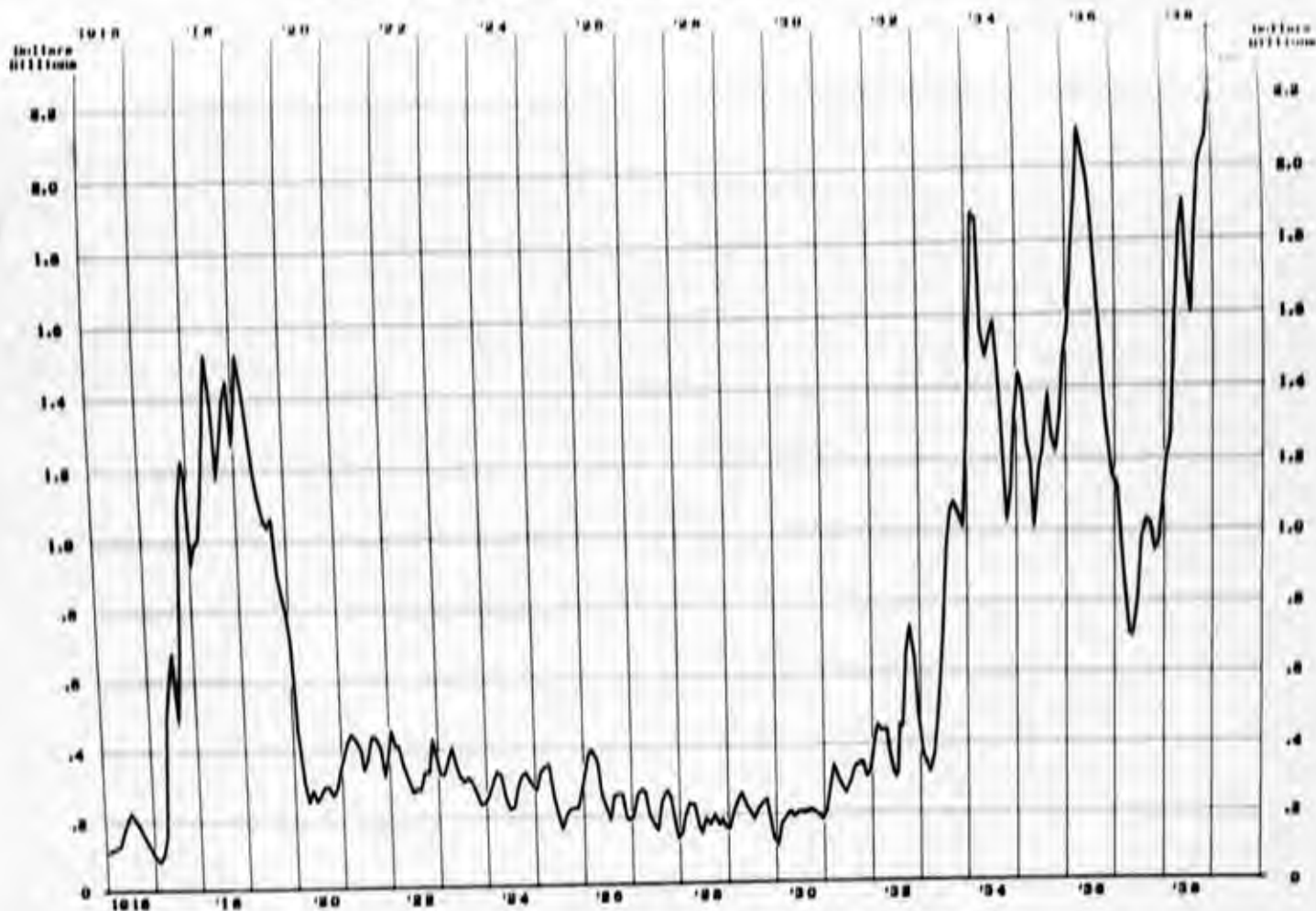
3. The Treasury has done very well in its financing during the past several years by taking one bite at a time. This is a good policy to follow. The Treasury may not always get great bargains by following such a policy, but, by the same token, neither will investors, banking and other, suffer great losses thereby.

Secretary Mergenthaler - 6

1. If a very large cash balance is to be maintained, strong reasons exist for maintaining it chiefly by bill issues. Eighteen months ago, when the outstanding bill volume exceeded \$2,500 millions, the cash balance approximated only \$1 billion, and 120-day bills were sold at a discount rate of .21 percent. It is probable that a similar aggregate amount of 90-day and 120-day bills could now be outstanding at little or no greater discount rate. Further, the larger volume would now be more justified than before because of the greater cash balance. The difference in interest cost between borrowing an additional \$1,500 millions at 2-3/4 percent on bonds and borrowing it through additional bills, even if the latter raised the rate on the total volume to 1/2 percent, would be no less than \$22-3/4 millions a year.

Attachment

BALANCE IN THE GENERAL FUND*
 Three-Month Moving Average of End of Month Balances, January 1910 to Date



* EXCLUDING PAYMENTS RESULTING FROM PRODUCTION IN THE ACCOUNT OF THE GOLD DOLLAR, EMERGENCY NOTES, AND BRITISH GOLD OR SILVER

February 24, 1939

FOR THE SECRETARY:

I was present in Secretary Morgenthau's office during his entire conference with Mr. Dowling and with Mr. Malatenoff who was introduced to the Secretary by Mr. Dowling. Mr. Malatenoff explained that he was the engineer for the Farquhar group which has a valuable iron ore mining concession in Brazil. Mr. Malatenoff said that the group had impregnable legal rights to the ore mine concession, but that certain amendments to the concession dealing with the construction of a railroad and a port at Santa Cruz had been negotiated but not ratified by the Brazilian Government. Several months delay in the ratification had made the group suspect that Brazilian Government was planning some sort of violation of the concession as a part of a deal between President Vargas of Brazil and Hitler to furnish Brazilian iron ore to Germany, Mr. Malatenoff said. He said that he had come to see the Secretary because of the presence in this country of Mr. Aranha, the Brazilian Foreign Minister, and that Mr. Teatch of the Economic Division of the State Department had suggested that he see Secretary Morgenthau. The Secretary told Mr. Malatenoff that the State Department had not asked him to see Mr. Malatenoff and that he had no official instructions to do so. He explained that he had received

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Mr. Malazenoff has a personal favor to his friend Mr. Dowling. The Secretary said that it seemed to him the question was entirely one of allowing another country to make whatever use it wished of its natural resources. Mr. Malazenoff replied that this Brazilian ore might be of great future importance to the United States because Government experts agreed that iron ore imports might increase sharply after 1945 due to exhaustion of the Mesabi deposits. The Secretary again replied that the place for Mr. Malazenoff to go was the State Department and that he wanted it clearly understood that the Treasury was not interested.

After Mr. Malazenoff had left the room, the Secretary told Mr. Dowling that he knew somewhat more about the situation than he had been willing to say. He said he believed that the Brazilians contemplated nationalizing these mines which the Americans had acquired for a shoestring. He said he did not believe any question of a German deal was involved, but only a question of allowing Brazilians to develop their own resources. He emphasized again that he did not wish to get involved in such a matter which, after all, was an internal problem of another country.

ESD

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE FEB 24 1939

TO Secretary Morgenthau
 FROM E. F. Foley, Jr. Acting General Counsel

Re: Continuation of Stabilization, Revaluation,
 Free Coinage of Silver Powers

Larry Bernard has been informed by Congressman Somers that he is willing to commence hearings any time next week after Monday convenient to you. He took up the proposed legislation informally with his Committee this morning and he reports no noticeable objection to any of the proposals.

He would like to know today, if possible, (a) the date convenient to you for commencement of the hearings, and (b) whether you prefer an Executive session or an open hearing.

These are the members of the House Committee on Coinage, Weights, and Measures:

Democrats

Andrew L. Somers, New York
 John J. Cochran, Missouri
 William H. Larrabee, Indiana
 Compton I. White, Idaho
 Claude V. Parsons, Illinois
 Will Rogers, Oklahoma
 Dan E. McGehee, Mississippi
 Vincent F. Harrington, Iowa
 Herman F. Eberharter, Pennsylvania
 John F. Hunter, Ohio
 Harry E. Sheppard, California
 W. F. Norrell, Arkansas
 William D. Byron, Maryland

Republicans

Clarence V. Seed, Illinois
 August E. Andresen, Minnesota
 Robert Luce, Massachusetts
 E. Harold Cluett, New York
 Leonard W. Hall, New York
 Fred C. Gartzner, Pennsylvania
 Frederick C. Smith, Ohio

E. F. Foley

February 24, 1939

To: Mr. Secretary

From: Mr. [unclear]

Senator Guffey and his secretary, Mr. Bailey, came in to see me to advise a check being made a special plea against allowing the Department of Justice to confuse our case against Annenberg with the Department of Justice anti-trust case. Senator Guffey said that he thought it would create an unusual delay in the proceedings and he was interested in seeing the case get to trial and proceed with all possible haste. I told the Senator that I would look it up and deliver his message.

JWH.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 24, 1939.

TO Secretary Morgenthau *AM*
FROM Mr. Egan *JA*

On February 15, 1939, you requested that the Federal Reserve Bank of New York, the Federal Reserve Board, and the Division of Research and Statistics furnish you with memoranda concerning the proposal to raise \$600 millions in cash in March and reduce the weekly bill offering from \$100 millions to \$50 millions.

Miss Chauncey now has memoranda on this subject from the Federal Reserve Bank of New York and from this Division.


After the meeting in your office this morning, I telephoned Dr. Goldenweiser to learn the status of the Board's memorandum. (I transmitted your request for the memorandum to Dr. Goldenweiser on February 15, 1939.) I found that he was out of the city so talked with Woodlief Thomas, his assistant. Mr. Thomas advised me that some work had been done on the memorandum but said he understood that Chairman Eccles had asked Dr. Goldenweiser to report to him on the matter the first of next week when Chairman Eccles returned to the city. Mr. Thomas was not positive that this was the status of the matter, but said he would check up on it and call me. He called me back and said that he had discussed the matter with Mr. Hanson, and that Mr. Hanson said that he would contact you in this regard.

February 24, 1941.

Messrs. Foley, Bernstein and Lockhead called at the State Department at 10:30 this morning and saw Judge Moore and General Counsel Eckwerth. The purpose of the visit was to draw the attention of the State Department to the fact that there were several suits pending against the United States Mint Division by the Bank of Spain in Franco territory in respect to silver which the United States had purchased from the Loyalist Government. Mr. Bernstein gave an outline of the circumstances surrounding these suits and stated that we were not asking the State Department to take any action but merely drawing their attention to these facts, in order that they might be familiar with them should any negotiations be entered into toward recognizing the Franco Regime. Judge Moore and Mr. Eckwerth thanked us for this information and were particularly interested in the fact that only 25% of the purchase price had been paid over to the Loyalist Government, and the balance of 75% amounting to approximately 700 thousand dollars was at present withheld pending final determination of the silver content of the purchases. Mr. Eckwerth stated that there were a great many claims being entered through them against the Government of Spain by American citizens and this amount of 700 thousand dollars might be used in connection with the settlement of such claims.

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Judge Moore took the opportunity to discuss sales of silver by Mexico. Mr. Lockhead explained the history of these purchases and pointed out that we were not giving any special ^(FAVOR) ~~value~~ to Mexico in purchasing this silver but, on the other hand were not discriminating against Mexico in the purchase of silver, as the Treasury felt that any such discrimination might act unfavorably on negotiations which the State Department might be having with the Mexican Government. Both Judge Moore and Mr. Hackworth were evidently not familiar with this subject and the conversation served to clear up some false opinions which they had regarding purchases of Mexican silver by the United States Treasury.



February 24, 1939. 292
10:40 a.m.

Wife: Hello.

Operator: Dr. Magill. Go ahead.

Wife: Hello.

Ross: Hello.

Wife: Hello, Ross?

R: Hello, Henry. How are you?

Wife: I'm fine.

R: I was sorry -- I was sorry to have missed you lately.

Wife: Well, you never let me know, and -- and I'm in the middle of my work and Kieley comes in and whispers and I never know whether he's going to say "Are you out of whiskey?" or he's going to say, "Magill's in town."

R: (Laughter) Well, I haven't known until the night before when I was coming, out of these times.

Wife: And I figured if you really wanted to see me you'd either let Mrs. Klots or me know.

R: Well, I've tried to do that, but I can't even find Mrs. Klots.

Wife: Well, you haven't looked very hard.

R: Oh, yes I have. I always look for Mrs. Klots.

Wife: You always -- you always used to be able to find her.

R: Well, I don't know.

Wife: She's sitting right here.

R: Is she? That's good.

Wife: Yeah. Ross --

R: Yeah.

Wife: You may have seen in the paper what I said yesterday.

R: Yes, sir I read it.

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- Q: And I thought if by Saturday night you could, that's -- not rushing you too much -- could write me a letter what you think the deterrents are.
- A: What I think what?
- Q: What's holding back business.
- A: Yeah.
- Q: What -- I mean, in very simple language -- what changes would you -- to me, just personally to me -- what would you recommend.
- A: Yeah.
- Q: See?
- A: Yeah.
- Q: I got your book right here on my desk, but I mean, -- what are the things -- having been here -- being realistic, that you think we can do and get away with.
- A: Yeah.
- Q: And that will help the business man.
- A: Yeah. All right, sir. I can -- I think I can do that fairly quickly.
- Q: Well, if you could put it in the mail tomorrow night, Saturday night, I would appreciate it.
- A: What do you want me to do -- send it to the House, Henry?
- Q: Yeah.
- A: All right, sir. I'll give you something tomorrow -- I'll write something up tomorrow afternoon, sir.
- Q: Did you like my statement?
- A: I thought your statement was very good. I -- of course as you know, everyone is sitting around, I think, thinking that all this is very well, and that that's the talk that comes along in February, and that along in April we get recommendations for a new tax bill.
- Q: Uh-huh.

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- Q: So I think everyone has got their fingers crossed, but --
- A: Well, I mean business, boss.
- Q: Well, I -- I think that -- I will say this, that I -- I think that people believe you on a thing like that better than they'd believe some other people.
- A: Well, I never was so serious in my life.
- Q: Yeah.
- A: I want some help.
- Q: Yeah. Well --
- A: I mean, I'm going to take the leadership on top of what we're concerned here, and -- in other words, I'm going to become a pressure group now.
- Q: Well, good for you. I hope you will.
- A: Well, I want some help.
- Q: Yeah, well, I hope you will. There are several things you can do and not really what I'll suggest to you will be of a somewhat technical nature.
- A: That's all right.
- Q: But I'll -- I'll give you what I have in mind. I've got four or five things in mind that it seems to be ought to be done.
- A: Well, I go back and ask you. When I tried to get somewhere up in State Park and never got a job.
- Q: Yeah, well, I will be -- I'll be suggesting more or less the same thing because you didn't check out any of those things.
- A: Well, it's very much in earnest. It's taking the leadership and I'm a pressure group now.
- Q: Well, good for you. I certainly hope you go through. Now -- how does it look on the governmental salaries? Are you going to get that through?
- A: Yes.
- Q: Well, I think that's fine.

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- Mr: Yes.
- : I was very much pleased about that I was afraid the Brown's Committee would fall down on you.
- Mr: No, we're all right on that.
- : That's splendid.
- Mr: And if the next time you would let me know the day before I would love to have you have lunch with me.
- : Well, that's very swell of you, Henry. I tell you, literally I have been down there the last time or two -- I'd just come in the afternoon I was going to go. I've been down the last time or two, as you may know, on this U.V.A. sale, and the to it, and the thing seems to be working out very well, I've been very much pleased with the way that the Bureau has taken hold of it.
- Mr: Fine.
- : I don't need -- it isn't a question in this particular case of their deciding for or against it, but I've liked the attitude and the way they've gone ahead on it and I think -- I think Johnny has got a good spirit into them, or else you have; I don't know which of you has done it.
- Mr: No, I don't think the spirit is any different than when you were here.
- : Well, -- well, that's fine -- it's very good anyway, I think. I like the way they're doing it.
- Mr: Good.
- : Well, I'll give you a letter tomorrow, and I hope I will be down in Washington within a short time. I've got some things I've got to see the State Department on on this Cuba business, and I'd like to be down.
- Mr: Well, all right.
- : All right. Thank you for calling. I'll give you something tomorrow.
- Mr: Fine.
- : Good bye.

February 24, 1939.
10:45 a.m.

WJr: Hello.

Operator: Dr. Knollenberg.

WJr: Thank you.

K: Go ahead.

WJr: Hello.

Knollenberg: Good morning, Mr. Secretary.

WJr: How are you?

K: I'm very well, thank you.

WJr: Mr. Knollenberg, when you were down here the first time you said whether you came officially or not that I could call on you for assistance.

K: You certainly can.

WJr: So I'm calling.

K: Fine.

WJr: You may have seen my statement in the papers.

K: Yes, I of course did.

WJr: And what I'd like you to do, if you could, maybe between now and tomorrow night --

K: Yes?

WJr: Would be to sit down and write me what you think, from your previous experience, would be helpful in getting the business man to take a normal business risk and go ahead.

K: All right. I shall be delighted to do so. I'll sit -- I'll get to work on it immediately. I'll drop what I'm doing and just see if I can't get it out by tonight.

WJr: Well, if you would do it and if you'd send it to 2211 - 30th Street?

K: Yes, 2211 - 30th.

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Mr: My house.

E: Very good.

Mr: I -- I'm -- because I never was more in earnest than I was -- than I am about this.

E: All right, very good. I'll get at it immediately. I'll write you just as soon as I can collect my thoughts and get them down.

Mr: Thank you so much.

E: Very good. Good bye.

February 24, 1939.
10:51 a.m.

WJr: Hello.

Operator: Arthur Anderson.

WJr: Thank you.

A: Go ahead.

WJr: Hello.

Arthur
Anderson: Hello.

WJr: Mr. Anderson.

A: Yes, Mr. Secretary?

WJr: It's been a couple of years since I've asked you for some assistance.

A: (Laughter) Well, every two years is not bad.

WJr: No. What I have in mind is this -- I don't know whether the papers out there carried what I said about taxes--

A: Yeah.

WJr: I would like to get through you, for my own personal use, what you consider are the more important deterrents in our present tax law.

A: Yeah.

WJr: And if you would sit down and put them on a piece of paper --

A: Yes, sir.

WJr: And, if it isn't crowding you too much, if you could get them in the mail by Saturday night --

A: That's tomorrow night?

WJr: Yes.

A: Yeah, we'll do that.

WJr: And if you'd send them to my house. I'll give you my address.

A: What's your address?

SMr: 2211 --

A: 2211?

SMr: 30th Street.

A: 30th Street.

SMr: Washington.

A: Washington.

SMr: What you think from your experience, would be helpful.

A: All right I'll do that, Mr. Secretary.

SMr: And I'd appreciate it very much.

A: I'll be very happy to. That will be in the mail tomorrow night.

SMr: Thank you so much.

A: Thank you.

SMr: Good bye.

A: Good bye.

February 24, 1939.
10:53 a.m.

HJr: Hello.

Operator: Arthur Krock.

HJr: Hello.

Arthur
Krock: Yes, Henry?

HJr: How are you?

E: I'm all right.

HJr: I just wanted to tell you that I liked your column
very much.

E: Well, that's fine. I'm glad you did, Henry. I wish
you luck on that.

HJr: Well, I never was more in earnest.

E: Well, that's fine. I mean, it's a great job. It can
be done then.

HJr: Oh, tremendous, and I'm going to see it through as
long as I've got breath in me.

E: Well, I'll be right behind you.

HJr: And it was helpful, both this and the one you wrote
earlier on the plane thing.

E: Well, that's fine; I'm glad of it.

HJr: All right, Arthur.

E: Good bye.

February 24, 1939.
9:35 p.m.

Operator: Go ahead.

WMr: Hello.

Jesse: Hello, Henry.

WMr: Hello, Jesse.

J: I have nothing to report yet.

WMr: Yeah.

J: But I -- I'm trying to slip away for a little re-
creation.

WMr: Well, I think you earned it.

J: Well, thanks. We're all through now. The -- Vanden-
Vegh got a little amendment to the Export Bill yesterday
and it didn't amount to a thing in the world, and so
they all called up this morning and passed it through
the House just like the Senate passed it.

WMr: Fine.

J: So that all of the Bills now have been -- all they need
is the President's signature. They've been passed
identical in both Houses -- all the bills.

WMr: Well, I congratulate you. I think you did a beautiful
job.

J: Thanks. Oh -- I'm very pleased about it, because
there's -- you know there's a lot going on out there.

WMr: Plenty. No, I think you did a beautiful job.

J: Thanks. Henry, the -- here before the first of Febru-
ary I agreed with the boys here to talk to Henry
Wallace about raising two or three salaries in the
Commodity Credit.

WMr: Well, I'm -- I'm vague on it, Jesse.

J: Well, I know you are, and I'm disappointed on it. You
and I seem to be the -- constitute the meeting authority.
I act as secretary and you act as chairman.

WMr: I see.

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- J: And you sign one or two things for me and I'll send it over there and you can look at it, and if you will execute it, why it will be effective.
- WJr: Supposing I don't think you've raised them enough?
- J: Well, I think you will. We've got some pretty good boys on' so we -- I agree that this was right.
- WJr: Well, as -- as the sole stockholder, I will be delighted to look at it.
- J: All right, fine, and I'll send it over to you and there's no -- you see, they've got one or two steps in the -- in the Agriculture representatives.
- WJr: I see.
- J: They've been changing down there and some men have been quitting and they've made two or three changes for them, and so some of that's in there; so I'll send it over there and you can have somebody show it to you.
- WJr: Now, -- well, I haven't got anybody. If you just send it addressed to me I'll get it.
- J: I'll just send it to you yes. It's just -- it's simple enough. I've already signed them.
- WJr: You think I can understand it?
- J: I think you can, and I ain't know whether you'd want to go to the trouble to dig through it, but then I'll send it to you and your secretary can dig it out for you.
- WJr: Now -- are you going down to Florida?
- J: I'm planning to tomorrow.
- WJr: 'Atta boy.
- J: I'm going to see Arnie before I go.
- WJr: Yeah.
- J: I'm working on this thing I talked to you about this morning.
- WJr: Yeah.

I: I'm going to have -- to try to have it all set in principle before I get away.

WJr: Good! Well, get some sunshine and enjoy yourself. You earned it.

I: I may want to call you even after you go home tonight, see?

WJr: Well, we're going out to dinner at eight, but otherwise we're all right.

I: Well, we are to, so it will have to be before that.

WJr: Good.

I: Thank you.

WJr: All right.

Net Cash Outgo and Business Activity
 January 1934 to date
 (Dollar figures in millions)

2-24-39
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Period ended	Net cash outgo (Monthly)	Net cash outgo (12 month aver- age centered)	N. Y. Times Index of Business activity (Weekly)
1934			
Jan. 6			83.6
13			81.4
20			82.0
27	743	307	82.0
Feb. 3			82.5
10			84.4
17			86.1
24	428	315	87.6
Mar. 3			85.3
10			86.9
17			87.9
24			87.8
Apr. 31	192	319	87.6
7			86.4
14			87.4
21			88.6
28	485	333	89.5
May 5			87.7
12			88.1
19			88.2
26	309	339	88.2
June 2			88.1
9			87.5
16			88.1
23			87.8
30	338	329	86.3
July 7			82.1
14			81.6
21			81.5
28	175	287	81.8
Aug. 4			81.1
11			81.9
18			81.0
25	226	276	78.6
Sept. 1			76.8
8			76.6
15			75.5
22			75.5
29	53	256	76.8
Oct. 6			77.0
13			77.1
20			77.3
27	402	247	77.2
Nov. 3			77.2
10			77.8
17			78.3
24	350	246	78.5
Dec. 1			80.0
8			80.5
15			83.2
22			85.1
29	245	233	85.6

Net Cash Outgo and Business Activity

305

January 1934 to date

(Dollar figures in millions)

Period ended : Net cash outgo (monthly) : Net cash outgo (12-month average, centered) : N. Y. Times index of business activity, weekly

Period ended	Net cash outgo (monthly)	Net cash outgo (12-month average, centered)	N. Y. Times index of business activity, weekly
1934			
Jan. 5			87.3
12			87.3
19			87.9
26	242	246	87.3
Feb. 2			89.3
9			89.0
16			87.7
23	295	247	88.6
Mar. 30			86.7
6			86.6
13			86.6
20	-49	256	86.6
27			85.5
Apr. 4	381	256	85.5
11			83.3
18			83.1
25	287	247	82.0
May 1			81.8
8			81.5
15			81.0
22	183	241	81.0
29			81.8
June 5			81.2
12			84.8
19			85.7
26	333	237	85.7
July 3			85.7
10			87.4
17			87.2
24			86.1
31	237	232	87.2
Aug. 7			87.2
14			87.7
21			87.7
28	168	224	87.7
Sept. 4			88.3
11			89.0
18			89.0
25	395	225	89.0
Oct. 2			90.0
9			90.0
16			91.1
23			91.1
30	245	225	91.1
Nov. 6			91.1
13			91.1
20			91.1
27			91.1
Dec. 4			91.1
11			91.1
18			91.1
25	177	282	91.1

- 3 -
 Net Cash Outgo and Business Activity
 January 1954 to date
 (Dollar figures in millions)

306

Period ended	Net cash outgo (monthly)	Net cash outgo : (12 month average centered)	N. Y. Times Index of business activity (weekly)
1954			
Jan. 4			94.7
11			95.5
18			94.1
25	186	298	92.4
Feb. 1			92.5
8			91.5
15			91.9
22			91.3
29	246	305	92.0
Mar. 7			92.0
14			92.4
21			89.9
28	- 153	309	91.6
Apr. 4			94.6
11			95.3
18			95.4
25	391	314	96.6
May 2			96.0
9			96.8
16			97.1
23			96.4
30	295	321	98.5
June 6			97.9
13			97.8
20			99.3
27	869	314	99.8
July 4			102.4
11			101.6
18			100.5
25	517	315	101.3
Aug. 1			102.9
8			103.1
15			102.2
22			103.5
29	329	313	102.7
Sept. 5			102.0
12			101.7
19			102.2
26	209	298	102.7
Oct. 3			102.4
10			102.6
17			102.3
24			101.2
31	454	288	101.3
Nov. 7			101.5
14			104.4
21			104.7
28	334	276	106.3
Dec. 5			105.1
12			107.5
19			108.5
26	89	190	107.8

Net Cash Outgo and Business Activity
 January 1937 to date
 (Dollar figures in millions)

Period ended	Net cash outgo (Monthly)	Net cash outgo (12 month average centered)	N. Y. Times Index of Business activity (Weekly)
1937			103.0
Jan.			105.6
			105.2
			103.4
Feb.	205	37	101.7
			101.2
			102.4
			104.9
Mar.	217	51	107.5
			106.7
			106.9
			106.6
Apr.	-327	76	106.6
			105.9
			106.2
			107.2
May	265	98	107.4
			108.0
			108.2
			108.8
			109.2
June	148	102	109.7
			107.8
			107.0
			107.0
			107.4
July	-160	134	107.4
			107.8
			109.7
			110.1
			107.0
			107.7
Aug.	87	152	108.2
			111.2
			109.8
			108.4
Sept.	-39	175	109.3
			106.6
			104.9
			104.6
Oct.	-211	230	103.5
			101.0
			99.8
			97.3
			95.1
Nov.	191	248	97.3
			96.3
			88.6
			85.3
Dec.	88	267	84.8
			85.0
			84.6
			84.6
1938			
Jan.	-266	298	84.6

Net Cash Outgo and Business Activity
 January 1934 to date
 (Dollar figures in millions)

Period ended	Net cash outgo (monthly)	Net cash outgo (12-month average, centered)	N. Y. Times index of business activity (weekly)
1938			
Jan. 1			78.3
8			81.3
15			81.9
22			82.2
29	139	37	82.2
Feb. 5			81.3
12			79.7
19			79.0
26	31	51	78.2
Mar. 5			79.6
12			79.9
19			79.2
26	-305	76	80.0
Apr. 2			78.8
9			77.7
16			76.9
23	455	96	75.1
30			75.1
May 7			76.0
14			76.0
21			75.7
28	142	102	75.7
June 4			75.7
11			76.0
18			76.0
25	20	134	76.1
July 2			76.1
9			81.1
16			81.1
23			81.1
30	201	152	81.1
Aug. 6			81.1
13			81.1
20			81.1
27	143	175	81.1
Sept. 3			81.1
10			81.1
17			81.1
24	78	230	81.1
Oct. 1			81.1
8			81.1
15			81.1
22			81.1
29	425	248	81.1
Nov. 5			81.1
12			81.1
19			81.1
26	170	267	81.1
Dec. 3			81.1
10			81.1
17			81.1
24			81.1
31	120	298	81.1

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Net Cash Outgo and Business Activity

January 1934 to date

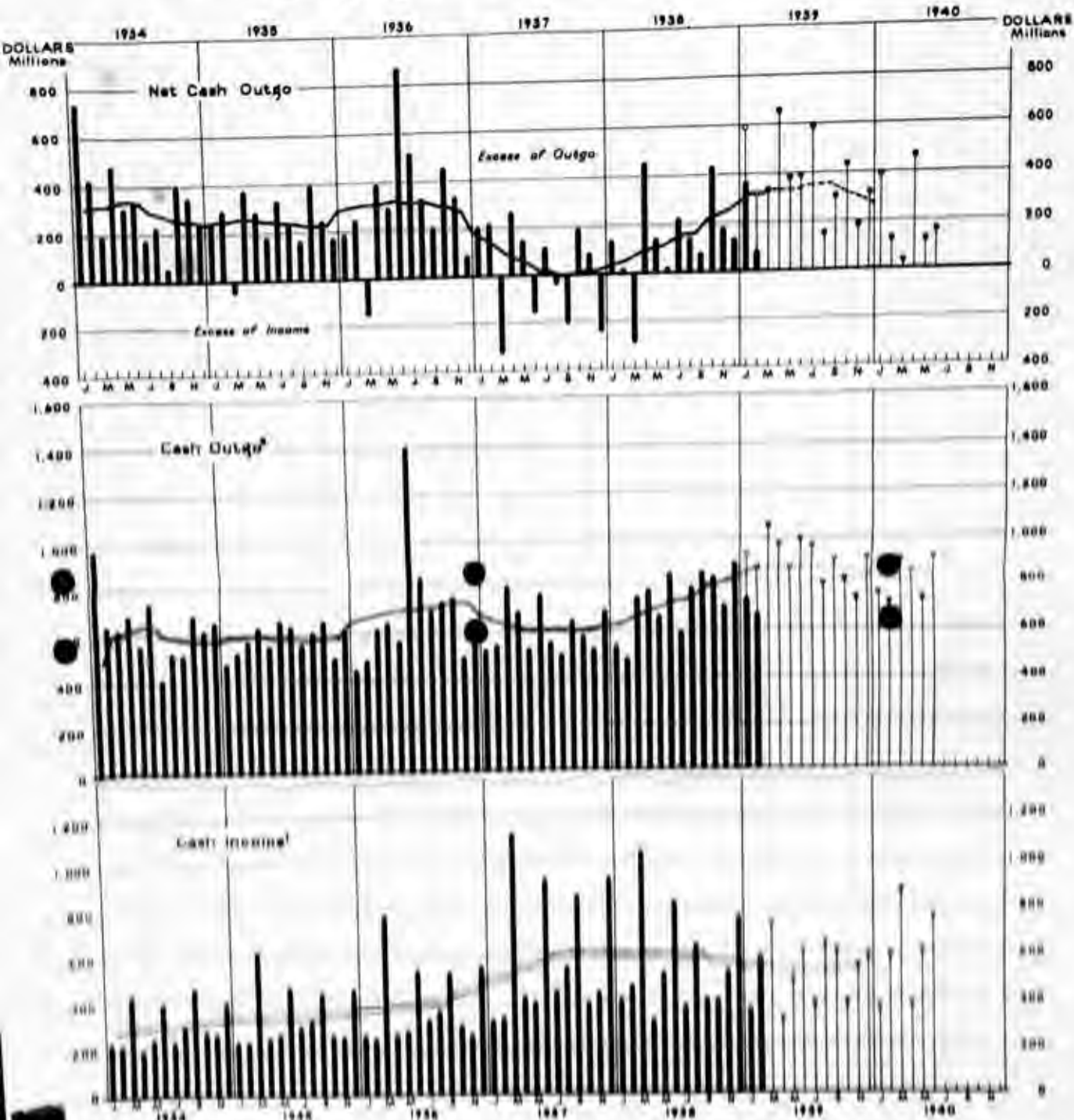
(Dollar figures in millions)

Period ended :	Net cash outgo (monthly) :	Net cash outgo (12-month average, centered) :	N.Y. Times index of business activity, weekly :
1939			
Jan. 7			93.5
14			90.7
21			91.6
28	345	332	92.3
Feb. 4			90.4
11			89.4
18			88.8
25			88.0
Mar. 4			
11			
18			
25			
Apr. 1			
8			
15			
22			
29			
May 6			
13			
20			
27			
June 3			
10			
17			
24			

CASH INCOME AND OUTGO AND NET CASH OUTGO. MONTHLY

Current Estimates as of Mar. 1939

Jan. 1939 to date [Jan. Est. Actual] [Current Estimate Mar. 1939 to June 1940] 12 Month Moving Av. [Actual Estimate]



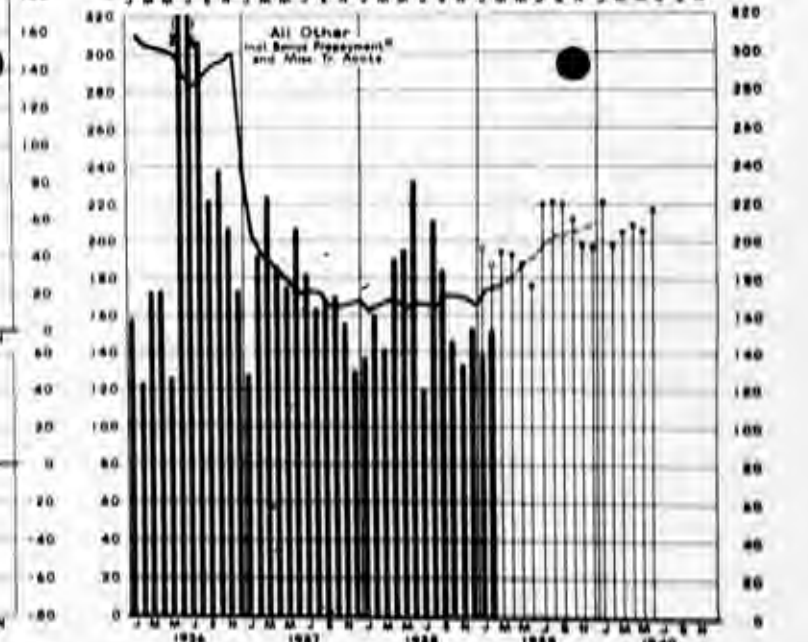
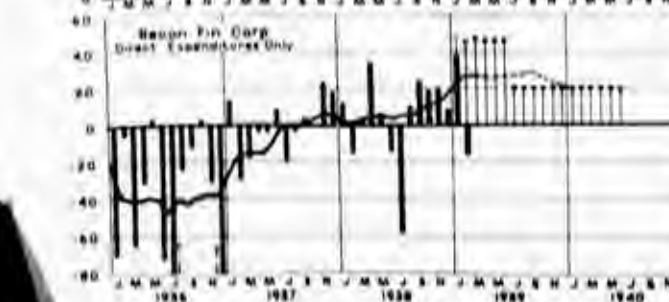
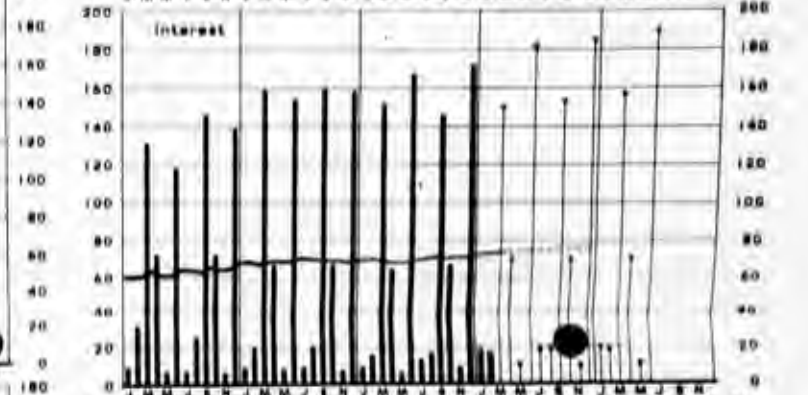
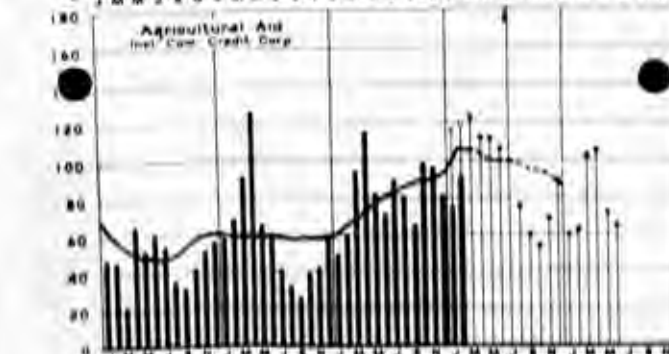
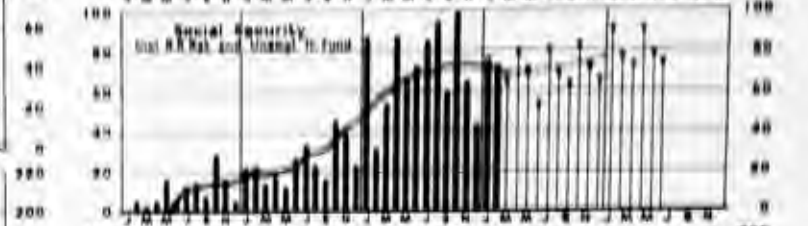
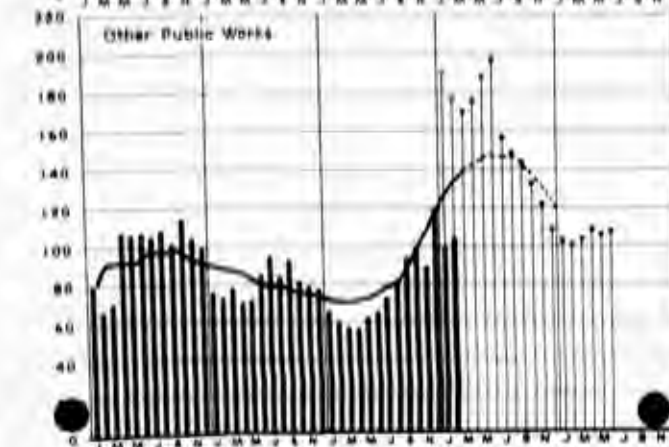
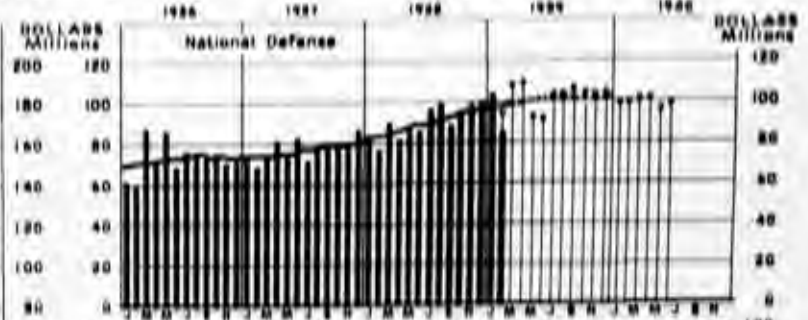
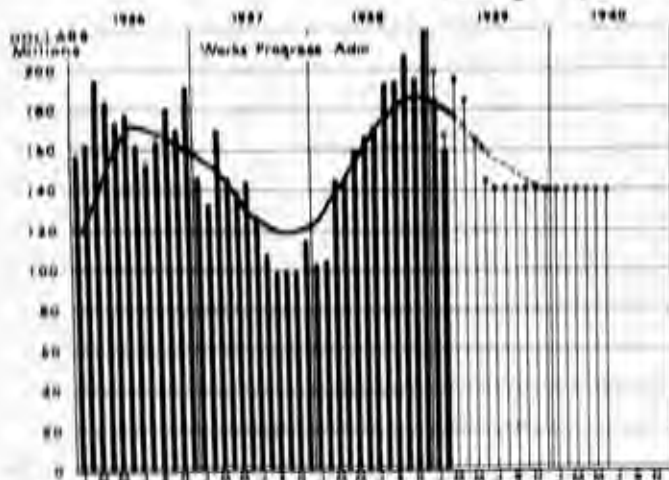
*Excludes debt retirement and balancing transfers to Trust Accounts. Includes Bonus Bonds loaned and checks paid and Trust Account Expenditures. Estimates as reported to Accounts and Disburse by the various Departments and agencies.

†Includes Trust Accounts. Estimates as of Budget message Jan. 1939.

MONTHLY FEDERAL CASH OUTGO BY CLASSES*

Current Estimates as of Mar. 1939

Actual
Previous Estimate
if Month Missing
Estimate



* Excludes night restaurant and bookkeeping transfers to Trust Accounts.
 ** Reported to Accounts and Deposits by the various departments and agencies.
 *** Some Bonds Cashed and Checks Paid.

(in millions of dollars)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
<u>Monthly</u>												
<u>Net Cash Outgo</u>	\$743	\$428	\$192	\$485	\$309	\$338	\$175	\$226	\$ 53	\$402	\$350	\$245
1934	242	275	-49	381	287	183	333	237	168	395	245	177
1935	186	246	-153	391	295	869	517	329	209	484	334	89
1936	205	217	-327	265	148	-160	119	-37	-205	192	90	-242
1937	142	20	-295	454	145	20	225	152	87	435	183	138
1938	368	83	331*	652*	382*	387*	587*	155*	304*	434*	189*	315*
1939	390*	130*	36*	468*	123*	161*						
1940												
<u>Cash Outgo</u>	972	644	624	684	556	737	408	523	515	682	617	652
1934	475	526	572	630	548	662	632	557	608	655	496	629
1935	443	486	618	646	568	1,405	837	691	731	752	592	638
1936	523	544	790	686	537	763	557	504	647	581	523	688
1937	537	480	743	773	664	844	590	784	854	830	704	895
1938	732	664	1,052*	971*	871*	996*	967*	798*	908*	817*	735*	910*
1939	754*	717*	901*	846*	730*	911*						
1940												
<u>Cash Income</u>	229	216	432	199	247	399	233	297	462	280	267	407
1934	233	231	621	249	261	479	299	320	440	260	251	462
1935	257	240	771	255	273	536	320	362	522	298	258	549
1936	318	327	1,117	481	389	923	438	541	852	389	433	930
1937	395	460	1,038	319	519	824	365	632	767	395	521	757
1938	364	581	721*	319*	489*	609*	380*	643*	604*	383*	546*	595*
1939	364*	587*	865*	378*	607*	750*						
1940												
<u>12-month moving average</u> centered on 5th month												
<u>Net Cash Outgo</u>	307	315	319	333	339	329	287	276	256	247	246	233
1934	246	247	256	256	247	241	237	232	224	225	225	222
1935	298	305	309	311	321	314	315	313	298	288	276	190
1936	157	126	92	70	50	22	17	0	3	10	19	33
1937	42	58	83	103	111	142	161	166	218*	235*	295*	285*
1938	315*	316*	334*	334*	334*	349*	351*	355*	330*	315*	293*	274*
1939												
1940												
<u>Cash Outgo</u>	584	600	615	629	639	635	593	583	579	574	574	568
1934	586	589	597	595	585	582	580	576	580	582	583	645
1935	662	673	684	692	700	701	707	712	726	730	727	674
1936	650	635	628	614	608	612	613	608	604	611	622	628
1937	631	654	672	693	708	725	741	756	782*	799*	816*	828*
1938	860*	861*	866*	865*	867*	868*	870*	875*	862*	852*	840*	833*
1939												
1940												
<u>Cash Income</u>	277	285	296	296	300	306	306	307	323	327	328	335
1934	340	342	341	339	338	341	343	344	356	357	358	363
1935	364	368	375	378	379	387	392	399	428	442	461	484
1936	493	509	536	544	558	590	596	608	601	592	603	598
1937	589	596	589	590	597	583	580	590	564*	564*	561*	543*
1938	545*	545*	532*	531*	533*	519*	519*	520*	532*	537*	547*	559*
1939												
1940												

Note: Expenditures exclude debt retirement and bookkeeping transfers. Bonus included on basis of bonds cashed and checks paid. Negative figures denote excess of cash income over cash outgo.

* Estimates; expenditures as reported to Accounts and Deposits by the various departments and agencies, March 1939; receipts as of Budget Message, January 1939, plus trust accounts.

March (B130-0)

Month	Monthly Outgo								Positive-month ending average reported on March 1939							
	Works: Other Prog.: Public Adm.: Works	Other Public Works	Agrie. Aid	Fin. Corp.	De- fense	Reau- rity	Inter- est	All Other	Works: Other Prog.: Public Adm.: Works	Agrie. Aid	Fin. Corp.	De- fense	Reau- rity	Inter- est	All Other	
1936																
Jan.	157	80	48	-70	61	-	9	158	119	82	61	-39	70	-	60	309
Feb.	162	66	46	-5	59	4	31	123	132	91	56	-41	71	-	60	304
Mar.	195	70	22	-65	61	2	131	172	144	92	52	-41	71	-	61	303
Apr.	184	107	65	-31	72	4	72	173	166	92	49	-39	72	-	61	300
May	173	106	52	3	86	15	7	126	165	93	49	-41	73	-	64	287
June	177	107	61	-72	68	8	118	942	172	97	47	-48	73	9	64	283
July	162	105	54	-176	76	12	7	597	171	97	48	-41	74	11	64	283
Aug.	153	108	35	-24	74	14	25	306	169	97	50	-43	75	12	63	284
Sept.	164	101	31	-12	72	7	146	222	167	98	55	-30	73	13	65	294
Oct.	180	114	42	3	75	28	72	238	164	95	60	-37	74	14	64	296
Nov.	170	104	31	-31	70	15	6	207	161	92	61	-38	73	14	64	300
Dec.	191	99	56	-95	71	4	139	173	158	90	61	-31	74	16	68	238
1937																
Jan.	146	75	98	13	73	21	9	128	125	89	60	-18	74	18	68	203
Feb.	133	72	68	-30	68	22	19	192	151	87	60	-16	74	18	67	192
Mar.	170	77	91	-18	74	13	159	264	146	86	59	-15	74	19	68	188
Apr.	146	69	105	-4	81	17	66	186	139	83	59	-15	75	20	68	182
May	138	71	65	-4	73	11	8	175	134	81	59	-10	75	22	68	176
June	144	84	58	8	82	26	154	207	127	79	60	-1	77	24	70	172
July	127	94	41	-19	71	33	9	182	124	79	68	-1	77	24	70	173
Aug.	104	81	32	3	74	22	20	163	121	78	67	2	78	30	69	170
Sept.	99	68	26	0	77	15	160	168	119	76	68	2	79	30	69	164
Oct.	100	81	40	0	77	15	66	170	119	76	67	5	80	44	68	166
Nov.	100	78	42	23	77	38	7	155	121	74	68	4	81	48	69	168
Dec.	115	77	58	18	86	22	128	189	123	73	69	4	81	48	69	168
1938																
Jan.	172	73	81	-8	95	21	12	150	174	80	64	6	83	64	70	160
Feb.	193	81	81	10	88	25	15	211	175	83	67	10	84	64	71	164
Mar.	134	94	65	24	88	53	106	184	183*	93*	69*	11*	84*	73*	71*	170*
Apr.	207	99	98	19	95	39	57	186	185*	103*	69*	11*	85*	73*	71*	169*
May	195	89	96	20	98	64	9	133	186*	113*	91*	18*	87*	72*	72*	165*
June	219	120	81	8	99	43	172	153	185*	124*	94*	19*	87*	72*	72*	165*
July	172	73	81	-8	95	21	12	150	174	80	64	6	83	64	70	160
Aug.	193	81	81	10	88	53	106	184	183*	93*	69*	11*	84*	73*	71*	170*
Sept.	134	94	65	24	95	39	57	186	185*	103*	69*	11*	85*	73*	71*	169*
Oct.	207	99	98	19	98	64	9	133	186*	113*	91*	18*	87*	72*	72*	165*
Nov.	195	89	96	20	98	64	9	133	185*	124*	94*	19*	87*	72*	72*	165*
Dec.	219	120	81	8	99	43	172	153	185*	124*	94*	19*	87*	72*	72*	165*
1939																
Jan.	185	99	75	38	103	76	18	138	182*	131*	106*	26*	97*	72*	73*	174*
Feb.	160	104	91	-16	85	72	17	151	178*	137*	105*	27*	98*	69*	73*	175*
Mar.	195*	170*	123*	47*	108*	65*	150*	194*	173*	141*	105*	26*	99*	70*	74*	178*
Apr.	185*	176*	112*	46*	109*	80*	70*	193*	168*	144*	101*	26*	100*	69*	74*	183*
May	165*	184*	111*	46*	92*	71*	10*	188*	163*	147*	99*	26*	101*	69*	74*	189*
June	145*	197*	106*	46*	91*	54*	181*	176*	157*	146*	99*	27*	101*	71*	75*	192*
July	141*	157*	227*	20*	103*	81*	18*	220*	153*	146*	98*	26*	101*	72*	75*	199*
Aug.	141*	149*	76*	20*	103*	69*	19*	221*	151*	146*	96*	29*	102*	73*	75*	203*
Sept.	141*	144*	60*	20*	106*	64*	183*	220*	147*	140*	94*	27*	101*	73*	76*	204*
Oct.	141*	133*	54*	20*	104*	83*	70*	212*	143*	135*	94*	24*	101*	74*	76*	205*
Nov.	141*	122*	69*	20*	103*	72*	10*	198*	141*	128*	90*	22*	101*	75*	76*	207*
Dec.	140*	109*	89*	20*	104*	66*	185*	197*	140*	120*	87*	20*	102*	77*	77*	210*
1940																
Jan.	140*	105*	69*	20*	99*	91*	20*	221*	140*	105*	69*	20*	99*	91*	20*	221*
Feb.	140*	101*	63*	20*	99*	77*	15*	198*	140*	101*	63*	20*	99*	77*	15*	198*
Mar.	140*	103*	102*	20*	101*	73*	157*	205*	140*	103*	102*	20*	101*	73*	157*	205*
Apr.	140*	109*	105*	20*	101*	71*	11*	205*	140*	109*	105*	20*	101*	71*	11*	205*
May	140*	106*	78*	20*	99*	79*	11*	205*	140*	106*	78*	20*	99*	79*	11*	205*
June	140*	108*	69*	20*	99*	74*	187*	217*	140*	108*	69*	20*	99*	74*	187*	217*

NOTE: DATE PAYMENT AND BOOKKEEPING TRANSACTIONS EXCLUDED. APPLICABLE AND INCLUDES COMMODITY CREDIT CORP.
 "All other" includes items on basis of funds cashed and checks paid; trust accounts exclusion investment transactions; and net transactions in governmental checking accounts of all accounts other than RFD and Commodity Credit Corp. Negative figures denote excess of credits.
 * Estimated as reported in Accounts and Deposits by the various departments and agencies, March 1939.

FS

GRAY

London

Dated February 24, 1939

Rec'd 1:05 p.m.

Secretary of State,
Washington.

265, February 24, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

[The Ambassador again had the group of leading London bankers to dinner at the Embassy last night] enumerated in No. 268, March 30, 7 p.m. which also contained an account of the discussion on that occasion.

It is symptomatic of the present state of mind of the governing class of this country that, although the individuals present have gained a measure of confidence in recent weeks in that they take comfort in the amount of progress that is being made since Munich in the British armament programme and equal if not greater comfort in their conception of the new attitude of the American administration and people towards the European democracies as well as some comfort out of the difficulties facing Germany, they have not a sufficiency of confidence in the future to permit them to discuss economic and financial problems as such. The political element assumes overriding dominance. Consequently, whenever the economic or financial

35 3-Jan. 1955, February 24, 1 p.m. from London

Financial aspects of the current situation began to bulk large in terms of the future, the carnality of the international political situation came to the fore to ~~under~~ the discussion: it was always pointed out that the political element was the unpredictable dynamic factor in which economic and financial considerations were ~~relatively~~ standardized.

In the circumstances there are only the general impressions of the gathering which stand out:

(one) That the international political situation is precarious but from the country's point of view it is better than at any time since Munich;

(two) That, as Lord Catto and Mr. Arthur Villiers emphasized particularly, [the President's recent steps are more responsible than any other immediate happening for the sound thoughts that are taking place in Germany and for the ensuing feeling of solidity in England.]

(three) That the British armament programme has in recent months made very real if uneven progress and that, as Mr. Colin Campbell stressed, without this large public expenditure Great Britain would be in a slump.

(four) That, as Mr. Robert Brand emphasized, Germany will find it so difficult as to be almost impossible to re-adjust her war preparation system for peace time ~~needs~~ needs and.

(five)

PS 3-No. 265, February 24, 1 p.m. from London

(five) that England can for the time being stand the
rocket of the armament race but, if war does not eventuate
in the not distant future, England also will have
tremendous problems to meet and although one of them
arises out of the current armament expenditure, the
meeting of them will nevertheless entail further Govern-
ment spending. The word inflation was avoided but the
spectre of it hovered about.

TWC:HPD

JEWEDY

SECRET
1947
INTERNATIONAL SECURITY
CONTROL ACT

SECRET
1947
INTERNATIONAL SECURITY
CONTROL ACT

Winston

Our most important task is to do everything we can to bring about lasting business recovery.

I sincerely hope that Congress will take a careful look at the tax laws to see if there are any deterrents holding businessmen back from making future commitments. Businessmen ought to feel that the Administration wants them to go ahead and take a normal business risk and that we want them to make money.

5/25/39

I sincerely hope that Congress will take a careful look at the tax law and see whether there are any deterrents that are holding back business and holding back businessmen from making future commitments. Businessmen ought to feel that the administration wants them to go ahead ~~and take risks~~ and that the administration wants them to make money. Tax legislation should be of a nature that is not a deterrent to businessmen. Of course we need more revenue, but in my opinion the way to ~~make~~^{get} it is through business recovery, not through higher tax rates.

I sincerely hope that
Congress will take a
careful look at the tax laws
to see if there are any ^{deterrents} ~~taxes~~
~~deterrents~~ holding business
~~back~~ men back from
making future commitments.
Businessmen ought to feel that
the Administration wants ^{them} ~~to~~
to go ahead and take a normal
business risk and that we
want ~~to~~ ^{them} to make money.

319

RECEIVED

FEB 23 1939

TREASURY DEPARTMENT

Office of the Secretary

Building connected to the Capitol

HEB

PLAIN

London

Dated February 21, 1939

Rec'd 3:38 p. m.

Secretary of State,
Washington.

258, February 21, 6 p. m.

FOR TREASURY FROM BUTTERWORTH:

1. Sir John Simon's speech quoted in my 244, February 17, 6 p. m. in which he was evidently endeavoring to foster confidence in the international situation was followed last night by an almost sensational step towards allaying fears of further crippling taxation of business. In a speech on the second reading of the defence loans bill in the House of Commons he took the unprecedented step of anticipating the budget by giving a definite indication that only pounds 230 million of the pounds 580 million estimated for defence expenditure in the financial year 1939-40 will be met from revenue, the remaining pounds 350 million to be met by borrowing. Since the proportions of the total of pounds 406 million for the current year are pounds 274 million from revenue and pounds 132 million borrowed it is widely inferred that

that

REB

2-#258, From London, Feb. 21, 1939.

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that there will be no increase in taxation in the forthcoming budget. But tax yields in the next fiscal year will decline and increased expenditure on unemployment relief, subsidies, et cetera, must be expected so that reductions in tax rates are out of the question and some increases especially in indirect taxes seem inevitable; but the virtual assurance that there will be no major increases in the tax burden is calculated to encourage trade.

The inference contained in my 239, February 15, 6 p. m. that still further borrowing powers will be eventually required unless 1939 proves the peak year in expenditure is even more striking in the light of Simon's announcement for on the basis of pounds 350 million charged to loan account next year, pounds 550 million of the total pounds 800 million borrowing powers will have been spent by March 31, 1940 leaving only pounds 250 million for the two final years of the five-year program. Any anticipated increase in taxation yields in those two years could hardly offset a reduction to pounds 125 million per annum in the amount from borrowing and the total funds available for defence would be reduced

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REB

3-#258, From London, Feb. 21, 6p.m.

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to the neighborhood of between pounds 355 million and pounds 400 million per annum. The British Government is obviously not looking so far ahead with any certainty for the Chancellor of the Exchequer emphasized the flexibility of the program and after pointing out that next year's requirements made the increased borrowing powers necessary he said "as to the future I do not believe it is possible to speak with more precision". In fact it seems evident that the British Government is hoping for international appeasement with some limitation of the armament race while depending, should these hopes prove unfounded, on still further borrowing in spite of the possibility of better tax yields and perhaps with the election over by some tax increases.

The reaction of Parliament and the press though surprised at the size of the figure to be borrowed, has so far been favorable. However, the picture drawn of the British financial outlook in my memorandum of June 10, 1938 is worth noting as indicating that armament expenditure was imposing an unprecedented peace-time strain at three points: (1) the burden of taxation, (2) the growth of the national debt and (3) the exchange.

For

4-#258, From London, Feb. 21, 6p.m.

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For now seven months later the Chancellor of the Exchequer seems anxious to give assurance that he recognizes that the psychological limit of taxation is at hand; sterling though it has weathered the first stage of its testing is yet to prove itself invulnerable; while the British Government is now falling back upon the device of expanding the national debt to the extent of absorbing wellnigh the whole of the annual savings of the country.

Commenting tonight in Parliament on the prospect the Prime Minister indicated that the implications of this step are serious in terms of the future "when we remember that the Chancellor for the purposes of his argument yesterday took the amount he might expect to receive from revenue at pounds 230 million next year I cannot help wondering whether this annual cost of maintenance of these increased armaments together with the interest and the sinking fund may not be more than is possible to extract from the taxpayers out of current revenue. (***) I am not now going to suggest what the solution of such a problem may be but I want to make a few observations upon it." Chamberlain went on to observe that this prospect refutes the argument that

unproductive

REB

5-#258, From London, Feb.21,6p.m.

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unproductive spending cannot hurt a country and that he would consider it criminal to allow the situation to go on developing without making a determined effort to stop it.

2. Simon's announcement produced no positive reaction on the exchange market which was unusually inactive and steady. Gold was fixed at 148S 4-1/2D, A 1/2D premium, and of the 178 bars sold few were taken by the British fund; 25 were married.

KENNEDY

CSE