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THE COTTON-TEXTILE INSTITUTE, Inc.
320 BROADWAY, NEW YORK

1

April 1, 1938.

N O T E

We feel that you will be interested in knowing of the combined efforts being made to dispose of the cotton surplus and from a long-range point of view to stimulate an increased consumption of cotton. These activities are an expansion of promotional work carried on for ten years by the Cotton-Textile Institute which inspired the Atlanta Cotton Conference of March 3 last, resulting in organization of the Cotton Consumption Council.

C.K. EVERETT,
Manager, New Uses Section.

EXECUTIVE COMMITTEE

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 JOHN A. LOGAN
 L. W. COLA, Chairman

BULLETIN

National Association of Food Chains

726 Jackson Place, Washington, D. C.

National 8732

JOHN A. LOGAN, Executive Vice President

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3

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VOLUME V

MARCH 19, 1938

NUMBER 12

TO THE MEMBERS:

"BUY COTTON — SAVE MONEY — SPEED RECOVERY": This is the slogan adopted by the Cotton Institute as a key to the nation-wide program being sponsored to meet the cotton surplus emergency. Chain food stores should play an important part in this program.

I. Here is the situation:

1. The 1937 cotton crop was the largest ever harvested — 18,750,000 bales.
2. More than twelve million people — one out of ten persons in the United States — depend directly or indirectly on cotton for their livelihood.
3. Cotton is the country's largest factory industry.
4. Prosperous cotton is a key to prosperous agriculture — Impoverished agriculture means impoverished business.

COTTON WEEK

MAY 30 — JUNE 4

- LET'S MAKE IT KNOWN -

II. What the chain food stores can do:

Chain food stores have already demonstrated in twenty nation-wide campaigns for the removal of agricultural surpluses how farmers can be served by the cooperation of organized mass distributors. This same technique so successfully employed to sell beef, lamb, grapefruit, apples, eggs, and many other products can and will be applied to the sale of cotton and cotton products. Here is an agricultural commodity of primary concern to the entire South as well as being a key to prosperity in the nation. Here are some suggestions outlining how chain food stores can serve Old King Cotton in an effective manner:

FOOD CHAINS SELL COTTON

1/2 Billion square
 yards of cotton used
 annually in packaging
 grocery merchandise.

- LET'S USE MORE -

1. Use a special "box" in your regular advertising for the purpose of
 - a. Calling attention to cotton and to Cotton Week: May 30 - June 4.
 - b. Outlining the size of the cotton crop and the problem faced by growers.
 - c. Urging purchase and use of more cotton and cotton products.

(OVER)

2. Have all store employees wear a small "bale" of cotton on their coat lapels. These may be available at quantity prices.
3. Set up special window displays, including:
 - a. Food items packaged in cotton — sugar, salt, flour, etc.
 - b. Cotton seed oil products — oils, shortenings, mayonnaises, etc.
 - c. Grocery items of cotton — mops,
 - d. Where practicable, put a bale of cotton in store window or borrow cotton garments or other articles of cotton from your neighboring variety or other type of chain store.

The attention-getting value of a window of this sort displayed in conjunction with banners and window stickers featuring Cotton Week will be tremendous.

4. Store contests. Individual member companies may wish to consider offering prizes for the most unique window displays or for the best percentage sales increase in goods packaged in cotton and cotton products.
5. Some companies which use premiums are considering giving cotton luncheon sets, aprons, etc. as premiums during the period climaxing with Cotton Week.
6. Food chain executives are acquainted with the procedure of farmer-consumer campaigns, and some of them plan to call on executives of other types of chains to tell them of the manner in which the agricultural program has been conducted and the services which have been rendered and can continue to be made available to agriculture.
7. Publicize to consumers the re-use value of cotton packages, emphasizing safety, security, and general satisfaction of cotton bags.

COTTON CONSUMPTION COUNCIL

Commissioners of Agriculture:

Hon. Harry D. Wilson, La.,
Hon. Columbus Roberts, Ga.

Cotton Growers:

N. C. Williamson, Pres.,
American Cotton Cooperative
Assn., New Orleans; Charles
G. Henry, Gen.-Mgr., Mid-
South Cotton Growers' Assn.,
Memphis.

Cotton Manufacturers and Merchants:

Dr. C. T. Murchison, Pres.,
Cotton Textile Institute,
N. Y.; Robert T. Stevens,
Pres., J. P. Stevens & Co.,
N. Y.; Chas. K. Everett,
Cotton Textile Institute.

Distributors:

General Merchandising Chains:

John P. Nichols, Acting
Managing Director, Institute
of Distribution, N.Y.; Fred
Griffiths, Sec., National
Assn. of Chain Drug Stores.

Food Chains:

John A. Logan, Executive
Vice President, National
Assn. of Food Chains; C. B.
Denman, Agricultural Counsel,
National Assn. of Food
Chains, Washington, D. C.

III. What other chains have done will do:

1. Thirty-nine enthusiastic telegrams have been sent by variety and mail order chains pledging wholehearted support to the cotton sales program. These types of chains plan to put on the most unusual and spectacular sales in their history - advertising, unique window and store displays, extraordinary effort and cooperation from all sales personnel, etc. Cotton goods sales by chains normally exceed \$600,000,000 annually. They will seek to break all records.
2. Drug and shoe chains have assured full co-operation. Shoe chains use tremendous amounts of cotton in shoe "findings" and "linings".
3. All types of chain store distributors plan to cooperate fully in publicizing cotton, featuring cotton and cotton products, and promoting the success of this nation-wide campaign. With 37,000 chain food stores and more than 25,000 other types of chain outlets featuring cotton throughout the country, it is reasonable to expect that thousands of other stores will join in the COTTON PARADE.

IV. Cotton Week features:

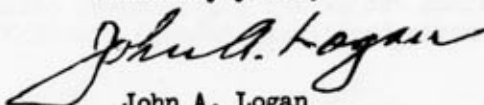
The Cotton Industry is preparing to produce thousands of three-color posters (red, white, and blue, size 12" by 18") for use by retail merchants over the entire country in calling attention to cotton values and to Cotton Week as the "high point" in the program to sell more cotton. Cotton Week, scheduled for May 30 - June 4, is the "high point" of the campaign. A poster sample in black and white will be sent to you shortly in order to enable you to place your order for copies of the posters through your Association office.

Let's bring the benefits OF FARMER-CONSUMER CAMPAIGNS to the COTTON GROWERS of the nation.

Let's PROMOTE PROSPERITY for the cotton South and the entire United States.

Let's BOOST in every way possible the sale and use of cotton, cotton products, and cotton seed products.

Sincerely yours,



John A. Logan
Executive Vice President

AID FOR KING COTTON

1937's cotton crop was the biggest ever harvested ... 18,750,000 bales. By the time the 1938 crop is in the bale, even with restricted acreage, a surplus equivalent to two years' normal consumption will be weighing down the market, unless something extraordinary is done to aid King Cotton.

National well-being depends upon the well-being of all. New England shoes ~~are bought~~ with money earned by California oranges. Michigan automobiles are ~~paid~~ for by Texas cattle. Louisiana sugar buys Minnesota flour. Cotton is the money in 18 states. Accordingly, the "ups" and "downs" of King Cotton and his dependents are reflected in the standard of living of all America.

King Cotton's present emergency, therefore, is of significant importance to all America, her people, her trade, her commerce, her industry. Aid is, manifestly, essential.

HELP VOLUNTEERED

In order to explore ways and means whereby the present cotton surplus emergency might be attacked, a conference was recently initiated in Atlanta, under the joint auspices of the Cotton Textile Institute, of the National Association of Food Chains, and of the Institute of Distribution, which was attended by one of the most representative delegations ever assembled of government officials, of cotton growers, of cotton cooperatives, of cotton goods distributors, and of others who are either directly or indirectly concerned with the affairs of King Cotton.

The conference was opened by the Hon. E. D. Rivers, Governor of Georgia. Hon. Harry D. Wilson, Commissioner of Agriculture of Louisiana, was named conference Chairman, and so served during the entire conference.

Earnest effort was there made to bring about a joint, businesslike program that would not only stimulate cotton sales throughout America, but which would help to relieve King Cotton's present straitened circumstances.

HELP HARNESSSED

The outcome of the conference was noteworthy, both from the direction of bringing into being a nationwide attempt to bring cotton surplus relief via cotton goods sales stimulus, as well as from the viewpoint of establishing a relationship of goodwill and cooperation between cotton producer

and cotton goods distributor that may help to minimize similar emergency problems for King Cotton in the future.

WHAT WILL BE DONE

The Atlanta conference transacted the following business that is of substantial significance to King Cotton:

- a) It decided that efforts ought immediately to commence by all concerned to stimulate the sale of cotton goods or allied cotton products. In order to assist distributors, promotional ideas will be interchanged between the various cooperating organizations such as the Institute of Distribution, the Limited Price Variety Stores Association, the National Association of Food Chains, the National Association of Chain Drug Stores, the National Council of Shoe Retailers, the Cotton Textile Institute, the various cotton cooperative associations and other campaign participants. The respective associations, in turn, will pass on such promotional ideas to their respective mercantile members for use (or not) either "as is" or as they may modify or alter them in order to fit their own policies or requirements.

In any case, the respective member companies, via window displays, via institutional advertising, and via other promotional means, will make sincere effort to increase their cotton goods sales.

- b) It was consensus that this cotton promotional effort should reach its "high spot" with a "National Cotton Promotional Week" (May 30 through June 4, 1938).

During this week, all cooperating companies, on a united, cooperative basis, will be expected to make a sustained drive to "sell more cotton" via window and ledge displays ... by "word of mouth" promotion ... by every promotional medium that can effectively be utilized ... 1) to increase their cotton goods sales to their own profit ... and in so doing ... 2) likewise to permit them to render a substantial yet businesslike public service by helping cotton producers profitably to dispose of their surplus cotton crop.

The Cotton Textile Institute will continue to prepare the posters and other cotton promotional media. The respective trade associations, in turn, will obtain suitable quantities therefrom and, in turn, pass them on to their members for redistribution among their stores.

THE "COTTON CONSUMPTION COUNCIL"

In order to coordinate the activities of all organizations interested in promoting the increased sale of cotton, the Atlanta conference elected a "ten man" operating committee, named "Cotton Consumption Council." The Council's personnel is composed as follows:

1. Harry D. Wilson, Commissioner of Agriculture of Louisiana (Chairman)
2. Columbus Roberts, Commissioner of Agriculture, Georgia
3. C. T. Murchinson, President, Cotton Textile Institute
4. Robert T. Stevens, President, J. P. Stevens & Co.
5. N. C. Williamson, President, American Cotton Co-operative Association
6. Charles G. Henry, General Manager, Mid-Southern Cotton Growers Association
7. John A. Logan, Executive Vice President, National Association of Food Chains
8. C. B. Denman, Agricultural Relations Counsel, National Association of Food Chains
9. John P. Nichols, representing the Institute of Distribution and the Limited Price Variety Stores Association
10. Fred G. Griffiths, Secretary, National Association of Chain Drug Stores.

- o -

Charles K. Everett, Cotton Textile Institute (Secretary)

- o -

ABOUT THOSE WHO WILL HELP

At this juncture, it seems important to give fuller details concerning the various associations of multi-unit merchants that are participating in the National Cotton Promotional Campaign, so that we may see our subject whole and understand it fully.

THE INSTITUTE OF DISTRIBUTION

The Institute of Distribution, as our first case, was founded and is now being maintained by a substantial number of representative national and sectional multi-unit retail institutions such as F. W. Woolworth; Sears, Roebuck; S. S. Kresge; Montgomery Ward; S. H. Kress; Western Auto Supply; National Shirt Shops; W. T. Grant; United Cigar-Whelan; Melville Shoe Corporation; Lerner Stores Corporation; Cunningham Drug Company and many others of a similar size and calibre, for the purpose ... 1) of compiling and disseminating accurate information concerning direct retail distribution ... and 2) of serving as the coordinating agency via which Institute members may act jointly, cooperatively on public relations and other matters of common interest.

The offices of the Institute of Distribution are located in New York City. Its President is Don M. Nelson, Vice-President of Sears, Roebuck and Company. Its operating policies are established and directed by a representative Board of Directors, headed by Ward Melville, President of the Melville Shoe Corporation. John P. Nichols, Acting Managing Director of the Institute, is a member of the Cotton Consumption Council.

THE LPVSA

The Limited Price Variety Stores Association is the national trade association for the "five and tens" of America. Its membership is composed of 745 or more variety store concerns, large and small, chain and independent, including F. W. Woolworth; S. S. Kresge; S. H. Kress; W. T. Grant; J. J. Newberry; G. C. Murphy; H. L. Green; McCrory Stores; McLellan Stores; Rose's; Neisner Brothers; M. H. Fishman; Scott-Burr; Charles; Morris; Sprouse-Reitz; Hested; Kuhn; Duckwall; Autenreith's; Schultz; Eagle; W. W. Mac; Sterling Stores and many others. Its members do more than 90% of the variety store sales in the United States.

The LPVSA is also headquartered in New York City. Dr. Paul H. Nystrom is its President.

THE NAFC

The membership of the National Association of Food Chains is composed of such well-known, long established national, sectional and local chain grocery institutions as Safeway Stores, Inc.; Kroger Grocery & Baking Co.; American Stores Co.; First National Stores, Inc.; National Tea Co.; H. G. Hill Co.; D. Pender Co.; Southern Grocery Co.; Grand Union Co.; Fisher Grocery Co.; Sanitary Grocery Co. and many others of a similar size and type.

NAFC members operate a total of 37,000 stores, most of which have successfully, wholeheartedly participated in the NAFC surplus crop disposal campaigns via which distressed agricultural interests have been given practical farm relief.

The NAFC's surplus crop disposal campaigns merit the following further mention:

During 1937, the NAFC staged national campaigns on the following commodities: fresh and canned grapefruit (at different times), fresh and canned peaches, lamb, eggs, apples, walnuts and prunes. Other campaigns, of varying dimensions but of less than national stature, were staged on the following: turkeys, avocados, Washington State apples, canned peaches, Florida oranges, cheese, potatoes, Idaho cherries, canned tomatoes in the Northwest, sweet potatoes on the Atlantic Seaboard, grapes, cranberries, tangerines, and cotton for bagging.

Regional or national, the chain campaigns don't miss a promotion trick. First of all, there is space advertising. Copy and layouts are prepared by the headquarters organization, inserted and paid for by the local chain, which frequently supplements the schedule with its own advertising. In the 1936 beef campaign, 44 chain systems spent over \$2,000,000 on 300,000,000 individual advertisements. In addition to the space insertions, 33,000,000 handbills were distributed in that campaign. Publicity on the radio and in the news columns is always worked to a fare-thee-well, featuring recipes and menus. But essentially it is the man-behind-the-counter who makes the campaign click -- with posters, pennants, banners, window and store displays, but most effectively of all, with the potent word-of-mouth advertising.

Washington is the home of NAFC headquarters. The Association is headed by L. W. Cole, President of the Steiden Stores of Louisville. John A. Logan, Executive Vice President, is both operating head of the Association and one of its representatives on the Cotton Consumption Council.

THE NACD

Liggett, Walgreen, Peoples, Lane, Cunningham and other chain drug store corporations of that type compose the membership of the National Association of Chain Drug Stores which is headquartered in New York City, and whose Secretary and representative on the Cotton Consumption Council is Fred G. Griffiths, President of the Pennsylvania Drug Company.

In June 1937, the milk-using members of the National Association of Chain Drug Stores, of the Limited Price Variety Stores Association, and of the Institute of Distribution joined forces in an outstandingly successful milk promotion campaign intended not only to stimulate milk sales of participating companies, via a month's sustained promotion, but, likewise, in so doing, to help dairy farmers to dispose of their substantial seasonal milk surplus.

The significant importance of this milk campaign is well demonstrated by the fact that the milk sales of participating chain drug stores mounted by 30% during the campaign period over a corresponding period in 1936. Though the total June 1937 sales of milk-using variety stores increased but 1.5%, their milk sales during the campaign period, on a group average, jumped by 36.7%, to the great benefit of all concerned.

NACD members sell \$60,000,000 worth of cotton goods annually, and they are planning, via the current promotional campaign, to make every effort to increase such sales notably.

THE NCSR

The National Council of Shoe Retailers, located in New York City, is the national trade association of the shoe distributors of America. Included within the NCSR's roster of members are such nationally-known shoe institutions as Melville Shoe Corporation; G. R. Kinney Company; Regal Shoe Company; Edison Brothers Stores, Inc.; Endicott-Johnson Shoe Corp.; A. S. Beck Shoe Corp.; W. L. Douglas Shoe Company; Berland Shoe Stores and many others.

Ward Melville, President of the Melville Shoe Corporation, is President of the Council. W. L. Girdner is Executive Secretary.

While the amount of cotton goods sold by the shoe chains is not, naturally, large in relation to the total cotton goods consumption of America, it has been steadily increasing in the past five years. Cotton is being used, increasingly, in shoe and other products sold by the chain shoe stores ... and the shoe chains have been leaders in promoting and selling millions of pairs of women's shoes in which cotton fabrics are used as principal materials.

In 1937, for example, the shoe chains sold more cotton fabric shoes than ever before in their history.

Shoe chains now sell or consume merchandise which contains 20,000,000 pounds of cotton. Via the instant cooperative promotion campaign, they hope notably to increase this already substantial amount.

PLEDGE GOODWILL AND COOPERATION

The Institute of Distribution and the Limited Price Variety Stores Association were jointly represented at the Atlanta Cotton Conference by a half dozen or so merchandising experts of representative national cotton-using companies such as F. W. Woolworth, Sears Roebuck, J. C. Penney, W. T. Grant, S. H. Kress, and others.

The Institute's delegation attended the Atlanta conference intent on participating actively and wholeheartedly in probing with the other dele-

gates for ways and means whereby national cotton-using chain store companies may not only increase their own cotton goods sales to their own profit but, likewise, in so doing, be enabled to render a noteworthy public service by helping cotton producers profitably to dispose of their current surplus cotton crop.

The joint Institute of Distribution and Limited Price Variety Stores Association delegation represented 43 cotton-using companies operating about 8500 stores with annual retail sales of about \$2,000,000,000, almost \$600,000,000 of which are in cotton goods or allied products.

The following messages from ranking officials of substantial cotton-using companies ... a few among the many that were received by the Institute delegation while at the Atlanta conference ... serve to demonstrate the sincere intention of mass distributors earnestly to cooperate in the current, two-purpose, cotton promotion campaign:

From K. D. Gardner, President of the W. T. Grant Company:

"The executives of the W. T. Grant Company are very much in accord with the purposes of the conference on cotton being held in Atlanta. We recognize the opportunity to further the interests of those whose lives depend upon cotton, namely, the farmer, the manufacturers, and their employees; also the consumer. We are hopeful that well developed plans for furthering the use of cotton will result from this conference and pledge our wholehearted cooperation in carrying out such plans."

From W. W. Humphrey, President, Western Auto Supply Company:

"We sincerely appreciate the purposes of the Atlanta conference and hope that from it will come helpful suggestions. You may depend on our company doing everything possible to carry out the program by its cooperation."

From R. F. Coppedge, Vice President, McCrory Stores Corp.:

"Our company is in hearty agreement with the aims of the conference of state officials, cotton producers and retail distributors at Atlanta. We shall cooperate to the fullest possible extent in any promotional campaign which may result from the Atlanta conference."

- 8 -

From C. B. Tuttle, Treasurer of the S. S. Kresge Company:

"We are enthusiastically sympathetic toward any movement that will stimulate the sale of cotton goods not only through Cotton Week but throughout the year, and that the crop may be successfully marketed at prices satisfactory to the growers."

From B. S. Hornstein, President, Charles Stores Company:

"Our stores all south except one naturally interested development movement promote more cotton uses. We hope Atlanta conference will foster such campaign to benefit producers in disposing of surplus crop. Charles Stores will devote all windows and newspaper advertising for national chain store cotton week or any such promotional event."

From Don M. Nelson, Vice President of Sears, Roebuck & Company:

"Sears, Roebuck & Co. pledges itself to cooperate 100% with program Institute has started to help by extra sales pressure on cotton goods in order to relieve cotton surplus. Cooperative effort of this kind will, we are sure, help the farmer, the cotton industry, and our customers as well. You can count on us to follow through on any plan that develops out of meeting."

INTENSIVE CAMPAIGN BEING PLANNED

Since the Atlanta conference, plans for an intensive campaign to promote increased cotton goods sales have actively gone forward.

To the long-established, nationally-known mercantile institutions that are participating therein, the National Cotton Promotional Campaign means a sincere, wholehearted effort to attempt to sell more cotton goods and allied cotton products.

Via forceful window and ledge displays ... by institutional messages and advertising ... by word of mouth ... by enthusiastic sales effort on the part of sales clerks ... participating stores are planning ... shoulder-to-shoulder" among themselves and with others cooperating in the campaign ... to concentrate on the job of increasing the sale of cotton goods and allied cotton products during the campaign period.

While it is, naturally, recognized that these stores, in concert with food, drug and shoe chain participants ... and with their cotton cooperative and other campaign associates ... cannot totally move the prodigious cotton surplus with which growers are now saddled, they are, at the same time, earnestly intent, via promotion, to do their utmost to increase the sales of their cotton goods and allied cotton products not only to their own profit but, likewise, to the benefit of King Cotton and his related interests.

mg
3/28/38

7
14
Boyle
April 1, 1938

MEMORANDUM

I

Last night Mr. Wayne Taylor, Assistant Secretary of the Treasury, Mr. Ronald Ransom, Acting Chairman of the Federal Reserve Board, and I met at Mr. Taylor's house to consider the existing financial situation.

Among other factors, we had in mind (1) the present levels of production; (2) the relative absence of new capital financing; (3) the dropping of the stock market; (4) the fact that the Government bond market had recently required some support from the Federal Reserve; (5) the existing number of the unemployed and the need for relief.

It was generally agreed that the difficulties were as much moral as economic. Nevertheless, there seemed enough chance that the trend would continue to make it urgent that a program be evolved.

II

It was suggested, as an immediate program, that the following might be scheduled for prompt initiation. It was assumed that the Glass Bill, extending the loaning powers of the R.F.C., would be passed within a few days. In such case, it was thought that the immediate situation

would

-2-

would be stabilized if -

- (a) The public works program were reopened;
- (b) A railway equipment corporation were formed to order, finance and provide railway equipment to railroads needing it;
- (c) The making of capital loans for business, with special attention to planned employment and construction;
- (d) The extension of loans for housing construction, with special emphasis on middle class housing;
- (e) The reserve requirements, raised last May, might now be reduced. In the alternative, further de-sterilization of gold might be considered. This last would be more psychological than actual, since there is no present lack of excess bank reserves.
- (f) Adequate W.P.A. and relief appropriations would have to be asked. This requires legislation; but it appears essential.

III

In view of the actual situation, the tactics are important. They might include:

- (a) An appropriate speech, presumably on the occasion of the passing of the Glass Act, outlining the program;
- (b) Some forty-eight hours later, the announcement of some dramatic public works job;
- (c) Shortly after that, a campaign to form production committees to stimulate private construction financed, if necessary, under the Glass Bill. In that connection organized labor ought to be asked to assist, and ought to be made aware that labor groups are also responsible for creating production, as well as for making demands. In other words, make local labor leaders actually share in the process of putting the job through.

(d)

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- (d) A day or two after that announcement, announce, if possible, some big piece of private construction or of railway equipment contracts, or both.
 - (e) If possible push the negotiations between P.W.A. and Commonwealth and Southern. It would be desirable if some other negotiator than Wilkie could be found.
- TVA?
8-177

IV

Three points ought to be recognized:

- (a) Practically no business group in the country has escaped investigation or other attack in the last five years. Irrespective of their deserts, the result has been shattered morale. We have not, in the absence of a large Government ownership program, any class or group to whom we may turn for economic leadership. It is, therefore, necessary to make that group pull itself together.
- (b) There are some remote indications (notably in steel) of an upturn. If, therefore, we can weather the next sixty or ninety days, normal processes very well may "take us out". The next few weeks, however, may determine whether these processes can be set in motion.
- (c) It was noted as possible that the railroad bill might be so handled as to provide at least the hope that railroads would do better.

Since the next Presidential message scheduled has to do with monopoly and, (possibly), bank holding companies, it might be well to have that message so handled as to lead into a program of this kind.

Friday
April 1, 1938
11:55 a.m.

Archie

Lochhead: Yes, sir.

HMJr: What's new?

L: Well, at the opening the stock market came back and is up two and a half points.

HMJr: Yes.

L: Since that time they've shaded off slightly I understand.

HMJr: Yes.

L: But it was a pretty active opening and pretty well on the up side.

HMJr: Yes.

L: The commodities also came back point thirty-eight, so that brings them up to fifty point-0-four again.

HMJr: I see.

L: At the opening the Government bonds managed to work back a little bit better - about one to two better.

HMJr: Yes.

L: But just as I come in here just now they say that they're off about to last night's close again.

HMJr: Yes.

L: . But there's no - they seem to be fairly steady there; they've gone off our quotes but nothing on the - no offers yet.

HMJr: How much are industrials up?

L: The industrials are up two point fifty-eight.

HMJr: Good.

L: That brings them up to 101.63 again.

HMJr: Good.

-2-

L: The foreign exchanges are quiet. Francs are quite strong, but more or less on a limited weekend market.

HMJr: I see.

L: The - we have - I find car-loadings increased; I just had this over the Dow-Jones, car-loadings increased thirty-two million - ah - thirty-two thousand six hundred and twenty cars.

HMJr: Did they?

L: Yes. That's loadings of revenue freight.

HMJr: What's that?

L: Loadings of revenue freight.

HMJr: Well, when you send me the telegram tonight...

L: Yes.

HMJr: ...have Haas give you the forecast on the Times index.

L: Ah - forecast on Times index, yes.

HMJr: Yes.

L: All right. Now then, I'm sorry to say that Harris has just brought in a note saying that the System has purchased now seven million dollars - with the bonds at last night's level.

HMJr: Yes.

L: So apparently they've stepped right in at last night's levels and not let them go under that.

HMJr: I see.

L: Secondly, we now own some Spanish silver.

HMJr: Yes.

L: The Spanish Ambassador came in at half past eleven and had a telegram accepting the bid for five million ounces.

HMJr: Yes.

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- L: And - they just simply said they've accepted it and they will send it in accordance with the conditions.
- HMJr: Well now, when do we give them a price?- oh, when it arrives, I guess?
- L: No, we gave them the price on the bid. You see, the price - you see, we make the bid - we have to make the bid abroad; the price of forty-three was given to them.
- HMJr: Oh, I see.
- L: So that's set on that.
- HMJr: Oh, you give them the price when ...
- L: When the bid is made, you see.
- HMJr: I see.
- L: And then we only pay for it when it arrives.
- HMJr: I see.
- L: Ah - the London silver market was a little bit better today; they've worked it up to forty-two and half cents, which is practically parity with ours.
- HMJr: Yes.
- L: Not so - not very much activity there; there was one lot of a hundred thousand offered which we didn't pay any attention to.
- HMJr: Does anybody in the group think we ought to raise it?
- L: No, there's nobody feels that we should raise it at all yet, because they're not bidding, as I say, they offered at the parity and the only point is there's certainly no reason for lowering it this morning.
- HMJr: No, just leave it as it is.
- L: Leave it as it is. Well, that's all on the market here just now. Mr. Taylor is here./ By the way, Mr. Bell is also here if you wish to (And) speak to him. Dan says he has nothing in particular. Just a second.

-4-

HMJr: How are his tax figures? (Short pause)
Wayne
Taylor: He - Dan says he'll get them before you get off
the telephone.

HMJr: All right.

T: Ah - did Archie give you the last news on the
bonds?

HMJr: Well, he said somebody just bought seven million.

T: Yes.

HMJr: I see.

T: They've turned - they're about at last night's
levels now.

HMJr: Now, Wayne, I don't expect to call up again before
Monday.

T: Good boy.

HMJr: And so - if you fellows want me it's up to you to
call me.

T: Right.

HMJr: And - ah - so, you people ought to be able to get
in some golf tomorrow.

T: Ah - I hope so.

HMJr: How is the weather anyway?

T: Oh, it's a little on the gray side.

HMJr: I see. Well, it's been a difficult week and I
think we've come through remarkably well.

T: Well, the papers are still holding together.

HMJr: Yes. Well, don't hesitate, Wayne, if it's
something important.

T: No. I won't for a minute. But I won't bother
you unless it's something that you ought to know
about.

HMJr: I mean I'd feel much better if I knew if it's important that you'd call me.

T: Don't worry about that; we will.

HMJr: And - has White got anything to throw on the horizon or in the pot?

T: Harry says he has available a brief memorandum on the Mexican situation if you'd like to have it.

HMJr: All right. Shoot it down.

T: All right. He'll send it down.

HMJr: Are they making any headway on Mexico?

T: No.

HMJr: They're not?

T: In fact, the opposite.

HMJr: I see. Are those Mexican boys from the Treasury still up?

T: No. They - they were merely the advance party stooges anyhow, so there's no great loss. Tax receipts - seven one eight four.

HMJr: Seven one eight - seven hundred and eighteen million?

T: Yes.

HMJr: And what was the expectation?

T: Seven forty-six. Yes.

HMJr: Well, that's through.

T: Yes.

HMJr: Is that through the thirty-first?

T: That's right.

HMJr: Well, somebody owes you and me a nickel, doesn't he?

T: Yes.

HMJr: All right.

T: I suppose Archie will have to wait to collect that until you get back.

HMJr: And you too.

T: That's right. And - as a matter of fact we're both sorry to win it.

HMJr: Is Dan there?

T: Yes.

HMJr: I want to ask him something.

Dan
Bell: Hello.

HMJr: Dan.

B: Yes.

HMJr: I wish you'd have somebody in the Budget get together the figures for nine months on the money that we've spent out of pocket other than the regular Government expenditures, I mean, anything which would come under relief or public works..

B: You mean outside of the regular operating?

HMJr: Yes.

B: Yes, sure.

HMJr: And how much money we've loaned.

B: All right.

HMJr: And then compare it with the nine months of the previous year.'

B: Yes.

HMJr: I'd like to just see how much - how the figures compare, because they keep talking all the time that we're not spending any money. Well, we're spending plenty.

B: Yes, we're spending a lot of money.

HMJr: We're spending a lot of dough.

B: (Laughs) Wayne says don't worry. (Laughs)

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HMJr: Don't worry what?

B: Well, I think your remark indicated that you expect something to happen.

HMJr: How does he mean?

B: ^{may} We/still spend.

HMJr: Well, the point is - of all this talk is...

B: Yes.

HMJr: because we're not spending enough.

B: Yes.

HMJr: Well, it's perfectly silly.

B: Well, WPA is almost up to last year, I mean, in monthly figures; they're getting up now to about a hundred and thirty-eight million or forty.

HMJr: - a memorandum on the nine month situation, will you?

B: Yes. Well, that'll be a little lower on probably relief and public works.

HMJr: Well, let's just take a look at the nine months.

B: Yes.

HMJr: And compare it with, oh, the last couple of years.

B: Yes. Well, I'd better give you the last month or two - March separately because I think you'll find March increasing considerably over say, November.

HMJr: Well, what - my objective is I'd like to take a look at just what we are doing because I'm getting so fed up on these - everybody saying that the trouble is we're not spending enough.

B: Yes. All right, I'll work it out.

HMJr: Now, if the total expenditures, counting everything are/the same or a little ahead of last year... about

B: Yes.

HMJr: What?

B: Yes.

HMJr: Will you count everything? Dan?

B: Yes.

HMJr: That's right.

B: Yes. Well, let me - I'll check them up and classify.

HMJr: If you count everything we've spent more money this nine months than we did last, if you count everything.

B: Well, you're counting the transfers to trust accounts also?

HMJr: Everything.

B: That's right.

HMJr: Yes.

B: All right.

HMJr: And - and listen, young fellow...

B: Yes.

HMJr: If you don't take off a few days, I'm going to send...

B: I'm listening.

HMJr: ...the Coast Guard after you.

B: (Laughs) All right. (Laughing) A boat?

HMJr: What?

B: A boat?

HMJr: Probably.

B: A (Laughs) All right.

HMJr: No, you're - I mean, the President is going to be back and

B: Yes, I know he is.

HMJr: I think you ought to go home now and not show up for a couple of days - three or four days.

B: Well, I'll stay home tomorrow.

HMJr: That's wonderful.

B: O. K. Anybody else?

HMJr: No, just tell Archie to send me a wire today and tomorrow after the market closes - send it Western Union.

B: Western Union?

HMJr: Because they've got an office here and Postal doesn't.

B: All right. I certainly will.

HMJr: And - I hope everybody has a good weekend.

B: Fine. Thank you. I hope you have one too.

HMJr: I think the Treasury held up its own this week; I'm quite proud of it.

B: Well, that's fine. Archie did a good job too.

HMJr: What?

B: Archie did a good job.

HMJr: I think so.

B: All right.

HMJr: All right.

B: Goodbye.

HMJr: Has anybody else got anything?

B: No one has anything else.

HMJr: O. K.

B: Goodbye.

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HMJr: Hello.

B: Yes.

HMJr: Is Mr. Blum still Premier?

B: (Laughs) An hour ago they said that he was still
on. (Laughs)

HMJr: All right.

B: (Laughs) All right. Goodbye.

AM 27

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 1, 1938

TO Secretary Morgenthau
FROM Mr. White
Subject: The Mexican Situation

Conclusion:

The elements for serious political and economic disintegration in Mexico definitely exist but as yet she is a very long way from the brink of economic chaos. Whether unemployment and cost of living in Mexico will rise so rapidly and so persistently as to create serious disorders depends in part at least on the extent to which foreign governments make the situation more difficult for Mexico or less difficult for her.

If Mexico can pull out of this crisis without great dependence upon fascist countries there is every reason to expect that she can and will make substantial annual payments to the foreign oil companies during the next decade and -- what is more important -- in time constitute a prosperous and democratic neighbor whose commercial and political relations with the United States should steadily improve.

It seems, therefore, that the United States Government and the American oil companies have everything to gain by helping Mexico at this crucial period to get on her feet; and much to lose by continued and intensified pressure for cash payments or return to the oil companies of their oil properties. The latter tactics can result only in driving Mexico to seek assistance elsewhere and/or into political and economic chaos.

(Neither Mr. Taylor nor Mr. Lochhead have seen this memorandum. I do not know, therefore, whether ideas expressed herein would receive their approval.)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 1, 1938

TO Secretary Morgenthau
FROM Mr. White

Subject: The Mexican Situation

THE SITUATION IN MEXICO IS BAD, BUT BY NO MEANS HOPELESS.

1. The crisis in Mexico has sharply increased unemployment.

A large percentage of the oil wells and refinery plants have ceased operations and thousands of oil workers have been thrown out of employment. Silver output has been cut in half (chiefly as a consequence of the labor trouble with the American Smelting and Refining Company), adding several thousand to the unemployed.

Government expenditures on public works and material are being drastically curtailed. Foreign manufacturing concerns have almost ceased operations. It is virtually impossible for business or farmers to obtain any credit from the banks. Wholesalers have stopped selling on credit and their business has consequently sharply declined.

These causes of unemployment are for the most part an accompaniment of the acute situation now prevailing. Unless an internal political crisis develops -- which seems unlikely at the moment -- a gradual improvement from the present low level is to be expected.

2. The Government is in financial difficulty..

Government revenue is falling and expenditures probably are exceeding current revenues by some 10 to 15 million pesos a month. To meet this deficit the Mexican Government will have to resort to the printing press (via loans from the Bank of Mexico), raise the money through domestic loans, or consummate an oil deal with foreign interests involving an immediate payment. The chances are that Mexico will resort to all three methods.

Secretary Morgenthau - 2

She will be able to raise some money at home through an issue of bonds. There is also room for judicious use of the printing press. It is true that confidence in the future of the peso is declining. Prices of staple foods are rising rapidly -- they have already risen over 20 percent in the last two weeks -- and hoarding of silver coins has greatly increased. Nevertheless, the Government should be easily able to borrow from the Bank of Mexico 5 to 10 million pesos a month during the next few months without bringing about anything approaching a runaway inflation or a collapse of the peso.

The likelihood that Mexico will be able to consummate an oil deal with foreign interests, giving her an immediate large sum, is fair. In favor of a successful consummation of a deal is the willingness of the Mexican Government to cut her prices drastically, if necessary to get cash.

3. Mexico's metallic reserves are rapidly disappearing.

There is a substantial internal drain of silver. People fearing inflation are turning in their peso certificates and demanding silver coins. (If the peso should drop to 17 cents the silver in the coins will be worth more than the monetary value of the coin). There is also a persistent though small outflow of capital.

The drain on Mexico's metallic reserves, both for hoarding and for supplying foreign exchange, has been so heavy that it is rumored they have lost more than half their metallic reserves in the last month. Unless the internal and external drain greatly slow down Mexico will have to suspend specie (silver) payments and impose strict exchange control. Neither step will in any sense be catastrophic. Mexico can continue to operate more satisfactorily without metallic reserves but with exchange controls than she is doing now.

4. Peso exchange is dropping.

Pesos are quoted at around 22 cents (though it is reported that sales were made at much lower than that on the Black market). The exchange situation is, however, far from a runaway depreciation. The pressure on peso exchange is not at all great considering events in Mexico. The situation has been helped by several developments: imports have been sharply reduced by high tariffs and will be still further discouraged by the 20 percent increase in the cost of foreign currency; flights of capital have been almost exhausted;

Secretary Morgenthau - 3

and the demand for foreign exchange arising from the desire of oil companies and their foreign employees to keep as much of their cash as possible in foreign countries in dollars and sterling will be checked. Altogether it is entirely feasible for Mexico to keep the peso exchange -- during the near future at least -- at 20 cents or above.

The one serious threat to Mexico's exchange position lies in the possibility of serious political disturbances and labor revolts.

5. Unrestrained inflation in Mexico is not imminent.

The Mexican Government can substantially increase its expenditures via the printing press without creating a breakdown in her monetary system. It is true that the Mexican people are suspicious of paper issues and that as a consequence Government resort to the printing press is likely to have a greater effect on prices than might otherwise be the case. Notwithstanding that fact, a judicious use of the printing press not only can help solve the Government's immediate financial problem but can help materially to turn the trend of business conditions in Mexico from a recession to an upswing.

It must be remembered that the Mexican foreign bonds are already in default and that her domestic held bonds, with the exception of her road bonds, are likewise in default. Therefore, her credit can hardly get worse. Mexico is not in the position of France, for example, who must be careful lest too great note issues will seriously "injure the credit" of the Government.

6. Though serious, the Mexican oil situation does not appear to present insuperable difficulties to Mexico.

Last year Mexico produced about 46 million barrels of oil, a little more than half of which was exported. The domestic market will, of course, be maintained and should prove an important source of Government revenue as soon as the refineries operate with reasonable efficiency. Though the Mexican Government will at first have considerable technical administrative trouble in their refineries and in their oil fields, there is reason to believe that before many months have passed they will be able to operate with sufficient effectiveness to obtain more revenue (and particularly more foreign exchange) from the oil industry than Mexico formerly did.

Secretary Morgenthau - 4

Their most difficult problem now is to find export markets and tankers for their surplus oil. Whether Mexico will soon be able to market a substantial portion of the 2 million barrels a month formerly exported is uncertain. Japan, Germany and Italy among them import more than Mexico has to export, and will doubtless be very eager to secure Mexican oil at cut prices -- if they can get it.

7. Mexico can not make any substantial cash payment to foreign oil companies at once, but should be able to later.

Mexico's total resources which she could convert into foreign exchange are almost nil, and her ability to raise very large amounts of pesos in any way other than through the printing press is very remote. If, however, Mexico is given a chance to get on her feet, she should be able to make substantial payments to the foreign oil companies during the next decade.

Last year Mexico's export surplus was about \$75 million. To that sum may be added approximately \$10 million of net income from tourists. During the next decade, particularly if no obstacles are placed in Mexico's path, there is reason to believe that she can greatly increase both her favorable balance of trade and revenue from tourists -- even if she fails to attract large capital imports.

All of it, of course, is not available for payment to the American and British oil companies because a substantial portion belongs to foreign owners and foreign employees of Mexican mines and industries who prefer to keep their profits and savings outside of Mexico. Also, Mexico badly needs imported machinery, equipment, etc. However, there would be enough left so that a payment of from \$25 to \$50 million a year to foreign holders of new or existing bonds is not at all out of the question.

1946. 3/10/46
THE SECRETARY OF THE
U.S. DEPARTMENT OF THE
TREASURY
WASHINGTON, D.C.
20540

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

32

DATE April 1, 1938

TO Secretary Morgenthau
FROM Mr. White *HW*

Subject: Trend in "International-Competitive-Position"

1. The "international-competitive-position" of the United States has been improving rather steadily since last summer (improving, that is, from the point of view of our exporters, and of American producers for our domestic market). By February the average of the various weighted indices, measuring varying aspects of the international competitive position, improved about 7 percent.

August 1937	102
December 1937	106

January 1938	108
February 1938	109

2. The trend has changed during the past few weeks due to the weakening of numerous currencies. March will likely show a decline in our index of 2 percent. A decline of 2 percent is a deflationary influence which, coming at this unfortunate time, helps retard recovery. However, it is only a minor factor in the business situation as yet, and in no way warrants any corrective action.

3. The improvement - through February - has contributed substantially to the maintenance of our exports and to the sharp decline in our imports. However, the fact that the recession in foreign countries did not make its appearance until the end of the year -- and has been only slight in most countries during the first two months of 1938 -- has been at least as important a contributory factor to our sustained exports.

Secretary Morgenthau - 2

United States Exports

(Million \$)

	<u>1936-1937</u>	<u>1937-1938</u>
August	179	277
November	226	315
December	230	319
January	223	289
February	233	263
March	256	260 (Estimate based on reports of first three weeks)

Preliminary figures for March indicate that the usual seasonal increase in exports which takes place in March will not occur.

4. Our imports, on the other hand, reflect both the recession in the United States and our improving international competitive position. Our imports for February were 40 percent less than last February, and our March imports are likely to be close to 50 percent less than last March. A portion of that reduction must be allocated to the altered agricultural situation in the United States, but the larger part of it is due to the other factors mentioned.

United States Imports

(Million \$)

	<u>1936-1937</u>	<u>1937-1938</u>
August	193	246
November	196	223
December	245	209
January	240	171
February	278	163
March	307	160 (Estimate based on reports of first three weeks)

REB

GRAY

London

Dated April 1, 1938

Rec'd 2:35 p. m.

Secretary of State,
Washington.

~~275, April 1, 6 p. m.~~

FOR TREASURY FROM BUTTERWORTH.

One. The British financial year closed last night with a budget surplus of 22,785,428 pounds against a deficit of 5,597,191 pounds in the budget 1936-37. This figure naturally takes no account of the amount of defense expenditure charged to loan account but this amount is pounds 64,867,000 compared with pounds 80,000,000 authorized in the budget. However, the budget balance is struck after providing pounds 10,544,000 for debt redemptions; therefore allowing for these two factors the financial year closed with a true deficit of only pounds 25,537,320.

Revenue which amounted to pounds 872,579,715 surpassed estimate by pounds 9,480,000 due mainly to the unexpectedly heavy inflow from income tax. Ordinary expenditure which amounted to pounds 843,794,287 was
pounds

REB

2-#275, From London, Apr. 1, 6p.m.

pounds 19,054,000 below estimate due almost entirely to economies in the operation of the Civil and Revenue Departments.

The manner in which armament expenditure progressively increased during the year is noteworthy: first quarter, pounds 46,000,000; second quarter, pounds 58,000,000; third quarter, pounds 68,000,000 and fourth quarter, pounds 89,000,000.

The Chancellor of the Exchequer is scheduled to make his budget speech on April 26.

Two. This week's Bank of England return shows active the note circulation at pounds 485,400,000 being pounds 5,900,000 over last week. Month end operations coupled with withdrawals of notes in connection with the approaching Easter holiday accounted for increased demand for currency. Particularly noteworthy is the fact (see paragraph 5 of my 248 of March 25, 7 p. m.) that this decline in the reserve was entirely neutralized by additions to other securities, Government securities alone being increased by pounds 5,700,000 and discounts and advances by pounds 2,100,000. The comparatively small fall of a million pounds

REB

3-#275, From London, Apr. 1, 6p.m.

pounds in bankers' balances at pounds 108,100,000 was thus merely due to a swing over of funds to public and other deposits.

Three. Silver was fixed at 19 pence turned 1/8 easier after fixing. There is no information in London that Mexico is yet selling forward in India. Dollar market steady and small, franc dealings small off one point.

KENNEDY

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APR 1 1946

TELETYPE UNIT

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PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 1, 1938, 4 p.m.

NO.: 511

FROM COCHRAN.

With Cabinet meeting postponed until Monday to study Blum's financial program and Parliamentary debate thereon scheduled for Tuesday, Paris exchange market has had a very dull day. Rate variations have been slight compared with past few days and turnover small.

At four o'clock today I was told by the Bank of France that absolutely nothing was done today by the French control.

Rumania is now following Hungary's recent example in making its Central Bank Governor, Constantinescu, also Minister of Commerce and Industry.

WILSON.

RECEIVED

APR 1 1938

EA:LWW

TREASURY DEPARTMENT
RECEIVED
APR 1 1938

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 3, 1938, 5 p.m.

NO.: 526

FOR THE SECRETARY OF THE TREASURY.

FROM COCHRAN.

STRICTLY CONFIDENTIAL.

I refer to my telegram No. 404 of March fourteenth.

I called at Blum's house at noon today. He received me alone.

He referred to Mr. Morgenthau's kind message to him through me and said that mindful of that he now wished to reciprocate to some extent by letting Mr. Morgenthau know in strict confidence his financial proposals which are now in the printer's hands. They will be studied Monday by the Cabinet, submitted Monday evening to the Financial Committee of the Chamber, and presumably the Chamber will debate them Tuesday afternoon.

He said his plans will not include exchange control although there will be certain provisions in that direction. First, a certain amount of voluntary self-discipline in foreign exchange matters will be exacted. Second, a strict watch over the transactions of private banks will be exercised by the Bank of France.

He insisted that France cannot permit further decline of her gold stock or indefinite depreciation of the franc without interposing firm resistance through the Stabilization
tion

- 2 -

tion Fund. His plans, he said, will involve inflation. If measures are not taken to break the vicious circle, this creation of new means of payment is likely to result, as it has resulted in the past two or three years, in the new francs going into foreign exchange or gold. For this reason he will apply the two checks which have been stated above. In case they prove ineffective, the necessary next step would be genuine exchange control.

He said that he would not avail himself of Mr. Morgenthau's kind initiative, although he highly appreciated it. He is abiding strictly by the terms of the Tripartite Agreement and his present plan does not involve exchange control.

WILSON.

EA:FL: LWW

From THE COLUMBIA BROADCASTING SYSTEM
8th Floor, Earle Building, Washington, D. C.
Metropolitan 3200

For Release Sunday, April 3, at 8:15 P.M., EST

SENATOR HARRISON DISCUSSES SENATE TAX BILL OVER COLUMBIA NETWORK.

(Following is a copy of an address by Senator Pat Harrison, Democrat, of Mississippi, Chairman of the Senate Finance Committee, over the Columbia Broadcasting System, Sunday, April 3, 1938, at 8:00 P.M., EST. Senator Harrison's topic was "The Revenue Measure and Business." He spoke from the studios of WJSV, Columbia's station for the nation's capital.)

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Whatever may be the causes, or whether or not justified, there is today a fear and a lack of confidence upon the part of business, which manifests itself in increased unemployment, reduced earnings, and a strike in investments. Some treatment - some remedy must be applied.

There is no doubt that the general welfare of the country is strengthened by certainty in a legislative and administrative economic program. The Finance Committee, in modifying the House revenue measure, has made every effort to make such changes in our revenue structure as to simplify complicated provisions, encourage business, increase employment, and at the same time to provide for the Government the necessary revenue. I congratulate the members of the Ways and Means Committee of the House for the admirable work they performed in the formulation of the House proposal, and I am, of course, indebted to the membership of my own Committee for the splendid cooperation they have manifested in drafting the Senate proposal. It is my hope that from the joint efforts of the two Houses there will emerge a law that will be accepted by the country as a "Business Recovery Act."

This legislation will be taken up in the Senate for consideration during this week. We anticipate no prolonged discussion, and expect its passage within a reasonably short time. I look for no changes in the major provisions of the Senate bill on the floor of the Senate, and confidently expect the Finance Committee's recommendations to be approved.

In the brief time allotted to me tonight, it would be impossible to discuss every detail of the Senate proposal; but the philosophy of our bill is contained in the wise words expressed by the Hon. Henry Morgenthau, the Secretary of the Treasury, in an address before the Academy of Political Science in New York City on November 10th, last year, when he said:

"The basic need today is to foster the full application of the driving force of private capital. We want to see capital go into the productive channels of private industry. We want to see private business expand. We believe that much of the remaining unemployment will disappear as private capital funds are increasingly employed in productive enterprises."

I am in hearty accord with those expressions. I thoroughly agree not only with the Secretary's philosophy, but with his conclusions.

We have in the Senate Bill made it possible for the business people of this country to make "full application of the driving force of private capital." We have, through its liberal provisions, given capital an opportunity to go into the productive channels of private industry. We have opened the door for private business to expand, because, with the Secretary of the Treasury, we believe that as more capital goes into private industry, more people can be employed, thereby increasing the purchasing power of the country and relieving to that extent the necessity of the Government's making appropriations for relief to the unemployed.

The Senate Finance Committee has eliminated the principle of the undistributed profits tax, and has substituted a flat corporate rate of 18%. This simple plan was in force and worked well for many years, so that we are embarking upon no new and untried method. We have made equitable allowances for corporations with smaller incomes. A flat rate provision removes the uncertainties, confusion and necessary cushions that must be provided in any form of an undistributed profits tax.

We have strengthened that section of the present law which imposes a penalty tax upon corporations improperly and unreasonably accumulating surpluses for the purpose of permitting their shareholders to avoid payment of surtax. We have, under our bill, made it necessary for the corporation that unreasonably accumulates surpluses to prove by a clear preponderance of evidence that there was no purpose to avoid surtax.

The Senate Finance Committee, through its proposal, has approved practically all of the House provisions eliminating many of the nuisance taxes. In this respect we went as far as we could, having due regard for the revenue to the Government.

The Finance Committee rejected the changes in the estate and gift taxes. While the Committee was sympathetic with the desire of the House for simplification, it did not feel that it should retain this plan, in view of the opposition of many state tax officials. It appears the change would have forced legislation by many states, and would affect their budgets.

There are many other changes in the revenue law, some of which are administrative, and some of which are substantive. I shall not discuss these; but to my mind, the most important changes relate to the capital gains and loss provisions and to the provisions for the orderly liquidation of personal holding companies, utility companies, and corporations generally.

Our surtax structure, especially in the highest brackets, goes beyond the point of diminishing returns. Because of the high surtaxes, capital has become frozen, and business transactions have slowed up. In the Senate proposal we have placed capital gains and loss provisions in a separate and distinct classification; and on capital assets held for more than a year and a half, a 15% maximum rate applies, without respect to other income of the taxpayer. We have given corresponding relief to the small taxpayer who is below the 15% bracket.

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Gains from sales of capital assets held less than a year and a half are treated as ordinary incomes. We have made provision that capital losses on capital assets held less than eighteen months can be carried forward for one year. Long term capital net losses, that is, losses arising from the sale of assets held over eighteen months, can be charged against ordinary income, under limitations which are consistent with the treatment of capital gains.

The advantages offered by the treatment of the Senate proposal on long term capital gains extend such a forward and liberal invitation to those whose securities have become frozen as to give us every confident expectation that new investments will be made, new industries started, existing plants enlarged, and employment increased. In the future there will be little justification for a citizen having capital to invest to feel that the Government is restraining or hampering him in undertaking legitimate investments, through the inhibitions of the Federal tax law.

Almost as important as the capital gains section of the Senate proposal is our treatment of the liquidation of corporations. It has been variously estimated that in the personal holding companies alone, securities to the amount of from two to four billion dollars are frozen and will remain so unless some liberal treatment is provided whereby the shareholders can liquidate such companies without too heavy a tax penalty. While we do not give any favored treatment to the personal holding company that has built up large accumulations, we do say to them, as well as all corporations, that they can liquidate over a period of three years at the new 15% capital gains rates.

As to foreign personal holding companies owned by American citizens, we give them one year in which to liquidate at capital gains rates, so that this money may be brought back into the United States and put to work.

In 1935 the Congress imposed a death sentence on utility holding companies. At that time no provision was made for the orderly liquidation and reorganization of these utility institutions; and so, in the Senate proposal we have written a carefully drafted provision, approved by the Securities and Exchange Commission, wherein the provisions of the utility holding company law may be carried out without imposing excessive and inequitable tax burdens upon the utility organizations affected. In other words, under existing law the Government orders the liquidation and reorganization of public utilities, and at the same time exacts a heavy tax penalty for carrying out such orders. The relief provision which we propose will prevent this obvious injustice being done.

We have refrained from taking up many questions that would become controversial and which are controversial, such as the processing taxes, because, necessarily, that would lead to a prolonged discussion, and we feel that this tax measure should be enacted into law just as soon as possible. And so, we have eliminated all questions of such controversial character as to impede the progress of the tax bill, hoping that these matters might come up at a future date in a bill designed for that purpose.

-4-

It is my sincere belief that the question closest to the heart of Congress today is to assist business. Through sympathetic legislation we have helped labor; we have helped the farmers, and through appropriations of billions of dollars, we have tried to relieve the distress of the poor and unemployed in this country. If the legislation enacted for them is to succeed, then business must improve and become prosperous. The welfare of one is dependent upon the welfare of the other. Our people should, and I believe will look with hope to the future. We provided loans for commercial and industrial institutions. We rehabilitated our banking structure. We restored to them immense funds of comparative liquid assets. We have built up an immense gold reserve. We re-financed and saved mortgaged farms and homes. We have undertaken to break down foreign trade barriers. We have brought about lower interest rates and lower power rates; and no war clouds, thank God, are hanging over us.

The Senate revenue bill will further remove the handicap of the American citizen in our future economic life; and I know of no higher duty of men in public life at this time than to adopt courageously policies that will dispel fear and restore confidence. That is what the Finance Committee is attempting to do. The stability and strength of our government have been preserved through the unselfish and patriotic cooperation of all American citizens. In every crisis - whether in war or economic stress - that quality has been characteristic of our people, and given to our country a proud and commanding position among the nations of the world.

It must be so at this time. These are my thoughts, my hopes and my prayers.

(END)



ASSISTANT SECRETARY OF THE TREASURY
WASHINGTON

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AM

April 4, 1938

Dear Henry:

I am enclosing a copy of the report
which I submitted today to the President,
a copy of Mr. Douglas' comments and a
copy of my covering letter.

Sincerely,

Wayne Taylor

Hon. Henry Morgenthau, Jr.
The Cloister Hotel
Sea Island Beach, Georgia.

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P
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April 4, 1938

Dear Mr. President:

In the absence of Secretary Morgenthau I am enclosing the report of the Special Committee to study emergency and long-term credit requirements of large and small business enterprises. Messrs. Jones, Ransom, Roosevelt and I concur in the recommendations as they are presented; Mr. Douglas concurs in the recommendations but wishes to submit additional comments. I am enclosing Mr. Douglas' comments.

The report was prepared with a view to your making public the three specific actions taken by the Committee if you feel that it is desirable to do so. The sub-committee to investigate new credit facilities for small business enterprises will hold its first meeting on Thursday, April 7, and the sub-committee to investigate underwriting capital will meet when Mr. Douglas returns to Washington.

Faithfully yours,

(Signed) Wayne C. Taylor

The President

Acting Secretary

The White House.

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April 4, 1938

MEMORANDUM FOR THE PRESIDENT:

Two meetings of the Special Committee appointed to study emergency and long-term credit requirements of large and small business enterprises have been held. The first meeting was held in Secretary Morgenthau's office on Thursday, March 24, at which time a general discussion of the situation was undertaken. Among those present were Secretary Morgenthau, Wayne C. Taylor, Jesse H. Jones, William O. Douglas, James Roosevelt and Ronald Ransom. The second meeting was held on Thursday, March 31. Except for Secretary Morgenthau, who was unable to attend, and Matthew S. Szymczak, who was not present at the first meeting, the same people attended both meetings. After an exchange of views, the following plan of action was outlined:

1. Immediate Credit Needs.

It was agreed that the Glass-Steagall bill, to expand the authority of the RFC to extend credit to public bodies and private enterprises, is highly desirable and should be enacted into law and that through the enactment of this law ample credit facilities would be again available on liberal terms to all forms of established public and private enterprise. It was emphasized that the availability of credit of this character should be presented effectively to the general public, and that it should be encouraged to avail itself of these facilities.

2. New Credit Facilities for Small Business.

Special consideration was given to the problem presented by the long term capital needs of smaller business enterprises which have not ready access to the general capital market. It was agreed that whereas the passage of the Glass-Steagall bill would adequately meet emergency requirements of this character, further study should be devoted to this specialized problem and that a sub-committee consisting of Messrs. Matthew S. Szymczak, Chairman, William I. Myers and John H. Fahey, be appointed to explore this field thoroughly with a view to recommending permanent mechanism to fill this existing gap in our credit facilities. The sub-committee was directed to analyze in particular the experience of the Production Credit Associations,

- 2 -

.. National Farm Loan Associations, Credit Unions, Building and Loan Associations and Federal Savings and Loan Associations, as the committee felt that an adaptation of the cooperative approach to this specialized problem offered the best possibilities.

3. Underwriting Capital.

It was agreed that the existing organization of underwriting facilities and the amount and character of available underwriting capital required special study. A sub-committee, consisting of Messrs. Wayne C. Taylor, Chairman, and William O. Douglas, was appointed to investigate this problem and to report to the full committee at a later date.

(Signed) Wayne C. Taylor

Acting Chairman.

I concur in the recommendations; but submit the following additional comments:

I. Immediate Credit Needs

The Glass-Steagall Bill, which expands the authority of the R. F. C. to extend credit, should provide a mechanism for more liberal extension of credit to various forms of enterprise. It should be recognized, however, that this Bill covers only one segment of the whole field. There are additional areas which might be served more adequately through liberalization in commercial bank practices and policies. This would entail changes in practices of bank examiners as well as changes in the investment rules governing national banks. The other area not covered by the Glass-Steagall Bill is the broad field of long-term capital in the form of junior or equity money.

II. New Credit Facilities for Small Business

While the Glass-Steagall Bill could meet some of the emergency requirements of this character, it would not, in my opinion, meet all of them adequately. Liberalization of banking practices mentioned above and provision for credit facilities which would supply long-term equity money seem necessary.

III. Underwriting Capital

The problem here is one of supplying adequate reservoirs of capital to service the long-term requirements of legitimate business. So far as the equity money field is concerned, the Glass-Steagall Bill admittedly does not touch it at all, as it covers only loans, bonds, etc. Furthermore,

-2-

the problem is not merely one of strengthening present underwriting facilities for the servicing of the needs of large business but of making comparable facilities available to areas of business not presently serviced by our investment banking machinery. The latter means primarily meeting the needs of small business and intermediate size business for long-term capital junior money. It is difficult to over-emphasize the need for supplying some mechanism for long-term junior money, if legitimate business is to be given adequate opportunity for sound growth and development. Junior money must be adequately proportioned to senior money lest business be oppressively ridden with fixed charges, as evidenced by the plight of railroads. It may be seriously questioned whether our facilities will be adequate to serve these legitimate needs of legitimate business, though the Glass-Steagall Bill is enacted.

s/ Wm O. Douglas

William O. Douglas

April 2, 1938

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 4, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Business Situation, week ending April 2, 1938

During the week the spring rise in business activity made further progress, but sentiment in the financial centers as reflected in the stock market decline probably reached a new low for the recession. Indications of an upturn in business have appeared in steel orders and steel activity, probably the most significant business barometer at this stage. The rise in steel activity is particularly encouraging since it results from an improvement in orders from miscellaneous sources, with the major steel-consuming industries yet to come into the market. New orders in various other industries have also shown a rising tendency in recent weeks, and department store sales have held up surprisingly well in comparison with the high levels of last year.

The emphasis in the business picture this week has shifted from the foreign background to the domestic foreground, where a severe stock market decline resulting from heavy liquidation by domestic investors has provided evidence of financial discouragement. The decline has not yet affected actual business, though it has depressed business sentiment. The trend of new orders over the next few weeks will indicate whether the discouragement indicated by the stock market trend is likely to spread from the financial centers into general business activity.

The stock market decline

While the stock market decline was precipitated by developments in Europe, and was preceded by weakness in the European markets (See Chart 1), other factors have contributed to the heavy liquidation from domestic sources this week which carried prices to new lows at a time when foreign markets were holding steady or rising. Chief among these factors, judging from various market comments, is a feeling of discouragement over the outlook for business later in the year. The uncertainty created by recent European developments, added to the slowness of the spring business improvement, was sufficient to initiate a selling movement in the stock market, which increased its momentum as margin selling became a weakening factor.

Secretary Morgenthau - 2

Although stock prices in recent months had been maintained at levels that were obviously out of line with current earnings, a general belief that the low earnings were temporary and that profits would increase with a rising trend of business later in the year appeared to justify those levels. The sudden change in the European political outlook brought about by the German invasion of Austria suddenly clouded the business horizon. The weakening of foreign currencies, a downward trend of commodity prices, together with uncertainty over the maintenance of business levels abroad under the shadow of possible war, cast doubt on the ability of business in this country to maintain a rising trend during the summer and fall. While business improvement recently has continued along seasonal lines, the slowness of the improvement in some industries, particularly in automobile production, was a disappointment to many.

These developments were sufficient to call into question the recent stable levels of stock prices, and to start a general selling movement. It is not possible to rationalize the entire decline on this basis, of course, since technical conditions within the market accelerated the decline once it got under way, and may have carried it too far. A sharp rebound occurred at the end of the week, initiated by some easing of the political tension abroad. Whether or not this rally will be permanent, however, will depend upon what developments occur hereafter to create a greater feeling of optimism in the mind of the public. For this reason, it would appear opportune at this juncture to make public announcement of any additional phases of the Administration's program involving immediate moves likely to benefit business.

The current business trend

The New York Times business index for the week ended March 26, seasonally adjusted, continued at the stable level of recent weeks, with an increase of .8 point over the previous figure. An upturn in carloadings, affected temporarily by the recent freight rate increase, and a rise in steel ingot production, were partly offset by declines in the seasonally adjusted indexes for other series.

Looking over the current business statistics, the significant fact seems to be that business is improving, even though it is improving no faster than the normal seasonal amount. During periods of severe business declines the usual seasonal adjustments are of doubtful significance, the important fact being the actual upturn in business operations, which tends to continue once the decline has been halted and a rise gets under way.

Secretary Morgenthau - 3

In the case of automobile production, for example, the index will show a decline on a seasonally adjusted basis this week because the increase in output to 57,500 units from 56,900 the previous week was less than the normal seasonal increase. The upturn now getting under way, however, seems likely to continue beyond the time of the usual seasonal peak, which is reached about the middle of April. The adjusted index after that date would thus show an increase even though production remained unchanged.

Improved sentiment in steel trade

This week has seen a noticeable improvement in sentiment in the steel industry, with predictions current that a number of important companies will operate in the black during the second quarter. The improved sentiment is due to several encouraging developments, an important one being the fact that new steel orders have continued in good volume for the second successive week. Orders of the U. S. Steel Corporation during the past week, while slightly lower than in the previous week, were higher than the present operating rate. Orders for the two weeks combined indicate an operating rate of 40 per cent, while operations of the corporation currently are at a $3\frac{1}{4}$ per cent rate.

Offering further encouragement is the fact that structural steel inquiries are beginning to increase, with this week's inquiries double those of the previous week. An increasing volume of steel orders for immediate shipment appears to indicate that inventories are becoming depleted.

Considering the fact that the three industries which normally offer the main support to steel activity -- the automobile, railroad, and construction industries -- have been practically out of the market, the current rate of steel operations supported almost entirely by miscellaneous orders is making a good showing. An upturn in orders from any one of the three major consuming industries could advance the steel rate materially. The automobile industry is believed to offer greatest hope for an expansion in steel buying during April.

The usual seasonal adjustments for steel operations are believed to be of little significance at a time like this, when wide cyclical movements completely overshadow the seasonal pattern. With even a modest business recovery this year, the peak of steel operations will probably occur in the fall rather than in the spring, as it did in 1935 and 1936, when the peaks were reached in November and October, respectively.

Secretary Morgenthau - 4

Department store sales

The movement of goods into consumption in recent weeks, as indicated by the trend of department store sales, has been well supported, considering that this year's comparisons are with the very heavy pre-Easter sales at higher price levels in 1937. Total sales of reporting stores in dollar values during the week ending March 26, which was Easter week last year, were only 16.8 per cent below last year's figure. During the week ending March 5 they had been 17.5 per cent below. Easter buying should improve this year's comparison during the next two weeks.

Trends of new orders

New orders received by leading corporations during February, as reported confidentially to the Treasury and shown in summary form in Table 1, were somewhat lower than in January, due partly to the fact that February has about 10 per cent fewer business days. Taking this into account, the change in volume of orders between the two months this year compared favorably for building equipment with the trends in the two previous years, but compared unfavorably for railroad equipment, electrical equipment and textiles. For steel products the trend was about equal to those in the two previous years. In these comparisons it must be kept in mind (1) that a rising business trend was in progress in 1936 and 1937, and (2) that the seasonal rise this year is slower in getting under way.

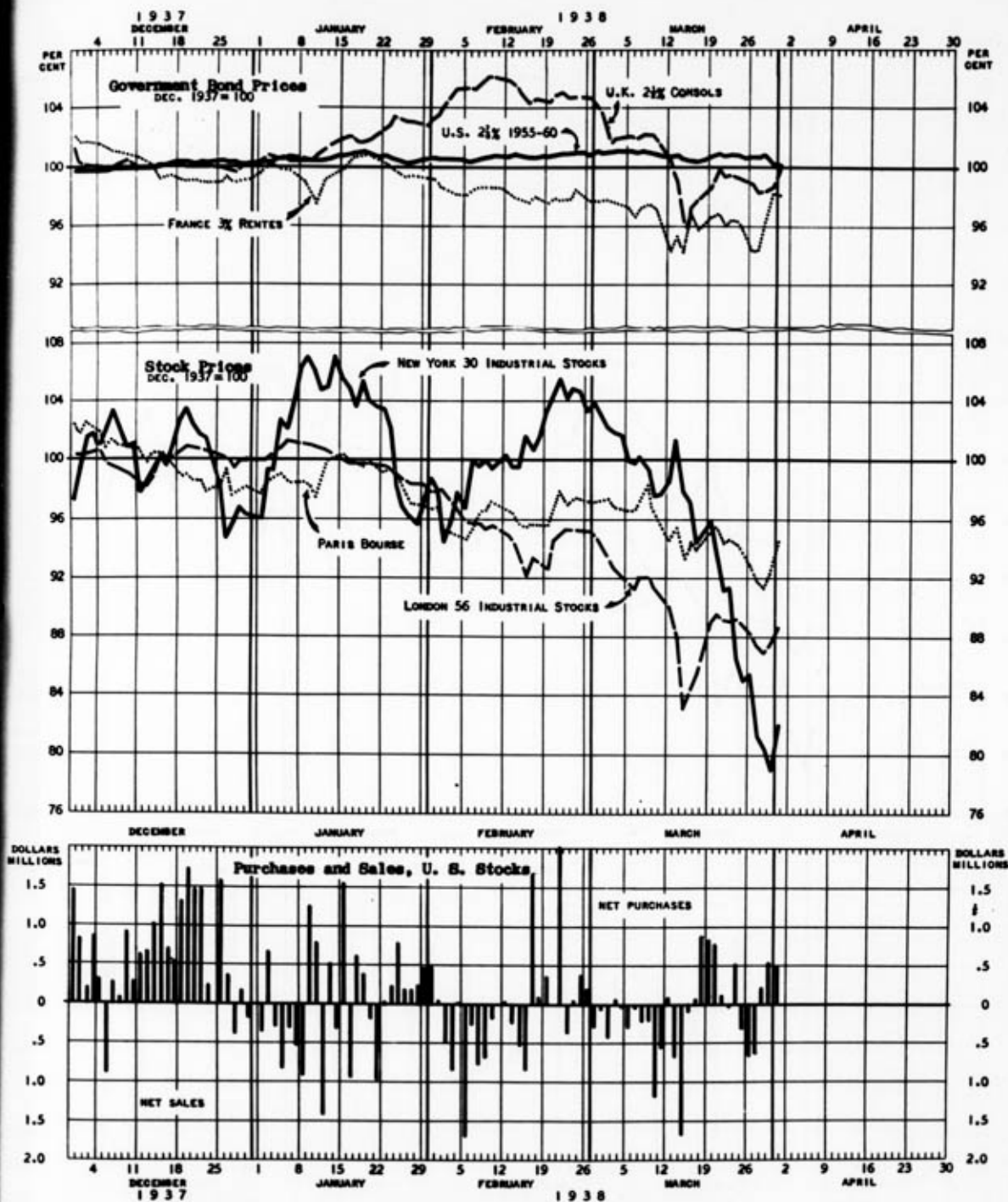
During March, judging from weekly data, a seasonal improvement has appeared in orders for steel products and building materials. The trend of textile orders has been slightly unfavorable, and likewise the trend of orders for electrical equipment. No March data are available from the railroad equipment companies. A summary of the weekly trend of orders is given in Table 2.

The price situation

Commodity prices have declined somewhat this week, partly in sympathy with weakness in our security markets and partly because of the continuing pressure of world deflationary influences. The decline occurred despite a rise in the leading foreign exchanges against the dollar, since the rise largely represented a weakening of the dollar as a result of the stock market decline. Rubber prices, which showed outstanding weakness, owed their sharp drop largely to selling from European sources, reported as representing speculative liquidation from Amsterdam. Wheat prices, an exception to the general trend, held firm on a growing scarcity of available export wheat in Canada, and a realization that the United States holds the only large world stocks of wheat available.

Chart 1

SECURITY PRICES IN U.K., FRANCE AND U.S. AND FOREIGN TRADING IN AMERICAN STOCKS



Orders, Sales, or Shipments of Reporting Companies
(millions of dollars)

Year	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Building Equipment (3 companies)													
1936	8.7	7.2	9.2	11.5	13.9	13.5	13.3	13.8	12.3	13.5	11.0	11.1	139.0
1937	11.6	10.8	13.4	16.6	15.1	14.4	14.0	15.1	13.3	12.0	9.8	7.6	153.7
1938	8.7	8.0											
Electrical Equipment (2 companies)													
1936	35.2	34.0	35.3	38.8	43.9	43.8	43.3	37.7	40.0	44.5	42.2	44.8	483.5
1937	55.5	56.6	68.6	73.8	52.5	53.0	50.3	44.7	42.7	41.5	39.7	32.6	611.5
1938	34.2	30.9p											
Railroad Equipment (4 companies)													
1936	5.5	12.9	7.3	10.9	12.4	8.6	13.2	6.2	6.5	6.3	29.3	28.0	147.1
1937	26.3	15.1	20.4	16.7	10.0	10.1	6.3	8.8	6.1	5.5	6.3	6.5	138.1
1938	7.1	5.7											
Textiles (3 companies)													
1936	11.5	16.3	8.4	8.4	10.7	14.0	12.0	11.5	15.0	21.6	18.6	15.6	163.6
1937	19.9	24.0	20.7	9.7	5.5	5.0	5.2	8.4	7.5	9.5	5.5	7.4	128.3
1938	6.0	5.9											
Total Excluding U. S. Steel ^{1/}													
1936	70.3	82.6	78.1	89.1	96.8	96.3	93.4	80.1	86.0	96.7	110.7	112.7	1,092.8
1937	128.9	124.6	146.0	139.4	103.6	103.1	93.8	93.2	85.5	81.0	71.4	65.1	1,235.6
1938	70.2	66.1p											
Total Including U. S. Steel													
1936	109.3	113.2	124.3	132.5	137.5	148.0	148.2	123.2	134.8	154.8	158.1	221.6	1,705.5
1937	201.4	196.4	258.5	217.5	160.1	159.2	147.9	143.5	130.5	115.5	102.9	96.3	1,929.7
1938	97.6	91.9p											

^{1/} Includes above groups and 2 additional companies.

1938 Weekly Orders, Sales, or Shipments
of Reporting Companies

Month	Week	Total Excluding U.S. Steel 1/	U.S. Steel (estimate)	Total Including U.S. Steel
(millions of dollars)				
January	1	7.02	4.73	11.75
	2	8.27	5.02	13.29
	3	8.90	6.66	15.56
	4	10.02	9.17	19.19
	5	10.18	5.66	15.84
February	1	8.50	7.48	15.98
	2	9.50	6.42	15.92
	3	8.85	5.55	14.40
	4	8.13	5.61	13.74
March	1	8.27	6.66	14.93
	2	9.12	6.66	15.78 p
	3	9.23	8.58	17.81 p
	4	9.76	7.71	17.47 p

1/ Includes the following companies: American Radiator, Johns-Manville (estimate) Sherwin-Williams, Air Reduction, Cannon Mills, Pacific Mills (estimate), American Woolen, General Electric.

April 4, 1938
9:19 a.m.

HMJR: - a good idea.

Wayne

Taylor: Ah - read that over again - say that over again, will you please.

HMJR: I said, in view of this message I told the President that I thought it would be a good idea to let Mr. Blum know the pattern that we follow here on having the banks voluntarily report every week and then having the Federal Reserve supervise, you see?

T: Yes.

HMJR: And - so that when he put this plan up to his cabinet he could say that - "that all I'm really doing is simply following the American plan." Furthermore, if he is successful and then the question is brought up and put up to the U. S. Treasury, well now that the French have made this move, doesn't that mean that outside of the Tripartite Agreement that we could say, "Oh, no, they're simply following the plan that we're using ourselves." Well, the President's comment was, "I think that's very smart." And he thought that it would be fine if we got into Cochran's hands a description of our plan and then let him give it to Mr. Blum, see?

T: Yes.

HMJR: Now, I'd like that done and I'd like that cable gotten off at once to Cochran with careful instructions that he should explain to Mr. Blum just how we do it here. See?

T: All right.

HMJR: Do you get the idea?

T: Yes, I got it.

HMJR: Because I doubt very much whether Mr. Blum knows how we do it because after all when Sir Frederick Phillips was over here he was amazed how much information we got through this volunteer plan and he - if you remember - Phillips said that we had much more information about the transactions than they had in their own market.

T: Yes, I understand.

HMJr: And I asked the President, I said, "It is still your thought, isn't it, to do everything possible to help the French?" And he said, "Absolutely". And he said two or three times, he said, "I think this is very smart." So...

T: Well, we'll get up a cable along those lines.

HMJr: Yes.

T: Now, the full plan is out this morning on the broad tape.

HMJr: What's that?

T: The full plan is out this morning on the broad tape.

HMJr: That's good.

T: Do you want me to read it to you?

HMJr: Yes.

T: In the bill the Government asked emergency power to:

(1) Revalorize the Bank of France gold reserve at the franc's present parity, which would provide twenty-four billion francs.

(2) Centralize all foreign exchange transactions in the Bank of France to which proof would have to be furnished in justification of foreign exchange requirements.

HMJr: Yes.

T: Now, you see that's quite a bit stronger than the plan that we have. It isn't what you might describe as just voluntary reporting.

HMJr: No. I see what you mean.

T: Yes. Well - Wait a minute.

HMJr: Go ahead. Hello.

T: Yes.

HMJr: I'm listening.

T: Archie was making a point that in our case why they had to report and in this case they actually centralized them there.

-3-

HMJr: Well, here's the thought that I had: After all, Blum may not get what he asked for, see?

T: Yes.

HMJr: And if he had our plan on his hands - even if - it might be a help and it might be of no use.

T: Well, under the circumstances, I think that if we do it on the basis of giving it to him for his information...

HMJr: That's right.

T: Why, it's perfectly all right, either way.

HMJr: That's the way I figure.

T: Yes.

HMJr: I've had a chance to sleep on it and I feel so strongly that he ought to do this. Now, if he can do this in a sensible way and really be successful at it it would help everybody.

T: Right.

HMJr: And therefore, I'm extremely anxious that we get over our plan and I think it ought to be in two sections: (1) The way we operate it now, and then what - ah - the additional powers that we have.

T: Well, we can do ^{it} this way, the way we first put it in...

HMJr: Yes.

T: Which was a little more drastic.

HMJr: Yes.

T: And then show it the way it operates now.

HMJr: That's right. That's right.

T: Just a minute.

HMJr: Hello. Hello. - Taylor?

T: Yes.

HMJr: Any disagreement at your end?

T: No.

HMJr: If the boys have any...

T: Wait a minute.

HMJr: ...question - if they don't agree, I wish they'd say something.

(Short pause)

HMJr: Hello. Hello.

T: Archie and Harry White make the point that the Federal Reserve may have already sent all those orders over to the Bank of France and in that case we can simply call Blum's attention to them - Cochran can do it. But I think that's just a detail.

HMJr: It's just a detail.

T: Yes.

HMJr: The important thing is I want to get this - ah - the fact that I send this via Cochran to Blum again reassures him, see?

T: I get it.

HMJr: You get the idea?

T: Oh, absolutely.

HMJr: As a matter of fact we don't have to say this - but he's no damn fool.

T: Right.

HMJr: He sent me a message yesterday and then I come back and say, "This is the way we're doing it."

T: Check.

HMJr: Well, then he must say, "Well, after all, then I guess they like it," because it would be pretty near the same thing. And if his people - he isn't going to get this through right away but he can say, "Well, look what they're doing in the United States."

-5-

T: Well, I think if we simply send it to him for his information...

HMJr: That's all - I wouldn't - I don't - I didn't suggest anything else.

T: No. Why, we're perfectly safe there.

HMJr: Wayne, try to get this thing off as soon as possible.

T: We will.

HMJr: And I'm going to call back again at noon.

T: Right.

HMJr: And I hope they get it off by then.

T: Ah - we'll have it off by then.

HMJr: And if there's any trouble over at the State Department about it, let me know.

T: Well, I don't see why there should be.

HMJr: Well. But in the instructions should go that - with this - that I'm instructing Cochran to see Blum again and give him this for his information.

T: Right.

HMJr: As soon as possible. See?

T: I've got it.

HMJr: You didn't get that Cochran cable to the President, did you?

T: Yes, I did.

HMJr: Oh, did you?

T: I did.

HMJr: What time?

T: About quarter past seven.

HMJr: Ha - that's funny. I talked to him at seven.

T: Oh, well that's - ah - I didn't realize you were going to call him that soon and I worked darn - had a little difficulty getting him.

HMJr: Yes.

T: It wasn't serious, and I thought that would be soon enough.

HMJr: Well, I figured out - I said, gosh, the cable must be there and I happened to know that was a good time to get him; you call him a little later and he's at dinner. But it's all right.

T: Well, I'm sorry about it. I just thought that you - if you were going to call him it would be later in the evening.

HMJr: Yes. Well, that's all right. I figured it out on my fingers that it - it must be there by then. Now, ah - what else have you got? --- I have nothing else. I'll call up about noon.

T: All right. Ah - silver seems to be steady, and unless something changes, why we thought we'd, ah, use the same price.

HMJr: And - ah - yeah, that's right. But, I, - I'd just like to know when this cable gets off.

T: All right. We'll go to work on that. Now we got - want to talk to anybody else here?

HMJr: Ah - not unless they want to talk to me. You might tell Ransom that I'm simply delighted the way they handled the thing last week.

T: I will.

HMJr: And - ah - I have nothing else. How's the weather?

T: Ah - cold and clear.

HMJr: I get you.

T: Fairly clear. Ah - Marriner's back.

HMJr: Good. Good.

T: I heard you.

HMJr: (Laughs) Is that better?

T: (Laughing) Yeah.

HMJr: All right.

T: All right, Henry.

HMJr: All right.

T: Thanks.

Monday
April 4, 1938
11:56 a.m.

Wayne
Taylor:

From the Secretary of the Treasury.

HMJr:

Please.

T:

"I refer to your five twenty-six STOP In view of new financial program and specific actions recommended Secretary of Treasury wishes you to see Blum and give to him full details of methods employed by this Government in its supervision of foreign exchange transactions STOP You should explain to him that you are making this information available to him at suggestion of Secretary Morgenthau as latter feels that the methods of supervision and reporting employed by this Government might be of particular interest to the French authorities who are struggling with new measures contemplated by Blum's financial program STOP You should emphasize in your presentation that Secretary Morgenthau in order to assure Blum of this Government's desire to continue close cooperation with the Government of France wishes him to have this information and that you are prepared to discuss with the French technicians any aspects of our methods which may need clarification STOP It is assumed that you and French technicians have complete set of laws regulations et cetera governing our purchases but in order to insure complete presentation full text of pertinent documents will be cabled to you later. In addition copies of reporting forms et cetera will be mailed to you END OF MESSAGE"

HMJr:

Well, that's - that's fine. Now, Wayne, that message, plus the message that he sent me yesterday, plus what's come out today on the broad tape, I want that all put on the train - McReynolds knows how to do it - on the train that leaves this evening and if McReynolds will send me a telegram saying who has it I'll send somebody to meet it tomorrow morning; - because it takes two days for my mail to get down here.

T:

All right, we'll do that.

HMJr:

That, --plus -- the one Cochran sent me yesterday, plus what's on the broad tape today in regard to what Blum proposes to do, you see? - McReynolds - I think he gives it to the dining car steward on that train tonight which gets into Thalman tomorrow morning. But, whoever has it, Mac should send me a wire, you see? Hello?

-2-

T: Yes.

HMJr: And then I'll send a man over to the train tomorrow morning; I'll get it that way.

T: Send a wire saying who he's giving it to?

HMJr: Yes. And who has it.

T: Yes.

HMJr: What train it's on.

T: Yes.

HMJr: And then Mrs. Klotz can send down any mail from the house with that package.

T: Right.

HMJr: Now, I put in a call for Cochran at twelve-thirty, you see.

T: Yes.

HMJr: I'm going to give him a little personal background on this.

T: Right.

HMJr: Now, this cable which is going to Cochran - ah - has anybody at the State Department seen it?

T: Yes. I've read it over the telephone to Feis...

HMJr: Yes.

T: And - ah - said that it would go like that. He had no comments.

HMJr: Well, now, I wish that you would explain this whole thing as well to Sumner Welles.

T: I'll do it.

HMJr: I want Sumner Welles particularly to know what I'm doing.

T: I will do it.

-3-

HMJr: And I have a particular reason. And he said
anything/^{like}this he would like to know it.

T: I'll call him right away on it.

HMJr: And when you call him say that I asked particularly
that he should know because I want him to watch it.

T: Check.

HMJr: And also that I'm doing it with the knowledge and the
hearty approval of the President.

T: Check.

HMJr: All right. Now, ah - anything on silver?

T: Ah - quiet - forty-two seventeen in London.

HMJr: All right.

T: And we think no change.

HMJr: All right. Government bonds?

T: Government bonds are steady and quiet.

HMJr: Uh huh. And stocks and commodities?

T: Ah - mixed; commodities off a little and common
stocks off a little.

HMJr: Yes.

T: Rails and Utilities up slightly.

HMJr: Yes. Now, this is for Harry White; is he there?

T: Yes.

HMJr: Can I talk to him a minute?

T: Right.

Harry D.
White: Hello.

HMJr: Harry.

W: Yes, sir.

HMJr: In making a study of the present imports and exports I wish you'd draw a comparison to the fact that our exports are holding up at present as compared to the time when the English devalued up to the time that we devalued - the way we lost our export market, see?

W: I'll compare the two.

HMJr: Do you get the idea?

W: I do.

HMJr: Now, after all, that depression we went through during those two years, when the English had the advantage of us on account of their difference in their currency; that difference doesn't exist today because we have a favorable position due to the value of our dollar. Hello?

W: Yes, I'm listening.

HMJr: And, in writing your memo I want to include that. And it's going to maybe make all the difference in the world in recovery.

W: I'll - I'll emphasize the comparison and draw whatever significance

HMJr: Do you get the idea?

W: I do. Yes.

HMJr: Well, I mean, that's something which hasn't been pointed out and hasn't been evaluated.

W: We'll include it.

HMJr: I mean,- after all, we're holding our export markets

W: That's right.

HMJr: And we lost them during - four or five years ago.

W: That's right.

HMJr: And maybe, due to our favorable position of the dollar...

W: In part.

HMJr: What?

W: In part.

HMJr: I don't hear you.

W: In part only.

HMJr: Yes, but ...

W: There are other reasons and we'll try to evaluate them all.

HMJr: Do you get it?

W: Yes. I do.

HMJr: All right. Now if Mrs. Klotz will go back to my room
.....

W: Just one moment, Wayne Taylor would like to speak with you first.

Wayne Taylor: Henry.

HMJr: Yes.

T: I have reports from the three main people who were at this meeting that you know about.

HMJr: Yes.

T: Jesse, Ransom and Bill Douglas.

HMJr: Yes.

T: And they concurred in the report that I made.

HMJr: Yes.

T: Now, the idea is to get that over to the President.

HMJr: Yes.

T: And have him decide whether he wishes to release it or not.

HMJr: All right.

-6-

T: It is in the form - in a form in which it could be released. It was written from that standpoint.

HMJr: O. K.

T: And I will get that over to him today.

HMJr: Well, and get me a copy tonight.

T: I will.

HMJr: Yes.

T: O. K.

HMJr: Anything else?

T: No.

HMJr: How are you feeling?

T: Oh, I feel fine.

HMJr: Good.

T: Ah - my day is a little shorter on account of - I've talked to the Chairman (laughing) just before this to some length.

HMJr: All right.

T: And he's feeling fine.

HMJr: Good.

T: Right.

HMJr: Yes.

T: Goodbye.

HMJr: Goodbye.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 4, 1938, 11 a.m.

NO.: 527

RUSH

FROM COCHRAN.

On Saturday the French control purchased in London 56,000 pounds of sterling. At eleven this morning when I visited at the Bank of France the franc was firm and the control had undertaken no operations.

Georges Boris of Blum's staff in the Finance Ministry telephoned to Governor Fournier this morning and presented an apology from Blum for not having seen Fournier during the last few days. He had not been able to do so because of pressure of receiving his political advisers in connection with the financial program he was working out. In talking to Fournier, Boris let it be understood that Blum did not for a moment believe that Parliament would pass his measures. However, in his program he had incorporated a fairly wide range of measures; he believes that any government which may succeed him will inevitably have to adopt some of these measures.

One specific measure to be included in the program is that of the Government "annexing" foreign currency deposits in French banks. The Blum group had learned that this had been developed by Bonnet with his adviser de Boisanger, now the Bank of France's Under Governor, at

- 2 -

the time that Bonnet was Minister of Finance, but the plan had never been brought forward. Therefore it will be possible for Blum to state now that in his program he is including steps conceived by his conservative predecessors and later he may be able to charge that his own plans have been adopted by his successors.

In strictest confidence I have been given to understand that in Blum's program are included: partial revalorization of the gold stocks of the Bank of France; further credit to the State from the Bank of France of ten billion francs; having a monopoly in foreign exchange dealings vested in the Bank of France.

The foregoing information I believe is accurate, but it should not be taken as final; late this evening or tomorrow morning the whole program should appear in the press.

WILSON.

RECEIVED
APR 4 1938
TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY
OFFICE OF THE SECRETARY
WASHINGTON, D.C.
EA: LWW

PARAPHRASE OF TELEGRAM BENT

TO: American Embassy, Paris, France

DATE: April 4, 1938, noon

NO.: 199

FROM SECRETARY MORGENTHAU.

FOR COCHRAN.

Reference is made to your telegram No. 526 of April 3.

The Secretary of the Treasury, in view of the new financial program and specific actions, wants you to see Mr. Blum and give to him the full details of this Government's methods for supervising transactions in foreign exchange. When you see Mr. Blum you should explain to him that Secretary Morgenthau has suggested that you make this information available to him, as Secretary Morgenthau feels that this Government's methods of supervision and reporting might be of particular interest to the French authorities who are making a study of the new measures contemplated in the financial program of Blum. In your presentation you should emphasize that the Secretary of the Treasury wants Mr. Blum to have this information in order to assure him of this Government's desire to continue close cooperation with the French Government; you should also emphasize that you are prepared to discuss with the French technicians any aspects of our methods which may need to be cleared up.

The Treasury is assuming that you and the French technicians have a complete set of laws, regulations, et
cetera,

- 2 -

cetera, governing our practices. However, the Treasury is cabling to you the full text of pertinent sections of relevant documents in order to insure complete presentation; in addition it is mailing to you copies of the documents and of reporting forms, and so on.

HULL

EA:LWW

RECEIVED
MAR 11 1938
TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

JR

GRAY

London

Dated April 4, 1938

Rec'd 1:50 p.m.

Secretary of State,
Washington.

277, April 4, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The announcement of Blum's budget balancing proposals caused bear covering of franc positions and the franc moved to 158-3/4. The French fund did not intervene even though the volume of dealings was small. There is no (repeat no) expectation that Blum's program will be passed into law and the fall of his Government is taken for granted. His action is regarded here as a shrewd political move from his own standpoint but one which will probably hinder the formation of a truly national government.

KENNEDY

R?:SMS

JR

GRAY

Paris

Dated April 4, 1938

Rec'd 2:17 p.m.

Secretary of State,
Washington.

RUSH.

530, April 4, 5 p.m. (SECTION ONE)
FROM COCHRAN.

The financial program submitted by Blum and passed by the Cabinet this noon and by the Council of Ministers this afternoon contains a bill consisting of two articles. The first article authorizes the Government to take, by decree, up until July 1, 1938, the measures which it considers necessary to meet the requirements of national defense, to protect the gold reserves of the Bank of France and to restore the finances and economic conditions of the nation. The second article provides that the decrees taken under authority of the first article shall be submitted to Parliament for ratification during the extraordinary session of 1938, and at the latest by December 31, 1938.

The bill is accompanied by a long explanatory

memorandum

-2- #530, April 4, 5 p.m. (SECTION ONE) from Paris.

memorandum which reviews the situation which the Government faces and which sets forth an outline of the measures which the Government anticipates taking if granted the authority requested.

WILSON

CSB

REB

GRAY

Paris

Dated April 4, 1938

Rec'd 2:24 p. m.

Secretary of State,
Washington.

RUSH

530, April 4, 5 p. m. (SECTION TWO)

The introduction estimates at two billion of Poincare francs or 80 billion of current francs the amount of capital which has been exported from France from 1935 to date. To cover the needs of the Treasury amounting to over 36 billion francs in excess of revenues for the calendar year 1938, it is stated that there are two alternatives, borrowing or inflation. International political conditions in March prevented a long term loan issue. The market is still in such condition that it appears desirous not to attempt for some time to appeal thereto for long term lending. Due to drying up of bank deposits and private resources, resort to the short term financial market is also ruled out for the present. Therefore the Government is forced to recommend inflationary measures but at the same time suggests

REB

2-#530, From Paris, April 4, 5 p.m.
(SECTION TWO)

suggests certain checks to prevent the newly created means of payment from moving as in the past into gold or foreign currencies.

I am not attempting to enumerate all of the financial and economic measures suggested by the explanatory note, a summary of which is being cabled by the press bureaus. I mention herewith only a few of the outstanding points, particularly those of interest in connection with the raising of funds for the Treasury, the protection of the currency and the control of credit with special reference to obligations assumed under the tripartite agreement.

WILSON

CSB

REB.

GRAY

Paris

Dated April 4, 1938

Rec'd 3:25 p. m.

Secretary of State,
Washington.

RUSH

530, April 4, 5 p. m. (SECTION THREE)

The Government rejects the idea of a forced or semi-forced conversion of Government securities. Bearer shares are to be suppressed and substituted therefor a new type of registered security with a view to avoiding tax evasion. Government funds shall be subjected hereafter to the taxes of transmission and transfer and to the tax applied to interest on securities.

For a period of two years amortization is to be suspended on debts of the state, of public bodies and of the railways. A special tax levy on capital is to be made, the proceeds to be paid into the national defense fund. To provide for the immediate maturities of the Government, Parliament will be asked to authorize the Bank of France to give a new limited credit in the amount justified by the urgent requirements (this shall not exceed 10 billion francs). Contractors for
Government

REB

2-#530, From Paris, Apr. 4, 5 p.m.
(Sec. Three)

Government public works or for Government supplies may draw drafts upon the Government departments which will be discounted by discounted spending private credit establishments and be eligible for rediscount at the Bank of France. To permit a ~~revival~~ of subscriptions to Treasury bills the Bank of France will grant private banks advances on their foreign currency holdings.

WILSON

CSB

REB

GRAY

Paris

Dated April 4, 1938

Rec'd 3:15 p. m.

Secretary of State,
Washington.

530, April 4, 5 p. m. (SECTION FOUR)

The Government proposes measures to increase the volume of credit and to lower interest rates. The Bank of France is charged with the responsibility of supervising closely the placing into effect of the government's cheap money policy. It will demand confidential reports from the bank of their monthly situation as well as a statement of the credits which they grant.

A new provisional revaluation of the gold stock of the Bank of France is envisaged. The Government is against permitting further diminution of this stock because of its need for national defense. The basis of revaluation which the Government envisages approves leaving to the franc a margin of variation sufficient to permit it freely to find its normal level. The profits from revaluation might be applied to the rentes fund. Whenever legal stabilization should take place
the

REB

2-#530, From Paris, Apr. 4, 5p.m.
(Sec. Four)

the profits would be applied to reimbursing advances from the Bank of France to the state. In the meantime effort would be made to raise the quotation of state securities.

Stabilization fund alone has not been sufficient to check the flight from the franc into gold and foreign currencies. With a view to protecting the currency effectively all foreign exchange operations will be centralized in the Bank of France which will require the submission of documentary evidence of legitimate requirements.

Paris exchange market witnessed little trading today. When above proposals became known after the official session there was a pick up in business and a strengthening of the franc, operators feeling that Parliament will not give Blum authority to carry out such measures as those envisaged. The market looks therefore for an early fall of the Government.

(END MESSAGE)

WILSON

CSB

REB

GRAY

Paris

Dated April 4, 1938

Rec'd 5:39 p. m.

Secretary of State,
Washington.

531, April 4, 6 p. m.

My 517, April 1, 6 p. m.

Blum's long-awaited financial program was at last submitted to a meeting of the Cabinet this morning and to a Council of Ministers this afternoon. It takes the form of a lengthy preamble setting out the economic and financial problems facing the country and giving the general lines of the program which the Government proposes in order to deal with these problems. Following the preamble is a brief bill authorizing full powers to the Government to take by decree up to July 1, 1938 any measures deemed indispensable to meet the requirements of national defense, to protect the gold reserves of the Bank of France and to improve the finances and economy of the nation.

The Financial Committee of the Chamber is now in session to consider this program. The Committee will

REB

2-#531, From Paris, Apr. 4, 6p.m.

will probably recess later to permit meetings of the various political groups and then resume its session.

Certain provisions of the program (which are being reported in detail by Cochran for the Treasury), such as a capital levy, revaluation of the gold reserves of the Bank of France and the granting of ten billions additional advances by the Bank to the Treasury, are certain to meet with great opposition from the Radical Socialists. It is said that various Radical Socialist members of the Finance Committee have already gone on record as opposed to the program and it is possible that the Committee may report the bill unfavorably. Even if this should take place, however, it is not believed that the Government will resign but that it will in any case go before the Chamber of Deputies tomorrow afternoon.

(END SECTION ONE)

WILSON

RGC

NPL

PARAPHRASE OF SECTION TWO, NO. 531 of April 4, from Paris

The decision which the Radical Socialists in the Chamber will have to make will be difficult. They are hostile to various provisions in Blum's program, but against that is the responsibility they would incur by voting against it and breaking up the Popular Front party. Certain reasons of an electoral nature are doubtless no less important, since it is said that reelection of some sixty Radical Socialist deputies depends on Socialist support.

Should the Government get a favorable vote in the Chamber, however, it seems almost certain that the program will be voted down by the Senate.

Another item of interest is that broad increases in customs duties are envisaged in the Government's program.
END MESSAGE.

WILSON

RECEIVED

APR 11 1938

RECEIVED
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.

April 4, 1938

Dear Herbert:

I am enclosing the message which I discussed with you over the telephone. Will you please see that it is transmitted to Cochran immediately?

Sincerely,

(Signed) Wayne C. Taylor

Assistant Secretary

Honorable Herbert Feis
Office of the Secretary
Department of State
Washington, D. C.

By hand 11⁰⁵ am
EJH

April 4, 1938

FOR: COCHRAN
FROM: THE SECRETARY OF THE TREASURY

I refer to your 526 STOP In view of new financial program and specific actions recommended Secretary of Treasury wishes you to see Blum and give to him full details of methods employed by this Government in its supervision of foreign exchange transactions STOP You should explain to him that you are making this information available to him at suggestion of Secretary Morgenthau as latter feels that the methods of supervision and reporting employed by this Government might be of particular interest to the French authorities who are studying the new measures contemplated by Blum's financial program STOP You should emphasize in your presentation that Secretary Morgenthau in order to assure Blum of this Government's desire to continue close cooperation with the Government of France wishes him to have this information and that you are prepared to discuss with the French technicians any aspects of our methods which may need clarification

PARAGRAPH It is assumed that you and French technicians have complete set of laws regulations et cetera governing our practices but in order to insure complete presentation full text of pertinent sections of relevant documents are being cabled to you STOP In addition copies of the documents and of reporting forms et cetera will be mailed to you

April 4, 1938

88

FOR: COCHRAN

FROM: THE SECRETARY OF THE TREASURY

I refer to your 526 STOP In view of new financial program and specific actions recommended Secretary of Treasury wishes you to see Blum and give to him full details of methods employed by this Government in its supervision of foreign exchange transactions STOP You should explain to him that you are making this information available to him at suggestion of Secretary Morgenthau as latter feels that the methods of supervision and reporting employed by this Government might be of particular interest to the French authorities who are studying the new measures contemplated by Blum's financial program STOP You should emphasize in your presentation that Secretary Morgenthau in order to assure Blum of this Government's desire to continue close cooperation with the Government of France wishes him to have this information and that you are prepared to discuss with the French technicians any aspects of our methods which may need clarification PARAGRAPH It is assumed that you and French technicians have complete set of laws regulations et cetera governing our practices but in order to insure complete presentation full text of pertinent sections of relevant documents are being cabled to you STOP In addition copies of the documents and of reporting forms et cetera will be mailed to you

There follow selections from some of the Executive Orders and Regulations relating to regulation of foreign exchange transactions which indicate the general pattern of control over foreign exchange transactions. Other orders and regulations have been issued from time to time. A complete set is being forwarded by mail. The regulations of November 12, 1934, Exhibit No. 5, ^{are} is still in force.

Exhibit 1. Executive Order of March 10, 1933 concerning the operation of banks.

- Paragraph 2. "The Secretary of the Treasury is authorized and empowered under such regulations as he may prescribe to permit any member bank of the Federal Reserve System and any other banking institution organized under the laws of the United States, to perform any or all of their usual banking functions, except as otherwise prohibited."
- Paragraph 6. "No permission to any banking institution to perform any banking functions shall authorize such institution to pay out any gold coin, gold bullion or gold certificates except as authorized by the Secretary of the Treasury, nor to allow withdrawal of any currency for hoarding, nor to engage in any transaction in foreign exchange except such as may be undertaken for legitimate and normal business requirements, for reasonable traveling and other personal requirements, and for the fulfillment of contracts entered into prior to March 6, 1933."
- Paragraph 7. "Every Federal Reserve Bank is authorized and instructed to keep itself currently informed as to transactions in foreign exchange entered into or consummated within its district and shall report to the Secretary of the Treasury all transactions in foreign exchange which are prohibited."

²
Exhibit 3.

Federal Reserve Bank of New York Circular No. 1176,
March 12, 1933, Relating to Instructions for carrying
out transactions in foreign exchange.

Paragraph 3. "The Executive Order of March 10, 1933, prohibits all
transactions in foreign exchange *** except such
transactions as may be undertaken

- (a) for legitimate and normal business requirements,
- (b) for reasonable traveling and other personal
requirements, and
- (c) for the fulfillment of contracts entered into
prior to March 6, 1933.

Paragraph 4. "In order that the Federal Reserve Bank of New York may
keep itself currently informed as to transactions in
foreign exchange entered into or consummated within
the Second Federal Reserve District and may report
to the Secretary of the Treasury all transactions
in foreign exchange which are prohibited, the Federal
Reserve Bank of New York hereby requires dealers**
in foreign exchange doing business in the Second
Federal Reserve District

- (1) to obtain from each person* to whom they sell
foreign exchange directly or indirectly, a written
declaration signed by such person describing the
purpose for which the foreign exchange is pur-
chased and certifying that the transaction in
no way contravenes the Act of March 9, 1933,
the Executive Order of March 10, 1933, or any
regulation issued thereunder,

and

- (2) to file with the Federal Reserve Bank of New
York written reports which will show the foreign
exchange position of such dealers at any given
time. For the present such reports are required
only from dealers who carry their own accounts
abroad and/or who carry accounts here on their
books for foreigners.

Paragraph 5. "The Executive Order of March 10, 1933, permits foreign
exchange transactions for the fulfillment of contracts
entered into prior to March 6, 1933. To enable the
Federal Reserve Bank of New York to examine such con-
tracts each dealer in foreign exchange doing business

Exhibit 3 - Page 2.

in the Second Federal Reserve District is directed to forward to the Federal Reserve Bank of New York a detailed list of all foreign exchange contracts entered into by him prior to March 6, 1933, for the delivery of foreign exchange after that date. This list should classify contracts by currencies and should show the maturity of each contract. The dealers should advise the Federal Reserve Bank of New York in writing as such contracts are fulfilled."

"Footnote: * The word "person" in these regulations means any individual, partnership, association or corporation;

** A "dealer in foreign exchange" means any person engaged primarily or incidentally in the business

- (1) of buying, selling or dealing in foreign exchange, or
- (2) of buying, selling or dealing in securities for or through foreign correspondents, or
- (3) any person who carries accounts or securities with or for foreign correspondents.

*** The term "foreign exchange" means checks, drafts, bills of exchange, cable transfers, or any form of negotiable or assignable instrument, or order used

- (a) to transfer credit or to order the payment of funds in any foreign country, or
- (b) to transfer credit or to order the payment of funds within the United States for foreign account."

Exhibit ³₁

Executive Order, August 28, 1933, Relating to the Hoarding, Export, and Earmarking of Gold coin, Bullion, or Currency and to Transactions in Foreign Exchange. Revokes Executive Order April 20, 1933.

"Section 8. Until further order, the Secretary of the Treasury is authorized, through any agency that he may designate, to investigate, regulate, or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange, transfers of credit from any banking institution within the United States to any foreign branch or office of such banking institution or to any foreign bank or banker, and the export or withdrawal of currency from the United States, by any person within the United States; and the Secretary of the Treasury may require any person engaged in any transaction referred to herein to furnish under oath complete information relative thereto, including the production of any books of account, contracts, letters, or other papers, in connection therewith in the custody or control of such person either before or after such transaction is completed."

Exhibit 6.

Executive Order January 15, 1934, regulating transactions in foreign exchange, transfers of credit and the export of coin and currency.

- Section 1. "Every transaction in foreign exchange, transfer of credit between any banking institution within the United States and any banking institution outside of the United States (including any principal, agent, home office, branch, or correspondent outside of the United States of a banking institution within the United States), and the export or withdrawal from the United States of any currency or silver coin which is legal tender in the United States, by any person within the United States, is hereby prohibited, except under license therefor issued pursuant to this Executive Order; provided, however, that, except as prohibited under regulations prescribed by the Secretary of the Treasury, foreign exchange transactions and transfers of credit may be carried out without a license for (a) normal commercial or business requirements, (b) reasonable traveling and other personal requirements, or (c) the fulfillment of legally enforceable obligations incurred prior to March 9, 1933."
- Section 3. "Licenses. The Secretary of the Treasury, acting directly or through any agencies that he may designate, and the Federal reserve banks acting in accordance with such rules and regulations as the Secretary of the Treasury may from time to time prescribe, are hereby designated as agencies for the granting of licenses as hereinafter provided. Licenses may be granted authorizing such transactions in foreign exchange, transfers of credit and exports of currency (other than gold certificates) or silver coin in such specific cases or classes of cases as the Secretary of the Treasury may determine in regulations prescribed hereunder and rulings made pursuant thereto."
- Section 4. "Reports. The Federal reserve banks shall keep themselves currently informed as to foreign exchange transactions entered into or consummated, and transfers of credit made between banking institutions outside of the continental United States and banking institutions, in their districts, and report to the Secretary of the Treasury all transactions in foreign exchange and all such transfers of credit not permitted under Sections 1 or 2 hereof which are effected or attempted in their districts without a license."

Exhibit 6. (2)

Section 5.

"Regulations. The Secretary of the Treasury is authorized and empowered to prescribe from time to time regulations to carry out the purposes of this Order, and to provide in such regulations or by rulings made pursuant thereto, the conditions under which licenses may be granted by the Federal reserve banks and by such other agencies as the Secretary of the Treasury may designate; and the Secretary of the Treasury may require any person engaged in any transaction, transfer, export, or withdrawal referred to in this Executive Order to furnish under oath complete information relative thereto, including the production of any books of account, contracts, letters, or other papers, in connection therewith in the custody or control of such person either before or after such transaction, transfer, export, or withdrawal is completed."

Treasury Regulation, November 12, 1934, Relating to Transactions in Foreign Exchange, Transfers of Credit, and the Export of Coin and Currency.

"Article 2. licenses may be granted, and a general license is hereby granted, to all individuals, partnerships, associations, and corporations, authorizing any and all transactions in foreign exchange, transfers of credit, and exports of currency (other than gold certificates) and silver coin. The general license herein granted authorizes transactions to be carried out which are permitted by the Executive Order of January 15, 1934 under license therefor issued pursuant to such Executive Order; but does not authorize any transaction to be carried out which, at the time, is prohibited by any other order or by any law, ruling, or regulation.

" Article 3. In order that Federal reserve banks may keep themselves currently informed as to foreign exchange transactions and transfers of credit, as required in Section 4 of the Executive Order of January 15, 1934, every person engaging in any transaction, transfer, export or withdrawal referred to in Section 1 of such Executive Order shall furnish to the Federal Reserve bank of the district in which such person has his principal place of business in the United States complete information relative thereto upon report forms prescribed by the Secretary of the Treasury, except that reports are not required to be furnished by (1) persons not carrying during any part of the reporting period, accounts abroad or accounts in the United States for non-residents thereof, or

(2) persons whose aggregate transactions, transfers, exports, or withdrawals for their own account and the account of others do not exceed \$5,000 during any seven-day period. Such information shall be furnished on a weekly basis except as the respective Federal Reserve banks permit the information in certain cases or classes of cases to be furnished on the basis of longer intervals.

"These regulations and the general license herein granted may be modified or revoked at any time."

Exhibit 6. Federal Reserve Bank of New York Circular No. 1474, November 13, 1934. Superseding Circular No. 1176 of March 12, 1933. Relating to institutions engaging in transactions in foreign exchange.

"Written Declarations No Longer Required"

.

"Weekly and Monthly Reports Required"

.

"Every person having his principal place of business in the United States in the Second Federal Reserve District and engaging in any transaction, transfer, export, or withdrawal referred to in Section 1 of the Executive Order of January 15, 1934, shall furnish to the Federal Reserve Bank of New York complete information upon report forms to be prescribed by the Secretary of the Treasury, relative to such transactions, transfers, exports and withdrawals, as follows:

1. Banks and bankers are required to report weekly as of the close of business each Wednesday night beginning December 5, 1934;
2. Brokers and dealers in securities are required to report weekly as of the close of business each Wednesday night beginning December 5, 1934; and
3. All other persons subject to the provisions of Article 3 of the above quoted regulations (such as, for example, certain exporters, importers and industrial companies doing business abroad) are required to report monthly as of the close of business of the last Wednesday in each month beginning December 26, 1934;

except that reports are not required to be furnished by (1) persons not carrying during any part of the reporting period, accounts abroad or accounts in the United States for non-residents thereof, or (2) persons whose aggregate transactions, transfers, exports, or withdrawals for their own account and the account of others do not exceed \$5,000 during any seven-day period.

"The transactions, transfers, exports, and withdrawals referred to in Section 1 of the Executive Order of January 15, 1934, and hereby required to be reported as above, include 'Every transaction in foreign exchange, transfer of credit between any banking institution within the United States and any banking institution outside of the United States (including any principal, agent, home office, branch, or correspondent outside of the United States of a banking institution within the United States), and the export or withdrawal from the United States of any currency or silver coin which is legal tender in the United States, by any person within the United States'."

REB

TELEGRAM SENT

PLAIN & GRAY

April 4, 1938.

6 p. m.

AMEMBASSY

PARIS (FRANCE)

201

FOR COCHRAN FROM THE SECRETARY OF THE TREASURY.

There follow selections from some of the Executive Orders and Regulations relating to regulation of foreign exchange transactions which indicate the general pattern of control over foreign exchange transactions. Other orders and regulations have been issued from time to time. A complete set is being forwarded by mail. The regulations of November 12, 1934, Exhibit No. 5, are still in force.

At 1. Executive Order of March 10, 1933 concerning the operation of banks.

Paragraph 2. "The Secretary of the Treasury is authorized and empowered under such regulations as he may prescribe to permit any member bank of the Federal Reserve System and any other banking institution organized under the laws of the United States, to perform any or all of their usual banking functions, except as otherwise prohibited."

Paragraph 6.

REB

2-#201, To Paris, Apr. 4, 6p.m.

Paragraph 6. "No permission to any banking institution to perform any banking functions shall authorize such institution to pay out any gold coin, gold bullion or gold certificates except as authorized by the Secretary of the Treasury, nor to allow withdrawal of any currency for hoarding, nor to engage in any transaction in foreign exchange except such as may be undertaken for legitimate and normal business requirements, for reasonable traveling and other personal requirements, and for the fulfillment of contracts entered into prior to March 6, 1933."

Paragraph 7. "Every Federal Reserve Bank is authorized and instructed to keep itself currently informed as to transactions in foreign exchange entered into or consummated within its district and shall report to the Secretary of the Treasury all transactions in foreign exchange which are prohibited."

Exhibit 2. Federal Reserve Bank of New York Circular No. 1176, March 12, 1933, Relating to Instructions for carrying out transactions in foreign exchange.

Paragraph 3. "The Executive Order of March 10, 1933, prohibits all transactions in foreign exchange *** except such transactions as may be undertaken

- (a) for legitimate and normal business requirements,
- (b) for reasonable traveling and other personal requirements, and
- (c) for the fulfillment of contracts entered into prior to March 6, 1933.

Paragraph 4. "In order that the Federal Reserve Bank of New York may keep itself currently informed as to transactions in foreign exchange entered into or consummated within the Second Federal Reserve District and may report to the Secretary of the Treasury all transactions in foreign exchange which are prohibited, the Federal Reserve Bank of New York hereby requires dealers ** in foreign exchange doing business in the Second Federal Reserve District

(1)

REB

3-#201, To Paris, Apr. 4, 6 p.m.

(1) to obtain from each person* to whom they sell foreign exchange directly or indirectly, a written declaration signed by such person describing the purpose for which the foreign exchange is purchased and certifying that the transaction in no way contravenes the Act of March 9, 1933, the Executive Order of March 10, 1933, or any regulation issued thereunder,

and

(2) to file with the Federal Reserve Bank of New York written reports which will show the foreign exchange position of such dealers at any given time. For the present such reports are required only from dealers who carry their own accounts abroad and/or who carry accounts here on their books for foreigners.

Paragraph 5. "The Executive Order of March 10, 1933, permits foreign exchange transactions for the fulfillment of contracts entered into prior to March 6, 1933. To enable the Federal Reserve Bank of New York to examine such contracts each dealer in foreign exchange doing business in the Second Federal Reserve District is directed to forward to the Federal Reserve Bank of New York a detailed list of all foreign exchange contracts entered into by him prior to March 6, 1933, for the delivery of foreign exchange after that date. This list should classify contracts by currencies and should show the maturity of each contract. The dealers should advise the Federal Reserve Bank of New York in writing as such contracts are fulfilled."

Footnote: * The word "persons" in these regulations means any individual, partnership, association or corporation;

** A "dealer in foreign exchange" means any person engaged primarily or incidentally in the business

(1) of buying, selling or dealing in foreign exchange, or

(2) of

REB

4-#201, To Paris, Apr. 4, 6p.m.

- (2) of buying, selling or dealing in securities for or through foreign correspondents, or
- (3) any person who carries accounts or securities with or for foreign correspondents.

*** The term "foreign exchange" means checks, drafts, bills of exchange, cable transfers, or any form of negotiable or assignable instrument, or order used

- (a) to transfer credit or to order the payment of funds in any foreign country, or
- (b) to transfer credit or to order the payment of funds within the United States for foreign account."

Exhibit 3. Executive Order, August 28, 1933, Relating to the Hoarding, Export, and Earmarking of Gold coin, Bullion, or Currency and to Transactions in Foreign Exchange. Revokes Executive Order April 20, 1933.

"Section 8. Until further order, the Secretary of the Treasury is authorized, through any agency that he may designate, to investigate, regulate, or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange, transfers of credit from any banking institution within the United States to any foreign branch or office of such banking institution or to any foreign bank or banker, and the export or withdrawal of currency from the United States, by any person within the United States; and the Secretary of the Treasury may require any person engaged in any transaction referred to herein to furnish under oath complete information relative thereto, including the production of any books of account, contracts, letters, or other papers, in connection therewith in the custody or control of such person either before or after such transaction is completed."

Exhibit 4.

REB

5-#201, To Paris, Apr. 4, 6p.m.

Exhibit 4. Executive Order January 15, 1934, regulating transactions in foreign exchange, transfers of credit and the export of coin and currency.

Section 1. "Every transaction in foreign exchange, transfer of credit between any banking institution within the United States and any banking institution outside of the United States (including any principal, agent, home office, branch, or correspondent outside of the United States of a banking institution within the United States), and the export or withdrawal from the United States of any currency or silver coin which is legal tender in the United States, by any person within the United States, is hereby prohibited, except under license therefor issued pursuant to this Executive Order; provided, however, that, except as prohibited under regulations prescribed by the Secretary of the Treasury, foreign exchange transactions and transfers of credit may be carried out without a license for (a) normal commercial or business requirements, (b) reasonable traveling and other personal requirements, or (c) the fulfillment of legally enforceable obligations incurred prior to March 9, 1933."

Section 3. "LICENSES, The Secretary of the Treasury, acting directly or through any agencies that he may designate, and the Federal reserve banks acting in accordance with such rules and regulations as the Secretary of the Treasury may from time to time prescribe, are hereby designated as agencies for the granting of licenses as hereinafter provided. Licenses may be granted authorizing such transactions in foreign exchange, transfers of credit and exports of currency (other than gold certificates) or silver coin in such specific cases or classes of cases as the Secretary of the Treasury may determine in regulations prescribed hereunder and rulings made pursuant thereto."

Section 4.

REB

6-#201, To Paris, Apr. 4, 6p.m.

Section 4. "Reports. The Federal reserve banks shall keep themselves currently informed as to foreign exchange transactions entered into or consummated, and transfers of credit made between banking institutions outside of the continental United States and banking institutions, in their districts, and report to the Secretary of the Treasury all transactions in foreign exchange and all such transfers of credit not permitted under Sections 1 or 2 hereof which are effected or attempted in their districts without a license."

Section 5. "Regulations. The Secretary of the Treasury is authorized and empowered to prescribe from time to time regulations to carry out the purposes of this Order, and to provide in such regulations or by rulings made pursuant thereto, the conditions under which licenses may be granted by the Federal reserve banks and by such other agencies as the Secretary of the Treasury may designate; and the Secretary of the Treasury may require any person engaged in any transaction, transfer, export, or withdrawal referred to in this Executive Order to furnish under oath complete information relative thereto, including the production of any books of account, contracts, letters, or other papers, in connection therewith in the custody or control of such person either before or after such transaction, transfer, export, or withdrawal is completed."

Exhibit 5. Treasury Regulation, November 12, 1934, Relating to Transactions in Foreign Exchange, Transfers of Credit, and the Export of Coin and Currency.

"Article 2. Licenses may be granted, and a general license is hereby granted, to all individuals, partnerships, associations, and corporations, authorizing any and all transactions in foreign exchange, transfers of credit, and exports of currency (other than gold certificates) and silver coin. The general license herein granted authorizes transactions to be carried out which are permitted

REB

7-#201, To Paris, Apr. 4, 6p.m.

permitted by the Executive Order of January 15, 1934 under license therefor issued pursuant to such Executive Order; but does not authorize any transaction to be carried out which, at the time, is prohibited by any other order or by any law, ruling, or regulation.

"Article 3. In order that Federal reserve banks may keep themselves currently informed as to foreign exchange transactions and transfers of credit, as required in Section 4 of the Executive Order of January 15, 1934, every person engaging in any transaction, transfer, export or withdrawal referred to in Section 1 of such Executive Order shall furnish to the Federal Reserve bank of the district in which such person has his principal place of business in the United States complete information relative thereto upon report forms prescribed by the Secretary of the Treasury, except that reports are not required to be furnished by (1) persons not carrying during any part of the reporting period, accounts abroad or accounts in the United States for non-residents thereof, or (2) persons whose aggregate transactions, transfers, exports, or withdrawals for their own account and the account of others do not exceed \$5,000 during any seven-day period. Such information shall be furnished on a weekly basis except as the respective Federal Reserve banks permit the information in certain cases or classes of cases to be furnished on the basis of longer intervals."

"These regulations and the general license herein granted may be modified or revoked at any time."

Exhibit 6. Federal Reserve Bank of New York Circular No. 1474, November 13, 1934. Superseding Circular No. 1176 of March 12, 1933. Relating to institutions engaging in transactions in foreign exchange.

"Written Declarations No Longer Required"

.....
 "Weekly and Monthly Reports Required"

"Every

REB

8-#201, To Paris, Apr. 4, 6p.m.

"Every person having his principal place of business in the United States in the Second Federal Reserve District and engaging in any transaction, transfer, export, or withdrawal referred to in Section 1 of the Executive Order of January 15, 1934, shall furnish to the Federal Reserve Bank of New York complete information upon report forms to be prescribed by the Secretary of the Treasury, relative to such transactions, transfers, exports, and withdrawals, as follows:

1. Banks and bankers are required to report weekly as of the close of business each Wednesday night beginning December 5, 1934;
2. Brokers and dealers in securities are required to report weekly as of the close of business each Wednesday night beginning December 5, 1934; and
3. All other persons subject to the provisions of Article 3 of the above quoted regulations (such as, for example, certain exporters, importers, and industrial companies doing business abroad) are required to report monthly as of the close of business of the last Wednesday in each month beginning December 26, 1934;

except that reports are not required to be furnished by (1) persons not carrying during any part of the reporting period, accounts abroad or accounts in the United States for non-residents thereof, or (2) persons whose aggregate transactions, transfers, exports, or withdrawals for their own account and the account of others do not exceed \$5,000 during any seven-day period.

"The transactions, transfers, exports, and withdrawals referred to in Section 1 of the Executive Order of January 15, 1934, and hereby required to be reported as above, include 'Every transaction in foreign exchange, transfer of credit between any banking institution within the United States and any banking institution outside of the United States (including any principal, agent, home office, branch, or correspondent outside of the United States of a banking institution within the United States), and the export or withdrawal from the United States of any currency or silver coin which is legal tender in the United States, by any person within the United States'."

HULL
HF

EA:HF:LWW

COPY

Paris

Dated April 5, 1938

Rec'd 10 a.m.

Secretary of State,
Washington.

535, April 5, 1 p.m.

My 531, April 4, 6 p.m.

During a recess of the finance committee last night the parliamentary group of Radical Socialist Deputies met to consider the Government's program. Of 114 Radical Socialist Deputies 80 attended the meeting; of these 80, 28 voted for the program (including 8 members of the Government), 22 against and 30 abstained. Later the finance committee voted to adapt the Government's bill by 25 to 18, with one abstaining. It is reported that the Radical Socialist members of the committee, with a single exception, voted in favor of the bill.'

In view of the action of the finance committee it is expected that the Chamber of Deputies in the debate beginning this afternoon will give the Government a favorable vote, although with a reduced majority.

WILSON.

FEDERAL RESERVE BANK
OF NEW YORK

108

OFFICE CORRESPONDENCE

DATE April 5, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Kneke

BANK OF ENGLAND.

I called Mr. Bolton at 10:30 today. Things were not quite so bad as they were when he talked to me last, he said; the markets seemed a little less unhappy. Blum was likely to go before next Thursday. He was wedded to his new financial scheme just published. It seemed inconceivable that that plan could be put through by a socialist government. If adopted in its present form, it would mean exchange control, inefficient exchange control at that. Another bad feature of Blum's scheme was the suggestion that the Bank of France should take over all foreign currency deposits in French banks. That really amounted to nothing less than a forced loan in foreign exchange. With a capital levy on Blum's program, capital was simply not going back to France; that was all there was to that. The recent better tone in the French exchange had simply been due to gambling by the market on the fall of the government. If Blum's scheme should go through, the franc would depreciate violently. That seemed to be a foregone conclusion.

LWK:KMC

FEDERAL RESERVE BANK
OF NEW YORK

109

OFFICE CORRESPONDENCE

DATE April 5, 1938.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnekeBANK OF FRANCE.

I called Mr. Cariguel at 11:05 today. There was nothing much new today. The exchange market was quiet in spite of Blum's pending proposals, quiet in anticipation of a change of the government. Of the latter, he seemed to be quite certain. "Even members of the present government say they are sure to go."

LWK:KMC

RECEIVED

APR 6 1938

TREASURY DEPARTMENT

DIVISION OF MONETARY AFFAIRS

RECEIVED

110

April 5, 1938

Copy of this Cable sent to the President.

A.L.

111
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France -

DATE: April 5, 1938, noon

NO.: 534

RUSH

STRICTLY CONFIDENTIAL.

FROM COCHRAN. FOR THE SECRETARY OF THE TREASURY.

I refer to your telegrams No. 199 of April 4, noon, and No. 201 of April 4, 6 p.m.

At 11:45 this morning I was received by Prime Minister Blum alone in his home.

I told Mr. Blum that Secretary Morgenthau had instructed me, in view of certain recommendations contained in the new financial plans of the French Government, to make available to him full details of the methods used by my Government in supervising transactions in foreign exchange. I explained to the Prime Minister that the Secretary of the Treasury had thought that at this time such material might be of particular interest to his experts.

I asked the Prime Minister to consider our offer of assistance gained from our own experience as evidence of the American Government's continuing desire for close cooperation with his Government; in addition I told him that I was under instructions and would be immediately available to discuss with his staff any details of the American

- 2 -

American methods which may need clearing up.

Mr. Blum told me that this afternoon he was to appear before the Chamber and he was sure that this body would pass his program; "using the axe" - as he put it - would then be up to the Senate.

END SECTION ONE.

WILSON.

EA:LWW

RECEIVED
APR 5 1933
TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

PARAPHRASE OF TELEGRAM RECEIVED

NO.: 534 (Section Two)
FROM: American Embassy, Paris
DATE: April 5, 1938

Thus he is still expecting that his Government will be forced out by the Senate on his financial program. He said, however, that he was aware of the fact that it would have made the Senate much happier if the bill had been wrecked in committee or in the Chamber of Deputies by the Radical Socialists. The debate will be somewhat general under the circumstances, and Blum stated that it will not be necessary for him to go into technical details such as those involved in supervision of exchange transactions. He therefore returned to me the extracts of our measures which I had given him. He informed me that if his Government survived, he certainly would take advantage of the offer made by Secretary Morgenthau and would request me to furnish his assistants with all the technical information pertaining to our experience.

Blum requested me to convey to Secretary Morgenthau his deepest appreciation of the Secretary's further offer of assistance. He stated that our constant loyalty and kindness toward him had genuinely moved him. As a result, he had given serious consideration to including in his program

page 2

-2-

a measure looking toward the settlement of the war debts. He said that he would have done so if he had been convinced that the American public would have favorably received such a step and if he had had a better chance of succeeding with his general program. In response to a remark from me that his program was already quite a comprehensive one, he replied laughingly that it really was "Rooseveltian".

(END OF MESSAGE)

WILSON

RECEIVED
JUN 1 1918
EA:EB
U.S. DEPT. OF STATE
WASHINGTON, D.C.

115

115

Treasury Department

1938 APR 5 PM 1 45

TELEGRAPH OFFICE

25WBU 24 COLLECT GOVERNMENT ONE EXTRA R U S H.

CLOISTER HOTEL, SEA ISLAND, GEORGIA, 113 P.M. APL. 5 38.

MRS. H. KLOTZ,

OFFICE OF SECRETARY, WASHINGTON D C

PLEASE SEE THAT PRESIDENT RECEIVES TONIGHT COPY OF COCHRAN'S CABLE
SENT AT NOON TODAY DESCRIBING HIS INTERVIEW WITH BLUM STOP BEST
REGARDS.

MORGENTHAU.

142p

M

JR

PLAIN

London

Dated April 5, 1938

Rec'd 3:14 p.m.

Secretary of State,
Washington.

279, April 5, 5 p.m.

FOR TREASURY FROM BUTTERWORTH.

The unemployment figures published today indicate as did those for the previous month (my 192, March 8, 8 p.m.) that the basic trend of activity is still downward. There was a seasonal decline in the numbers registered as unemployed of over 61 thousand but this is an abnormally small decline for the month of March. There was a good decrease in unemployment in the building and public works contracting trades and in other trades seasonally improving in the spring such as the distributive, tailoring, dressmaking and hotel trades; but these were largely offset by marked increases in unemployment in all the textile industries which are showing signs not only of depressed export business but also of a decline in the home purchasing power -- a fact which is also indicated by the February retail sales' indices published last week.

There

-2- #279, April 5, 5 p.m., from London.

There was also an increase in unemployment in the iron and steel industry but the outlook for the heavy industries unlike that for textiles and other consumer goods manufacturing is favorably affected by the speedup in rearmament activity (last paragraph my 245, March 24, 6 p.m.). The iron and steel industry will also benefit from the lapsing as from April 1 of the operation of reduced import duty rates which were lowered to meet the abnormal scarcity of supplies which marked the greater part of last year. The president of the British Iron and Steel Federation has stated that "organized through the Federation, the industry is now ready and able to meet any demand the Government might make upon it". Presumably steel supplies are also sufficient to meet ordinary industrial demand.

The speedup in rearmament will undoubtedly tend to lessen the deterioration in the general position but its incidence will be very irregular, stimulating a few industries such as aircraft manufacture, naval shipbuilding, marine engineering and constructional work on airbase establishments etc.; but it cannot be expected to seep through the general economic structure sufficiently to afford any appreciable impetus to recovery in the textile industries and other consumer trades, for

these

-3- #279, April 5, 5 p.m., from London.

these must depend on a recovery in purchasing power not only in the home market but to an even greater extent in export markets.

Meanwhile signs of coming difficulties for coal exporters forecast in paragraph 3 my 763, December 9, 9 p.m., are beginning to appear. A statement in the quarterly review issued by the Powell Duffryn combine in South Wales is an instance: "export demand from some quarters shows signs of falling off, and if this condition continues it is apparent that the Government eventually be compelled to give some form of support to the British export trade to counteract the restrictions and subsidized competition imposed by foreign countries." Though the acceleration of rearmament may increase the home demand for British coal it is unlikely entirely to compensate for the substantial losses in export markets which are apparently imminent.

Any signs of recovery which can be expected from the general conditions which seem to lie ahead will therefore be limping and onesided, and cannot be expected really to turn the tide without an accompanying
improvement

-4- #279, April 5, 5 p.m., from London.

improvement in the export trade, which in turn depends on such unpredictable factors as business activity in the United States, the international political situation, and other influences on general commodity prices.

KENNEDY

CSB

RECEIVED
APR 5 1964
COMMERCIAL DIVISION
U.S. DEPARTMENT OF COMMERCE

REB

GRAY

London

Dated April 5, 1938

Rec'd 3:26 p. m.

Secretary of State,
Washington.

281, April 5, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

Comment in the British press on the Blum proposals is restrained in tone and in substance mainly a reiteration of the terms of the measures themselves. This considered moderation is due to two reasons: (1) because the formation of a strong French Government is a matter of urgent and vital interest to Great Britain and therefore responsible press, city and official opinion is prepared to lean over backwards in order to avoid contributing to the difficulties of its formation (incidentally the issuance at this time of a billion reichsmarks of 4½% at 98 3/4 has been noted); (2) because these particular proposals are not expected to become lasting. However, two excerpts from today's TIMES are worthy of note:

One. "Failing a miracle two things seem certain at the moment. One is that M. Blum will fail to get his

REB

2-#281, From London, Apr. 5, 6p.m.

his plan through. The other is that his successors whoever they may be will be obliged to make use of a substantial part of his programme. From the financial and economic point of view the proposals are so far reaching that some time must necessarily lapse before their full implications can be analyzed. Yet it is possible to say even at this early stage that if they pass air law they may have disturbing effects on the London money market, the tripartite currency agreement and the foreign trade of France.

Two. Banks are to be encouraged to convert into francs foreign currency deposits held for account of French customers by using the machinery of the forward market and to invest the proceeds in Treasury bonds. If French banks are forced to do this it means that the control over French sterling deposits now spread among various banks in London will rapidly be transferred to the Bank of France which will then transfer them from the books of the British joint stock banks and acceptance houses to those of the Bank of England. Unless this transfer is very carefully handled it may have serious effects on the stability of the London money market. And to allow sterling held by the
Bank

REB

3-#281, From London. Apr. 5, 6p.m.

Bank of England for account of the Bank of France to be used for the creation of credit in France is open to serious objections."

The franc has moved erratically but the dollar has been steady to bid. Gold is again about at parity but hoarding demand from the continent is in some instances willing to pay the equivalent of dollars 34.78. The silver market continues small with insignificant price movements. Understand that Bank of Mexico is still buying mines silver against pesetas and that inquiries have been made here with a view to making a market for Mexican silver but that the replies given were for the moment discouraging.

KENNEDY

CSB

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 5, 1938, 5 p.m.

NO.: 538

FROM COCHRAN.

I talked with my contact at the Bank of France at half-past four; he said that today there had been no intervention by the French control and that there had not been much business in foreign exchange. There was some weakening in the forward franc, due to operators therein permitting their contracts to lapse as a result of certain provisions in the financial proposals put forward by Blum.

Market observers said reluctance of traders to enter into new commitments today had come from various rumors and fears: (1) That the Radical Socialist Ministers having received many telegrams of protest from their constituents for not having voted against Blum's bill yesterday may resign after vote is taken in Chamber; (2) that Government of real national union is not possible; (3) that if Blum is defeated by the Senate new strikes which are already being fomented will mature, and (4) that increasing police precautions under a Daladier Government as successor to Blum's might bring about an atmosphere quite like that of February 6, 1934. Any new Government coming in will have to face very shortly the task of raising funds for the Treasury.

Belga was under considerable pressure today at export point vis a vis New York.

END SECTION ONE.

PARAPHRASE OF SECTION TWO, TELEGRAM NO. 538 OF
APRIL 5, 1938, FROM PARIS.

This afternoon I was informed by Pennachio of the Bank of Italy that during the past two or three days Alphant and other French delegates in Rome seeking a new trade and clearing agreement with Italy have become a little more reasonable. Pennachio said he believes the French may be weakening toward approaching Italy for better relations politically.

Pennachio believes that France is (?) the right schedule by not sending to Imperial Rome an Ambassador before signature of the British-Italian treaty and before the visit to Rome by Hitler. At the present time Italy would give some concessions to France in return for recognition of the status of Ethiopia; however, after the two events mentioned above, there is small likelihood of such concessions being given.

Pennachio told me that he believes it very stupid of France not to make friends with the Italian Government. He does not think that France will intervene with arms to prevent expansion to the southeast by Germany. In his opinion the best method for the French to follow in order to maintain some influence and markets in southwestern Europe, and to check economic penetration therein by Germany, is to work with Italy toward that end. It is very important to Italy that this market should be left at least partially open to it and that Germany should not monopolize it.

Cabinet Meeting - April 5, 1938 - 2 to 4 P.M.

Attended by the President, Vice President, and all the members of the Cabinet with the exception of Secretary Morgenthau (Magill), Secretary Swanson (Edison), and Secretary Ickes (absent).

Secretary Hull reported that oral conversations had been going on with the Mexican Ambassador, but that there was no indication what the tentative proposals would be. The Mexicans have now requested that further conversations be held down there. The President suggested that the small American investors should be fully compensated; the large oil companies compensated on the basis of prudent investment less depreciation; and men like Hearst, who had acquired large tracts of land by bribery, should be given back what they paid only if they can prove that the Government Treasury got the money.

Secretary Hull reported that Valencia and Barcelona would fall in a short time and that he expected that Franco would clean up the balance of Spain in a few weeks. Chinese morale is holding up remarkably well; Japan seems to be stuck in the quicksands.

Secretary Woodring reported that a British concern is buying Sikorsky planes for China and that Glenn Martin is selling large orders of planes to Great Britain, Holland, France, and Switzerland. Germany is producing about 400 planes a month, a greater production than the British. The United States could produce 30 to 40 planes per day.

Secretary Hull further reported that the Japanese would start purchasing supplies here, since their original stock of war supplies had about run out. He proposes to designate Mr. Wiley De Facto Consul General in Vienna.

I reported that the tax bill had been reported to the Senate. The bill will yield about \$26 millions less than existing law for the present fiscal year, but in a good year will yield from \$125 to \$140 millions less. The interesting thing about the bill is that while it is being heralded as relief to business it will collect from 60 to \$130 millions more from corporations, while relieving individuals from surtaxes as the result of decreased dividend distribution, to the extent of \$50 millions - \$190 millions. The President asked the Vice President to talk to Senators Barkley and Harrison and suggest lining up a majority against placing any tariff riders on the bill. The Vice President would like to see the bill go through as it is this week. In response to Mr. Farley's question, the President said that the House bill was substantially satisfactory to him and that he regarded it more favorably than the Senate Bill. The Vice President

- 2 -

said that he had talked with Mr. Vinson and it was proposed to have 5 House conferees - Doughton, Cullen, Vinson, Treadway, and Crowther.

Secretary Woodring reported on proposed changes in the organization of the Red Cross. The President mentioned the fact that the Red Cross appeal for funds for use in China yielded only \$110,000 instead of the million desired.

The President mentioned Senator Logan's proposal for a circuit court of appeals for administrative cases. The Attorney General asked that the bill for 27 additional judges be permitted to go through first.

General Farley said that the new Presidential stamp issue would be brought out so far as possible during this fiscal year and would yield a revenue of \$2 millions to \$5 millions from collectors.

Mr. Edison asked Secretary Hull to proceed with the next steps to enable the Navy to build battleships without any treaty limitations.

The President reported that he had arranged matters so that the title to the Pacific islands, in dispute between Great Britain and ourselves, would not be settled for 25 to 50 years. In the meantime either the British or ourselves may occupy them.

Miss Perkins reported a probable 8/10's of 1 percent decrease in employment during March, instead of the usual seasonal increase. She believes that the time is ripe to undertake new expenditures on public works. In answer to the President's question, she reported that the Michigan labor situation had been very serious, since the Union had acted in a most high-handed manner. The President said that he had known further similar high-handed actions by mill operators in Georgia which were leading to widespread resentment.

* * *

The President said he now wished to discuss the main question of what should be done during the present session of Congress. Congressional leaders were asking whether they could not pass the Naval bill, tax bill, and reorganization bill and go home. He likened this action to Nero's fiddling while Rome burned. He said he had done a lot of reading at Warm Springs, having had reports from all branches of the Government. The optimists thought that a business upturn would occur in May or August, but many of them thought an upturn would occur in February. Others believed we would proceed at the present rate of business activity for a number of months. Pessimists believed that we were gradually spiralling downward. The President said that in any event the situation was not only bad for the country, but bad for the Democratic party. If conditions continued as at present, there was danger that the party would lose the fall elections.

Secretary Roper suggested a fireside talk, but the President said that at this time dollars would do much more good than talk. General Farley suggested that after the major bills were out of the way there ought to be a big relief bill.

The President said that three current expenditures would be necessary, simply to maintain the present state of affairs: (1) \$1,250 millions would be necessary for relief during the first seven months of the next fiscal year; (2) \$50 millions would be needed to keep 300 CCC camps open; (3) Jesse Jones would need ~~300~~ \$400 millions to keep plants open. The President wanted to know what additional actions should be taken. He suggested the possibility of lowering the reserve requirements; of dewatering more gold; or of amending the housing law so that construction could be started before the locality had put up its 10 percent. In this way Mr. Straus had told him that \$500 millions of construction work would be started before fall.

General Farley suggested increasing the post office building program to \$45 millions per year. The President said that this money would go mainly to country towns where the situation was less serious than in the city.

The President then outlined a plan for the United States to finance local improvements, borrowing the money and paying the interest, the localities to pay off 1/50 of the principal of the loan each year. This plan would result in a 45 - 55 division of expenditure between the two governments.

The Vice President said that he felt there were two major questions to be decided first. That we have an enormous debt, how much can we stand? We need to move people out of the cities where conditions are bad, but we have taken no steps to do so. As between the success of the Democratic party and the success of the country, he declared for the country.

The President said that he was for the country too, but that if the Democrats were defeated this fall, he thought that third party would probably arise and the Republicans would win the Presidential election in 1940. He felt that this would mean the ruin of New Deal reforms.

He said he wanted to spend money if possible in such a way as to bring it back to the Treasury ultimately and asked for suggestions as to the best methods to be used. Secretary Perkins suggested that the United States purchase consumers goods, such as railway cars and automobiles and lease or loan it to private consumers. The President and Vice President both disapproved of the idea.

The President then repeated his former request for suggestions on spending money. He particularly asked the Treasury to provide him

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with full information regarding a possible reduction in reserve requirements by the Federal Reserve Board, and regarding the possible desterilization of more gold.

RM

EMPLOYMENT ON WPA PROJECTS, BY STATE

(12880)

UNITED STATES AND TERRITORIES

Weeks Ending April 2 and March 26, 1938

(Partly Estimated - Subject to Revision)

State	Number of Persons Employed		Increase (+) or Decrease (-)
	Week Ending April 2	Week Ending March 26	
GRAND TOTAL	2,444,066	2,391,856	+ 49,210
CONTINENTAL UNITED STATES	2,441,566	2,392,347	+ 49,219
Alabama	36,928	36,185	+ 743
Arizona	8,708	8,554	+ 154
Arkansas	35,326	33,351	+ 1,975
California	94,321	91,649	+ 2,672
Northern	51,463	50,317	+ 1,146
Southern	42,858	41,332	+ 1,526
Colorado	27,530	27,171	+ 359
Connecticut	21,807	21,310	+ 497
Delaware	3,094	2,996	+ 98
District of Columbia	8,032	7,960	+ 72
Florida	31,578	31,241	+ 337
Georgia	41,511	38,833	+ 2,678
Idaho	11,579	11,426	+ 153
Illinois	197,335	194,687	+ 2,648
Indiana	84,931	84,468	+ 463
Iowa	30,444	30,594	- 150
Kansas	35,728	35,612	+ 116
Kentucky	50,215	48,285	+ 1,930
Louisiana	31,501	31,120	+ 381
Maine	7,415	7,314	+ 101
Maryland	11,946	12,021	- 75
Massachusetts	105,659	97,702	+ 7,951
Michigan	125,723	120,156	+ 5,567
Minnesota	57,864	57,696	+ 168
Mississippi	30,819	29,719	+ 1,100
Missouri	86,279	85,215	+ 1,064
Montana	18,126	18,144	- 18
Nebraska	28,246	28,202	+ 44
Nevada	2,674	2,657	+ 17
New Hampshire	8,638	8,285	+ 353
New Jersey	82,209	78,935	+ 3,274
New Mexico	9,977	9,858	+ 119
New York City	153,960	151,768	+ 2,192
New York (Excl. N.Y.C.)	53,008	52,659	+ 349
North Carolina	31,181	31,145	+ 36
North Dakota	14,849	14,870	- 21
Ohio	196,089	196,168	- 79
Oklahoma	60,952	59,996	+ 956
Oregon	16,725	16,365	+ 360
Pennsylvania	223,052	217,156	+ 5,896
Rhode Island	13,050	12,723	+ 327
South Carolina	30,659	30,115	+ 544
South Dakota	17,170	17,402	- 232
Tennessee	31,278	30,990	+ 288
Texas	77,879	76,330	+ 1,549
Utah	10,667	10,386	+ 281
Vermont	5,096	5,101	- 5
Virginia	22,748	22,716	+ 32
Washington	46,131	45,556	+ 575
West Virginia	40,931	40,547	+ 384
Wisconsin	65,338	64,390	+ 948
Wyoming	4,620	4,592	+ 28
Hawaii	2,500	2,509	- 9

Coleman draft

Received 4/5/38
in Legal Division. 130

TO THE CONGRESS OF THE UNITED STATES:

The Sixteenth Amendment to the Constitution of the United States, approved in 1913, expressly authorized the Congress "to lay and collect taxes on incomes, from whatever source derived." That is plain language. Fairly construed this language would seem to authorize taxation of income derived from state and municipal, as well as federal bonds, and also income derived from state and municipal as well as federal offices.

The reciprocal tax-immunity accorded such income was conceived when the nation was young to strengthen weak government finances and to protect the federal system.

Today, however, it constitutes a serious menace to the fiscal systems of both the states and the nation. Both the states and the nation are deprived of revenues which could be raised from those best able to supply them. Neither the federal government nor the states receive any adequate, compensating advantage for the reciprocal tax-immunity accorded to income derived from their respective obligations and offices.

-2-

In recent years both the federal government and the states have come to rely increasingly upon graduated income taxes for their revenues. In recent years the rapid expansion of federal and state activities has resulted in the issuance of an increased volume of tax-exempt securities and in the creation of an increased number of state and federal officers and employees who claim special tax-exemption. Tax-exemption which was once an inequity of relatively slight importance has become a most serious defect in the fiscal systems of the states and the nation.

Fundamentally our tax laws are intended to apply to all citizens equally. That does not mean that the same rate of income tax should apply to the very rich man and to the very poor man. Long ago the United States, through the Congress, accepted the principle that citizens should pay in accordance with their ability to pay, and that identical tax rates on the rich and on the poor actually worked an injustice to the poor. Hence the origin of progressive surtaxes on personal income as the individual personal income increases.

During the past few years we have become conscious more and more of the simple fact that these progressive surtaxes, established by the Congress to carry out a principle, were being avoided by various methods. Loopholes in the tax laws and the use of corporate devices give to hundreds of individuals the chance to escape the letter of the law, even though in so doing they were failing to carry out the spirit of the law.

Tax exemptions through the ownership of government securities of many kinds-- federal, state and local -- has operated against the fair or effective collection of progressive surtaxes and has, therefore, violated the spirit of the tax law itself. Actually, in operation, it has given a greater advantage to those with large incomes than to those with small incomes.

Therefore, I lay before the Congress the statement that a fair and effective progressive income tax and a huge perpetual reserve of tax-exempt bonds cannot exist side by side.

Men with great means best able to assume business risks have been encouraged to lock up substantial portions

of their funds in tax-exempt securities. Men with little means who should be encouraged to hold the relatively secure obligations of the federal and state governments have been obliged to pay a relatively higher price for those securities than the very rich because the tax-immunity is of much less value to them than to those whose incomes fall in the higher brackets.

For more than twenty years an unbroken line of Secretaries of the Treasury has reported to the Congress the growing evils of these tax-exemption. Economists generally have regarded them as wholly inconsistent with any rational system of progressive taxation.

I do not think the Congress should feel obliged to wait upon the realization of the cumbersome and doubtful remedy usually proposed for this evil, namely, a constitutional amendment. These tax-immunities are not innumerable requirements of the Constitution. The present unfortunate situation is the product of adjudication and adjudication can correct it. More than one hundred years ago doubts and difficulties attending these immunities were expressed by members of the Supreme Court, and in recent years the underlying assumptions

of the doctrine have been impressively questioned by the Court itself. The doctrine was originally evolved out of a totally different set of economic circumstances from those which are now dominant. It is a familiar principle of law that rules of law lose their binding force when the reasons which gave rise to the rules no longer exist.

I, therefore, recommend to the Congress that effective action be promptly taken to terminate these tax-exemptions for the future. The legislation should confer the same powers on the States with respect to the taxation of federal bonds hereafter issued as is granted to the federal government with respect to state and municipal bonds hereafter issued.

I suggest also legislation which will authorize that tax-exempt income be taken in account in fixing the surtax applicable to taxable income. As Secretary of the Treasury Carter Glass stated in his report for the fiscal year of 1919:

"It is intolerable that taxpayers should be allowed, by purchase of exempt securities, not only to obtain exemption with respect to the income derived therefrom, but to reduce the surtaxes upon their other income, and to have the surtaxes upon their other income determined upon the assumption, contrary to fact, that they are not in possession of income derived from state and municipal bonds."

The same principles of just taxation apply to tax-exemptions of official salaries. The federal government does not now levy income taxes on the hundreds of thousands of state, county and municipal employees. Nor do the states, under existing decisions, levy income taxes on the salaries of the hundreds of thousands of federal employees. Justice in a greater democracy should treat those who earn their livelihood from government in the same way as it treats those who earn their livelihood in private employ.

I recommend, therefore, that the Congress enact legislation ending tax-exemption on government salaries of all kinds, conferring powers on the states with respect to federal salaries and powers to the federal government with respect to state and local government salaries.

The ending of tax-exemption, be it of government securities or of government salaries, is a matter, not of politics, but of principle.



TREASURY DEPARTMENT

WASHINGTON

April 5, 1938

TO THE SECRETARY:

In accordance with your request I am transmitting herewith the statement showing the budgetary expenditures for the first nine months of the fiscal years 1936, 1937 and 1938. For your convenience this expenditure statement is summarized below with the non-cash items eliminated, together with the budgetary receipt side of the picture.

BUDGETARY CASH RECEIPTS AND EXPENDITURES
9 MONTHS JULY-MARCH 1936, 1937 and 1938
(In millions of dollars)

	<u>1936</u>	<u>1937</u>	<u>1938</u>
<u>Receipts:</u>			
Income taxes	\$1,046	\$1,507	\$1,995
Miscellaneous Internal Revenue	1,536	1,637	1,772
Customs	292	352	290
All other	226	232	763
	\$3,100	\$3,728	\$4,820
<u>Expenditures:</u>			
Regular	\$2,397	\$3,073	\$3,302
Recovery and relief	2,486	2,393	1,536
	\$4,883	5,466	4,838
Revolving funds	- 56	- 262	196
Net expenditures	\$4,827	\$5,204	\$5,034

You will note that there is no material difference between the budgetary expenditures for these three years although there is a substantial difference between the different categories of expenditures. For example, the regular expenditures have increased from \$2,397,000,000 in the first nine months of the fiscal year 1936 to \$3,302,000,000 in the first nine months of 1938. This increase is due in part to the shift from emergency funds to regular funds. The recovery and relief expenditures, you will note, have decreased from \$2,486,000,000 in 1936 to \$1,536,000,000 in 1938. There is,

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however, one item of expenditure which is outside of the budgetary statement and which is not included in the above figures. That is the cash payment made for the soldiers' bonus. During the first nine months of the fiscal year 1937 the Treasury paid out on this account approximately \$667,000,000, of which \$413,000,000 was paid out in the month of July, 1936 (the first month of the fiscal year 1937); whereas, in the same period for the fiscal year 1938, only \$67,000,000 was paid out. So, if you include the soldiers' bonus payment with the other budgetary cash expenditures, the Treasury paid out during the first nine months of the fiscal year 1937 \$3,740,000,000, whereas in the same period in the fiscal year 1938 we paid out \$3,369,000,000.

As of possible interest I am also enclosing a statement showing the receipts for the first nine months of the fiscal years 1936, 1937 and 1938.

dwB

Enclosures.

EXPENDITURES

9 months

1936, 1937 and 1938

(millions of dollars)

Month <i>Final year</i>	Regular			Recovery and relief			Revolving funds			Non-cash items			Total		
	1936	1937	1938	1936	1937	1938	1936	1937	1938	1936	1937	1938	1936	1937	1938
July	184	249	337	212	302	198	135	a/ 216	a/ 2	196	82	125	727	417	658
August	219	294	310	292	269	175	a/ 4	a/ 1	10	14	28	61	522	570	556
September	318	393	446	252	264	159	a/ 7	2	20	18	7	84	581	674	710
October	338	364	376	278	297	168	8	16	16	173	8	61	797	685	621
November	226	275	303	265	272	159	a/ 4	a/ 14	25	46	7	56	533	540	543
December	344	407	438	308	294	173	a/ 61	a/ 47	56	30	12	65	621	667	732
January	215	289	326	304	230	150	a/ 63	67	34	17	49	57	473	635	567
February	194	308	290	292	214	156	9	a/ 13	10	9	67	69	504	575	525
March	356	504	476	283	251	198	a/ 69	a/ 46	26	8	49	62	578	758	762
Total	2,397	3,073	3,302	2,486	2,393	1,536	a/ 56	a/ 262	196	510	317	641	5,337	5,521	5,676

a/ Excess credits, deduct.

sub

RECEIPTS

9 months

1936, 1937 and 1938

(millions of dollars)

Month <i>Final yrs</i>	Income taxes			Miscellaneous Internal Revenue			Customs			All other			Total		
	1936	1937	1938	1936	1937	1938	1936	1937	1938	1936	1937	1938	1936	1937	1938
July	23	39	57	165	201	221	30	32	41	61	22	90	279	294	409
August	24	32	35	219	264	301	37	35	39	19	39	78	299	343	453
September	231	288	501	143	161	185	30	36	36	17	14	66	421	499	788
October	30	27	40	153	186	188	33	41	37	19	18	68	235	272	333
November	19	33	37	142	148	181	31	35	32	42	17	77	234	233	327
December	228	286	487	153	174	191	29	39	30	24	18	158	434	517	866
January	35	43	52	138	168	172	34	41	26	21	32	85	228	284	335
February	43	58	62	132	148	140	33	42	24	10	27	123	218	275	349
March	412	700	723	291	188	191	35	53	26	14	71	19	752	1,012	959
Total	1,046	1,507	1,995	1,536	1,637	1,772	292	352	290	<u>a/</u> 226	232	763	3,100	3,728	4,820

swB ^{a/} Includes \$67M processing tax on farm products.

FEDERAL HOUSING ADMINISTRATION
MEMORANDUM

DATE 4/5/38

TO: Miss Chauncey - Secretary's Office
Treasury Department

FROM:

SUBJECT-

OFF 16-3401

Mr. McDonald thought the Secretary would be interested in seeing this type of report on our gross business and accepted for insurance business covering the last two weeks' operations.

Shirley K. Hart
Assistant to the Administrator

FEDERAL HOUSING ADMINISTRATION
MEMORANDUM

DATE April 5, 1938

TO:

FROM:

SUBJECT— F.H.A. INSURING OPERATIONS
Week Ending April 2, 1938

APP 10-1401

<u>GROSS BUSINESS TRANSACTED</u>	<u>Number</u>	<u>Amount</u>
Home Mtges. Selected for Appraisal	4,715	\$21,414,849
Rental Housing Applications Approved	12	2,888,000
Modernization Notes Insured	5,745	2,738,400
<u>TOTAL</u>		<u>\$27,041,249</u>

<u>ACCEPTED FOR INSURANCE</u>		
Home Mtges. Acc. for Insurance	2,642	\$11,401,700
Local Housing Projects Committed	3	1,530,000
Modernization Notes Insured	5,745	2,738,400
<u>TOTAL</u>		<u>\$15,670,100</u>

Percent Mortgages Accepted Eligible for 90% Mtges. = 39%

FEDERAL HOUSING ADMINISTRATION
MEMORANDUM

DATE Mar. 30, 1938

TO:

FROM:

SUBJECT— F.H.A. INSURING OPERATIONS
Week Ending March 26, 1938

*** 16-3401

<u>GROSS BUSINESS TRANSACTED</u>	<u>Number</u>	<u>Amount</u>
Home Mtges. Selected for Appraisal	4,863	\$22,568,219
Rental Housing Applications	14	4,106,000
Modernization Notes Insured	3,016	1,470,176
		<u>\$28,144,395</u>

ACCEPTED FOR INSURANCE

Home Mtges. Accepted for Insurance	2,290	\$ 9,990,900
Rental Housing Projects Committed	2	497,500
Modernization Notes Insured	3,016	1,470,176
		<u>\$11,958,576</u>

Percent Mortgages Accepted Eligible for 90% Mtges. = 37%

**FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.**

WEEKLY VOLUME OF FHA INSURING OPERATIONS

For 1938 and corresponding Period of 1937

HOME MORTGAGES SELECTED FOR APPRAISAL

	<u>1938</u>		<u>1937</u>	
<u>Week Endings:</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>
Jan. 8	1,256	\$ 5,483,184	1,967	\$ 8,565,550
15	1,504	6,531,200	2,286	9,566,860
22	1,711	7,299,975	2,167	9,447,127
29	1,888	8,150,840	2,272	10,091,713
Feb. 5	1,982	8,571,895	2,306	9,721,165
12	1,988	8,787,105	2,701	11,068,008
19	2,219	10,025,800	2,765	11,764,089
26	2,775	13,100,250	2,835	11,747,954
Mar. 5	3,899	17,613,402	3,244	13,683,500
12	4,470	20,386,711	3,405	14,176,560
19	4,697	21,293,061	4,085	16,879,710
26	4,863	22,568,219	3,476	14,970,848
Apr. 2	4,713	21,414,849	3,617	15,366,435

FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.

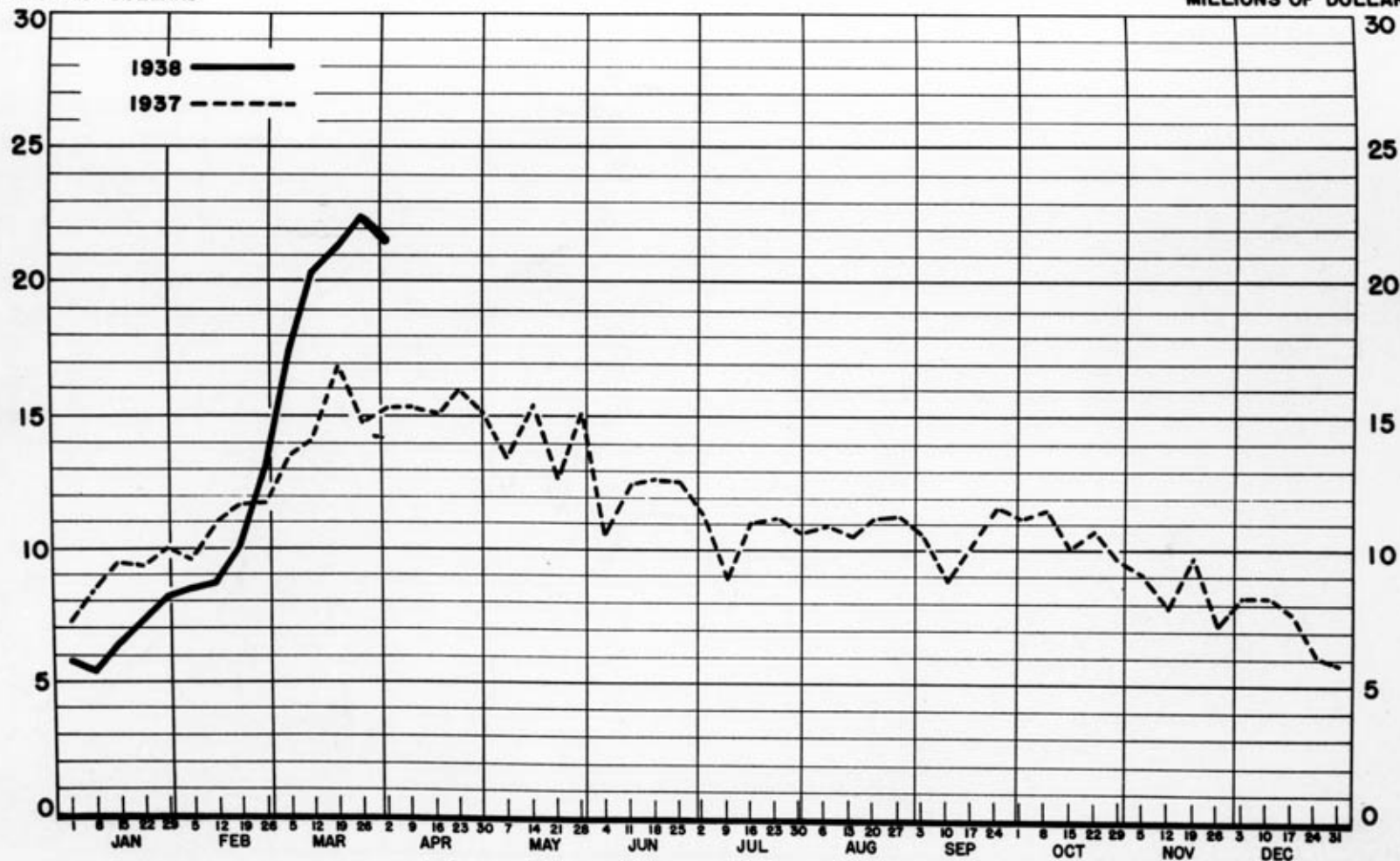
WEEKLY VOLUME OF MORTGAGES ACCEPTED FOR INSURANCE

<u>Week Ending</u>	<u>1938</u>		<u>1937</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Jan 8	943	\$ 4,035,500	1,462	\$ 5,821,275
15	1,101	4,542,900	1,756	7,241,815
22	1,058	4,445,500	1,767	7,438,500
29	1,329	5,501,500	1,880	7,860,250
Feb 5	1,099	4,431,000	1,811	7,424,100
12	1,172	4,649,900	1,778	7,410,850
19	1,194	4,837,100	1,869	7,702,650
26	1,033	4,350,200	1,867	7,524,500
Mar 5	1,589	6,905,400	2,291	9,092,500
12	1,705	7,601,400	2,135	8,947,600
19	1,883	8,288,400	2,388	9,781,500
26	2,290	9,990,900	2,497	10,298,380
Apr 2	2,642	11,601,700	2,602	10,856,395

Division of Economics and Statistics
 Operating Statistics Section

AMOUNT REPORTED BY INSURING OFFICES AT END OF EACH WEEK

MILLIONS OF DOLLARS



FEDERAL HOUSING ADMINISTRATION
MEMORANDUM

DATE

FIGURES FOR WEEK ENDING APRIL 2, 1938

	<u>Week Ending April 2, 1938</u>		<u>Corresponding Week Last Year 1937</u>	
<u>For the Week:</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Mortgages Selected	4,713	\$21,414,849	3,617	\$15,366,435
Mortgages Accepted	2,642	11,601,700	2,602	10,856,395
Premium Paying Mtges.	1,115	4,843,900	1,633	6,717,380
 <u>Cumulative:</u>				
Mortgages Selected	376,758	\$1,570,222,683		
Mortgages Accepted	279,698	1,138,392,833		
Premium Paying Mtges.	220,854	904,566,317		

300
Revised 4/4/38

Division of Economics and Statistics
Operating Statistics Section

- 1- Army state
- 2- Army War

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 5, 1938

TO Secretary Morgenthau
FROM Mr. Haas

Subject: Current United States Trade with Japan and China
(Preliminary data)

A. United States trade with Japan during the first three weeks of March 1938.

1. United States exports to Japan increased 27 percent in the first three weeks of March 1938 as compared to the same period in February 1938 and were 31 percent greater than in January 1938.

2. Raw cotton exports amounted to \$3,073,000, approximately \$100,000 less than in the first three weeks of February 1938. Exports of petroleum, iron and steel manufactures, and aircraft and parts increased markedly over the same period in February 1938.

3. United States imports from Japan increased 6 percent in the first three weeks of March 1938 as compared with the same period in February 1938, but were 20 percent less than in the first three weeks of January 1938 and in December 1937.

4. Imports of raw silk accounted for the entire increase in the total imports from Japan in this period; imports other than raw silk varied only slightly in amount and in relative importance.

B. United States trade with China during the first three weeks of March 1938.

1. United States exports to China and Manchuria increased 37 percent in the first three weeks of March 1938 as compared with the same period in February 1938. Exports to North China and Manchuria increased 38 percent and exports to South China, Shanghai and Hong Kong increased 36 percent. Exports to South China, Shanghai and Hong Kong are approximately 50 percent greater in value than those to North China and Manchuria.

Secretary Morgenthau - 2

2. Imports from China and Manchuria increased 7 percent in the first three weeks of March 1938 as compared to the first three weeks of February 1938. Imports from North China and Manchuria increased 25 percent and those from South China, Shanghai, and Hong Kong, only 2 percent. Imports from North China accounted for 24 percent of the total imports from China in March as compared to 21 percent in February 1938, while imports from South China accounted for 76 percent in March and 79 percent in February 1938.

Statistics:

A. Current Trade with Japan (Preliminary Data)

I. United States Exports to Japan -- Total Value

	<u>1st Week</u>	<u>2nd Week</u>	<u>3rd Week</u>	<u>Total 1st 3 Weeks</u>
March 1938	\$4,513,000	\$3,214,000	\$5,991,000	\$13,718,000
February 1938	nil	6,112,000	4,667,000	10,779,000
January 1938	2,726,000	3,759,000	3,984,000 ^{a/}	10,469,000 ^{a/}
December 1937	1,694,000	5,217,000	2,394,000	9,305,000
November 1937	1,180,000	4,813,000	4,745,000	10,738,000

II. United States Exports to Japan by Commodities

<u>Commodities Showing Increases:</u>	<u>March 1938</u>	<u>February 1938</u>	<u>January 1938</u>
Petroleum and products	\$ 3,000,000	\$ 1,498,000	\$ 2,925,000
Iron and steel manufactures	2,218,000	1,576,000	1,229,000 ^{1/}
Industrial machy.	1,985,000	1,071,000	382,000
Paper base stocks	746,000	406,000	673,000
Automobiles, parts & accessories	652,000	494,000	24,000
Aircraft & parts	340,000	131,000	182,000
Fertilizer & fertilizer materials	290,000	248,000	28,000
Ferro alloys	185,000	nil	
Coal-tar products	93,000	23,000	
<u>Commodities Showing Decreases:</u>			
Copper and manufactures	446,000	893,000	845,000
Cotton, unmf'd.	3,073,000	3,168,000	2,574,000
Hides and skins, raw	217,000	225,000	15,000
Tobacco and mfrs.	1,000	289,000	nil
Total	13,246,000 - 97%	10,022,000 - 93%	-
All other	472,000 - 3%	757,000 - 7%	-
Grand Total	\$13,718,000	\$10,779,000	\$10,469,000

^{1/} Classified differently for February and March.^{2/} Classified as vehicles, parts and accessories.^{a/} Corrected figure.

Secretary Morgenthau - 4

III. United States Imports from Japan -- Total Value

	<u>1st Week</u>	<u>2nd Week</u>	<u>3rd Week</u>	<u>Total 1st 3 Weeks</u>
March 1938	\$1,452,000	\$2,431,000	\$2,690,000	\$ 6,573,000
February 1938	1,553,000	2,327,000	2,350,000	6,230,000
January 1938	2,033,000	4,185,000	2,020,000	8,238,000
December 1937	2,159,000	3,406,000	2,672,000	8,237,000
November 1937	3,245,000	3,654,000	4,356,000	11,255,000

IV. United States Imports from Japan by Commodities

<u>Commodities Showing Increases:</u>	<u>March 1938</u>	<u>February 1938</u>	<u>January 1938</u>
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Silk, unmanufactured	\$4,336,000	\$3,970,000	\$4,586,000
Hats and hat material	175,000	132,000	99,000
Silk manufactures	167,000	78,000	248,000
Fish scrap and fish meal	149,000	9,000	80,000
Pyrethrum flowers	147,000	68,000	255,000
Fish and fish products, edible	125,000	96,000	128,000
Tea	77,000	66,000	145,000
Furs and manufactures	66,000	54,000	16,000
Papers and manufactures	58,000	45,000	72,000
Camphor	57,000	32,000	51,000

Commodities Showing Decreases:

Cotton manufactures	\$ 197,000	417,000	494,000
China and porcelain ware	104,000	128,000	177,000
Vegetable food products other than tea	81,000	106,000	196,000
Menthol	79,000	101,000	89,000

Total	\$5,818,000 - 89%	\$5,302,000 - 85%	\$6,636,000 - 81%
Other	755,000 - 11%	928,000 - 15%	1,602,000 - 19%
Grand Total	\$6,573,000	\$6,230,000	\$8,238,000

Secretary Morgenthau - 5

B. Current Trade with China (Preliminary Data)

I. United States Exports to China -- Total Value

<u>First three weeks of:</u>	<u>North China and Manchuria</u>	<u>Shanghai, South China and Hong Kong</u>	<u>Total</u>
March 1938	\$1,567,000	\$3,316,000	\$4,883,000
February 1938	1,134,000	2,441,000	3,575,000
January 1938	1,375,000	3,001,000	4,376,000
December 1937	2,003,000	4,023,000	6,026,000
Whole month of March 1937			\$6,483,000

II. United States Exports to China by Commodities

(a) To North China and Manchuria:

	<u>March 1938</u>	<u>February 1938</u>
Automobiles, parts and accessories	\$ 549,000	\$ 105,000
Petroleum and products	271,000	234,000
Cotton, unmanufactured	210,000	128,000
Tobacco and manufactures	134,000	53,000
Iron and steel manufactures	82,000	335,000
Industrial machinery	74,000	58,000
Total	1,320,000 - 84%	913,000 - 81%
Other	247,000 - 16%	221,000 - 19%
Grand Total	\$1,567,000	\$1,134,000

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

	<u>March 1938</u>	<u>February 1938</u>
Tobacco and manufactures	\$ 623,000	\$ 142,000
Firearms and ammunition	539,000	381,000
Automobiles, parts & accessories	462,000	327,000
Copper and manufactures	263,000	144,000
Iron and steel manufactures	179,000	148,000
Vegetable foods, edible	129,000	83,000
Aircraft and parts	121,000	292,000
Ginseng	88,000	81,000
Electrical machinery & apparatus	85,000	63,000
Cotton, unmanufactured	71,000	9,000
Total	2,560,000 - 77%	1,670,000 - 68%
All other	756,000 - 23%	771,000 - 32%
Grand Total	\$3,316,000	\$2,441,000

III. United States Imports from China -- Total Value

<u>First three weeks of:</u>	<u>North China and Manchuria</u>	<u>Shanghai, South China and Hong Kong</u>	<u>Total</u>
March 1938	\$588,000 - 24%	\$1,830,000 - 76%	\$2,418,000
February 1938	472,000 - 21%	1,794,000 - 79%	2,266,000
January 1938	782,000 - 27%	2,139,000 - 73%	2,921,000
December 1937	864,000 - 23%	2,926,000 - 77%	3,790,000
Whole month of March 1937			\$14,103,000

IV. United States Imports from China by Commodities(a) From North China and Manchuria:

	<u>March 1938</u>	<u>February 1938</u>
Furs and manufactures	\$120,000	\$24,000
Perilla oil	85,000	39,000
Bristles	64,000	91,000
Non-metallic minerals and products	55,000	3,000
Total	324,000 - 55%	157,000 - 33%
All other	264,000 - 45%	315,000 - 67%
Grand Total	\$588,000	\$472,000

Secretary Morgenthau - 7

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

	<u>March 1938</u>	<u>February 1938</u>
Tung (wood) oil	\$ 903,000	\$ 377,000
Flax, hemp and ramie and mfrs.	153,000	166,000
Hats and hat materials	93,000	77,000
Vegetable food, edible, except tea	84,000	67,000
Silk, unmanufactured	71,000	21,000
Bristles	62,000	185,000
Tin ore, bars, blocks, pigs, scrap, etc.	<u>56,000</u>	<u>409,000</u>
Total	1,422,000 - 74%	1,302,000 - 73%
All other	<u>408,000 - 22%</u>	<u>492,000 - 27%</u>
Grand Total	\$1,830,000	\$1,794,000

April 5, 1938

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(copy of my letter to Pres.)

THE CLOISTER
SEA ISLAND, GEORGIA

My dear Mr. President:

I am sending
you enclosed herewith a draft
of a message to Congress and
a bill to ~~a~~ establish a Department
of Transportation. These were
prepared by Mr. Mc Reynolds
of my office.

I thought if you had these
~~documents~~ before you
they might prove to be
useful. Sincerely,

Wm. L. Green

Dear Mr. Klotz:

Have ~~me~~ Mr. Reynolds take enclosed over to Pres. and give it to Mr. Foster to give to the Pres. Have Mr. Reynolds tell Foster if he wants anything changed he stands ready to do it.

No one knows about my telephone conversation with the Pres. on this subject.

Sincerely yours,
H. Mayntz an Jr.

PL 156

(The phone conversation with the President, referred to in H.H., Jr.'s note to Mrs. Klotz, is referred to in diary entry of March 31, 1938, at 6:20 p. m.

TO THE CONGRESS OF THE UNITED STATES:

As I stated in my message of June 7, 1935 to the Congress, it is high time to deal with the nation's transportation as a single unified problem. For many years in the past, transportation meant railroad transportation, but within the past quarter of a century a major change has occurred. Today other forms of transportation, air transport, highway transport, and an expanded system of water and pipe line transport actively compete with and supplement railroad transportation.

It is evident that the transportation problem is a single one in which each of the various forms of transportation have their parts to play. As was pointed out by the Federal Coordinator of Transportation in his report of March 10, 1934 "the problem is to find their appropriate functions, protect them in the performance of such functions, prevent wasteful duplication of service without eliminating such competition as is economically sound, and promote a system of stable rates which will reflect the lowest costs of good service but afford the necessary foundations for credit".

Functions relating to transportation are today scattered among several executive departments, various independent commissions, boards and several Government corporations. These agencies deal with special phases of transportation rather than the transportation

cc was sent
Jesse Jones

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problem in its broader national aspect. Not only are their activities uncorrelated but in many instances they may work at cross purposes. To remedy this situation and avert threatened chaos in our transportation system, I urge that the Congress give immediate consideration to the establishment of a Department of Transportation, charged with responsibility for the conduct of the various transportation activities of the Federal Government.

I recommend that the various promotional activities of the Federal Government in the field of transportation be transferred to the Department of Transportation and performed under the supervision of the Secretary of Transportation who shall be charged with the formulation of a national transportation policy. I further recommend that there be established in the Department of Transportation a bi-partisan board to be known as the Federal Transportation Board, which shall, independently of the Secretary and the President, perform all quasi-judicial and quasi-legislative functions with respect to the transportation industry now performed by any existing agencies of the Government, and such additional regulatory functions with respect to that industry as may be prescribed by law.

A BILL

To establish a Department of Transportation

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there shall be at the seat of government an executive department to be known as the Department of Transportation, and a Secretary of Transportation (hereafter referred to as the "Secretary") who shall be the head thereof, and shall be appointed by the President by and with the advice and consent of the Senate, and shall have a tenure of office and salary like those of the heads of other executive departments. Section 158 of the Revised Statutes, as amended (H.S.C., 1934 ed., title 5, sec. 1), is amended to include such department, and the provisions of Title IV of the Revised Statutes, including all acts amendatory thereof and supplementary thereto, shall be applicable to such department.

(b) There shall be in the Department of Transportation an Undersecretary of Transportation and two Assistant Secretaries of Transportation, who shall be appointed by the President by and with the advice and consent of the Senate, and a Solicitor, who shall be appointed by the Secretary, all of whom shall exercise such functions as may be prescribed by the Secretary or required by law. The Undersecretary and the Solicitor shall each receive a salary of \$10,000 per annum, and the compensation of the Assistant Secretaries shall be fixed in accordance with the Classification Act of 1923, as amended.

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SEC. 2. (a) There is hereby created in the Department of Transportation a Federal Transportation Board (hereafter referred to as the "Board") which shall be composed of sixteen members who shall be appointed by the President by and with the advice and consent of the Senate.

(b) The terms of office of the members first appointed shall expire, as designated by the President at the time of nomination, four at the end of the sixth year, four at the end of the eighth year, four at the end of the tenth year, and four at the end of the twelfth year after the effective date of this section. The terms of office of all successors shall expire twelve years after the expiration of the terms for which their predecessors were appointed; but any member appointed to fill a vacancy occurring prior to the expiration of the term for which his predecessor was appointed shall be appointed only for the unexpired term of his predecessor.

(c) Not more than nine members shall be appointed from the same political party, and each member shall receive an annual salary of \$12,000.

(d) Members of the Board may be removed by the President, after notice and opportunity for public hearing, for inefficiency, neglect of duty, or malfeasance in office, but for no other cause.

(e) Of the members thus appointed, one shall be designated by the President as chairman, and one as vice chairman of the Board.

SEC. 3. (a) The Secretary shall foster, promote, and develop

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a sound, adequate, and efficient transportation system and shall exercise the functions transferred to him by, or pursuant to, this Act and such other functions as may hereafter be vested in and imposed upon him by law.

(b) The Secretary shall cause a seal of office to be made for the Department of Transportation, of such device as the President shall approve, and judicial notice shall be taken of such seal.

(c) The Secretary shall, annually, at the close of each fiscal year, make a report in writing to the Congress, giving an account of all money received and expended by the Department of Transportation and describing the work done by that Department. He shall also from time to time make such special investigations and reports as he may deem necessary, or as he may be required to make by the President, or by either House of Congress.

(d) The Secretary may delegate to any officer or employee of the Department of Transportation any of the functions conferred or imposed upon him by this Act.

SEC. 4. (a) Within 180 days after the effective date of this section, the President shall transfer by Executive order to the Secretary all functions exercised by the following agencies which are executive in character and the exercise of which is not subject to review by courts of law, and to the Board all functions exercised by such agencies which are quasi-judicial or quasi-legislative in character and the exercise of which is subject to review by courts of law:

- 4 -

The Bureau of Public Roads of the Department of Agriculture,

The Bureau of Air Commerce of the Department of Commerce,

The United States Maritime Commission,

The Division of Transportation of the Bureau of Foreign
and Domestic Commerce of the Department of Commerce,

The Interstate Commerce Commission,

The Lighthouse Service of the Department of Commerce, and

The Bureau of Navigation and Marine Inspection of the
Department of Commerce.

(b) Whenever all of the functions of any agency specified in subsection (a) of this section have been transferred by the President, such agency is hereby abolished.

(c) Such personnel and property (including office equipment and official records) as the President shall determine to have been employed in the exercise of functions transferred to the Secretary or the Board under subsection (a) of this section, may be transferred to the Secretary by the President, upon such dates as he shall specify, by Executive order: Provided, That the transfer of such personnel shall be without change in classification or compensation, except that this requirement shall not operate after the end of the fiscal year during which such transfer is made to prevent the adjustment of classification or compensation to conform to the duties to which such transferred personnel may be assigned: Provided further, That such of the personnel as so transferred who do not already possess a classified civil service status shall not acquire such status by reason of such transfer except (1) upon

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recommendation of the Secretary within one year after such personnel have been so transferred and certification within such period by the Secretary to the Civil Service Commission that such personnel have served with merit for not less than six months prior to the transfer, and (2) upon passing such suitable noncompetitive examinations as the Civil Service Commission may prescribe;

(d) Such of the unexpended balances of appropriations, available for use by any agency specified in subsection (a) of this section in the exercise of the functions transferred to the Secretary or the Board, as the President shall deem necessary and specify by Executive order, are transferred to the Secretary upon such date as the President shall specify in such Executive order. Such unexpended balances shall be available for use in connection with the exercise of functions transferred to the Secretary or the Board under subsection (a) of this section.

SEC. 5. (a) All orders, rules, regulations, permits or other privileges, made, issued, or granted by, or in respect of, any agency abolished, or functions transferred, under the provisions of the foregoing section and in effect at the time of the abolition or transfer, shall continue in effect to the same extent as if such abolition or transfer had not occurred, until modified, superseded, or repealed, by the Secretary or the Board, as the case may be.

(b) No suit, action, or other proceeding lawfully commenced

- 6 -

by or against the head of any executive department or independent establishment, or other officer of the United States, in his official capacity or in relation to the discharge of his official duties, shall abate by reason of the abolition of any agency or transfer of any function effected under the provisions of this Act but the court, on motion or supplemental petition filed at any time within twelve months after such abolition or transfer takes effect, showing the necessity for a survival of such suit, action, or other proceeding, to obtain a settlement of the questions involved, may allow the same to be maintained by or against the Secretary or the Board, as the case may be.

(c) All laws relating to any agency abolished or function transferred under the provisions of this Act shall, in so far as such laws are not inapplicable, remain in full force and effect and shall be administered by the Secretary or the Board, as the case may be.

SEC. 6. (a) The Board shall exercise its functions independently of the Secretary and the President. Any order, affirmative or negative, issued by the Board under this Act shall be subject to review by the circuit courts of appeals of the United States or the United States Court of Appeals for the District of Columbia, upon petition filed within sixty days after the entry of such order by any person disclosing a substantial interest in such order. After the expiration of said sixty days, a petition may be filed only by leave of court upon a showing of reasonable grounds for failure to file the petition theretofore.

(b) A petition under this section shall be filed in the court for the circuit wherein the petitioner resides or has his principal

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place of business or in the United States Court of Appeals for the District of Columbia.

(c) A copy of the petition shall, upon filing, be forthwith transmitted to the Board by the clerk of the court and the Board shall thereupon certify and file in the court a transcript of the record, if any, upon which the order complained of was entered.

(d) Upon transmittal of the petition to the Board, the court shall have exclusive jurisdiction to ~~affirm~~ modify or set aside the order complained of, in whole or in part, and if need be to order further proceedings by the Board. Upon good cause shown, interlocutory relief may be granted by stay of the order or by such mandatory or other relief as may be appropriate: Provided, That no interlocutory relief may be granted except upon at least five days' notice to the Board.

(e) The findings of fact by the Board if supported by substantial evidence shall be conclusive. No objection to an order of the Board shall be considered by the court unless such objection shall have been urged before the Board or, if it was not so urged, unless there were reasonable grounds for failure to do so.

(f) The judgment and decree of the court affirming, modifying, enforcing, or setting aside, any such order of the Board shall be final, subject to review by the Supreme Court of the United States upon certification or certiorari as provided in sections 239 and 240 of the Judicial Code.

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SEC. 7. There are hereby authorized to be appropriated out of any money in the Treasury not otherwise appropriated such sums as may be necessary to carry out the provisions of this Act.

SEC. 8. The term "function" as used in this Act means any right, privilege, power, duty, function, or immunity.

SEC. 9. The provisions of this Act, except this section, section 1, section 2, and section 3, shall become effective sixty days after enactment: Provided, That the President shall, if he finds such action necessary or desirable in the public interest, postpone the effective date of any provision of this Act, except this section, section 1, section 2, and section 3, to such time as he shall prescribe, but not beyond the 180th day following the enactment of this Act.

WORKS PROGRESS ADMINISTRATION

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

HARRY L. HOPKINS
ADMINISTRATOR

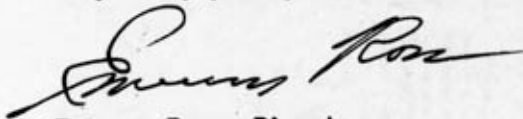
April 6, 1938.

Mrs. Henrietta S. Klotz
Assistant to the Secretary
U. S. Treasury Department
Washington, D. C.

Dear Mrs. Klotz:

Attached is the weekly memorandum requested
by Mr. Morgenthau.

Very truly yours,



Emerson Ross, Director
Division of Research,
Statistics and Records

Enclosure.

WORKS PROGRESS ADMINISTRATION

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

HARRY L. HOPKINS
ADMINISTRATOR

April 5, 1938

MEMORANDUM

TO: Mr. Morgenthau, Secretary of the Treasury

FROM: Emerson Ross, Director
Division of Research
Statistics and Records

Private employment declined again during March. According to the preliminary BLS figure factory employment declined 1.2 percent from February 15 to March 15. The usual seasonal change during this period is an increase of .8 percent.

Factory payrolls declined .6 percent during March, indicating a lengthening of hours of work for those who were employed.

Direct relief seems to be staying at about the same level and March may be even slightly lower than the February figure of 2,000,000 cases. The failure of direct relief to increase despite the decline in private employment is attributable in part to warmer weather in some parts of the country, in part to the continued increase in WPA employment, and in part to the financial inability of some cities to increase their relief expenditures.

WPA employment continued to increase, reaching 2,444,000 persons on April 2, an increase of 49,000 for the week.

Wednesday
April 6, 1938
12:40 p.m.

Archie
Lochhead: Hello.

HMJr: Yes, Archie.

L: I'll give you the market first.

HMJr: Please.

L: Ah - Well, now, first of all, the Chamber passed Blum's proposal.

HMJr: He did?

L: Yes. He got it 310 to 250.

HMJr: Very good.

L: So, therefore, it's now up to the Senate. There doesn't seem to be any more feeling just now that the Senate will pass it...

HMJr: Uh huh.

L: But on the other hand he's gotten by this far.

HMJr: When does it go by the - go to the Senate?

L: It - well, they speak about it going to the Senate tomorrow as a program.

HMJr: Yes.

L: Now, whether or not it will be advanced on account of getting - yes, well, of course there's this - Taylor says the finance committee of the Senate of course will have to go first on it.

HMJr: I see.

L: But they may advance it a little bit - a little bit on account of giving the early vote this morning.

HMJr: I see.

L: Now, on the stock market - it's a little bit off, about 1.9%.

HMJr: That's all right.

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L: The rails and the industrials and the utilities are also off somewhat.

HMJr: Yes.

L: The government bonds are holding very well, they may be a thirty-second or more off from last night....

HMJr: That's all right.

L: But they were still - in fact, the Federal was able to dispose of about eight million four hundred thousand in bonds yesterday.

HMJr: Fine.

L: They sold out about eight million four. That means - let's see, they bought about fifty-five and sold about eight and a half.

HMJr: Well, that's all right.

L: So they're working a little bit more flexibly over there just now.

HMJr: Good.

L: Exchanges are dull. Sterling is about 496.25.

HMJr: Yes.

L: Francs were inclined to be a little bit easier after he got his vote. They're selling at about 309, but there's no real change in them. Silver in London works out this morning about forty-two forty-four which is practically parity so there should be no reason for any change.

HMJr: That's all right.

L: The New York Times Electric Power Index is 91.4; up .4.

HMJr: Yes.

L: It - 91.4 which is up .4.

HMJr: What do you mean, point, decimal, you mean?

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L: Yes. Ninety-one decimal four.

HMJr: I mean, how much is it up?

L: It's up decimal four.

HMJr: Well, that's all right.

L: So - well, it's on the up side, anyway.

HMJr: Yes.

L: Now that's all I have here just now, excepting my -
well, let's see - I'll go - Would you
want anything sent down to you today?

HMJr: Ah - yes, there'll be a pouch, yes.

L: All right, then, that's what they wanted to know
about.

HMJr: I want to talk to Taylor a minute.

L: Yes, he's right here now.

Wayne
Taylor: Hello.

HMJr: Taylor.

T: Yes.

HMJr: I spoke to both White and Haas this morning and
asked them to prepare^a memorandum for me. Hello.

T: Yes.

HMJr: I wish you'd tell both of them to make reservations
on the train which comes down Friday night here.

T: I will.

HMJr: And then have return reservations to come back on
the same train with me, so if I decide that I want
them to come they should be ready.

T: All right.

HMJr: Haas and White.

T: Haas and White.

HMJr: And ...

T: That's to go Friday night ...

HMJr: And come back with me Saturday.

T: Right.

HMJr: That they should make the reservations - Kieley can make them for them.

T: Check.

HMJr: What I want to talk to them about is the stuff that I asked them this morning.

T: Right.

HMJr: I mean, it's no secret from you, but I just don't want to take time to go over it but you can - they'll tell you see?

T: Good. Ah

HMJr: And talk to each other.

T: Yes.

HMJr: But ...

T: Ah ...

HMJr: But I want to get prepared and I think I may ask them to come down.

T: Right. Did Harry tell you - Archie, that we had already started work on one memo as a result of the cabinet talk yesterday?

HMJr: No.

T: Well, it may - I don't - it may not be a duplication but we had already started work on one of them for you and I think they ought to have that too.

HMJr: All right. But I mean they can explain it, it's just ...

T: Yes.

- HMJr: I just want to know what the situation is and is it time for us to do something and what they - what their thoughts are ...
- T: Yes. Well, that is in a possible duplication, but that's all right, it may not be.
- HMJr: I was going to try to see the President Sunday, that's the point.
- T: Yes.
- HMJr: I don't know what he's doing or whether he's going to be in town. All right.
- T: Ah - there's one other thing that happened this morning; it isn't - I don't think it's terribly important but you might be thinking about it.
- HMJr: Yes.
- T: Bewley called in and he had a copy of the exchange clause - ah - the usual clause in the British Trade Agreement.
- HMJr: Yes.
- T: In which there is wording to the effect that agreement will only be abrogated in the event of a substantial change in the exchange relationships.
- HMJr: I see.
- T: He said he wasn't particularly curious about it but that the Chancellor wanted to know really what that meant.
- HMJr: Well, where is that clause; I don't get it. In the trade treaty?
- T: Yes.
- HMJr: Well, why in the hell doesn't the State Department consult us on that?
- T: Ah - They have been. Ah ...
- HMJr: Well, they didn't consult you, did they?
- T: What?

HMJr: Did they consult you?

T: It's their - it's the standard clause.

HMJr: Oh.

T: Yes.

HMJr: I'll let you handle it.

T: Well, I think you ought to have one aspect of it in mind, which is, he, Sir John apparently wanted to know what we meant by "substantial".

HMJr: Well, let it wait until I get back.

T: I will, but - it - I gave the obvious answer.

HMJr: And that was?

T: Which was that it was naturally to be interpreted within the spirit and general application of the Tripartite Agreement.

HMJr: Good. That's all right.

T: Yes. And that in the past why "substantial" had not meant any day-to-day juggling, as I pointed out in the case of France.

HMJr: All right.

T: Yes. O. K.

HMJr: Goodbye.

T: Goobye.

April 6, 1938

Called Sumner and asked him what was happening on the German refugee matter and he said that he was seeing the President Friday and at that time he is going over the list for a committee. I said 'I hope that the President and you have not given up the idea that the President will make an appeal on the radio' and he said, 'I agree most heartily with you and I have not given up the idea.' He said, 'When are you coming back?' and I said, 'Not before Sunday,' and his reply was, 'I wish you were here now. There are certain national problems which are crystallizing' and he again repeated 'I wish you were here, but of course if you are not coming back before Sunday, they will wait until you return.'

TREASURY DEPARTMENT

176

INTER OFFICE COMMUNICATION

DATE April 6, 1938

TO Secretary Morgenthau
FROM Mr. Taylor

Yesterday when I lunched with Henry Wallace he reviewed the conversation which he had had with you over the telephone, and started in describing the conversation which he had had with the President on the previous afternoon which had resulted in his telephoning to you. Summed up this conversation indicated that the President felt that immediate action was necessary; that the country expected it of him; and that in his conversations with the Congressional leaders he had emphasized the fact that if a program were not submitted in the very near future it might be very necessary to call a Special Session of Congress to meet a situation materially worse than the one which now faced us; that the President was rarin' to go and that he (Henry Wallace) agreed with his desire for action, and wished Wallace to get in touch with you and Jesse Jones immediately with a view to presenting a program. Wallace mentioned four things which the President emphasized: (1) Housing, (2) Farm Security; (3) Flood Control, and (4) approximately 400 million dollars which he thought that the RFC would be able to loan in a comparatively short period. He also mentioned additional C.C.C. expenditures in connection with an expanded, or let us say, adequate W.P.A. appropriation program. In connection with the latter it was apparent that every one recognized that the billion dollars which had been indicated as the necessary W.P.A. appropriation for this Session would not be adequate to carry through the fiscal year, and we discussed the psychological as well as other effects of a semi-inflationary or counter deflationary character which would be produced by asking for a larger amount at this Session; for

example, two billion dollars on the basis of the whole fiscal year. We agreed that in view of all the circumstances it would be preferable to ask for the larger amount and permit circumstances to govern the rate at which it was fed out.

I emphasized at intervals my strong feeling that whatever the program adopted, that unless the program were properly sold to the public that it would not be effective. Wallace completely agreed with this point of view. . .

Without going into details of this discussion we emphasized the fact that it was not in any way necessary to recede from a single fundamental of the President's program, but that we should look at it simply from the standpoint of analyzing how we had been selling a good product. If we found that our sales efforts were not effective we should look over our sales force, our advertising, our dealer organization and the like and without hesitation change the selling appeals, pull the ineffective salesmen off the road, etc. I have outlined what I believe to be the procedure in a separate memorandum.

We then had some further conversation about the railroad situation, and in particular about the utility problem. In this latter discussion Wallace mentioned the early settlement and sale to the T.V.A. of the Commonwealth and Southern properties operating in the T.V.A. territory; that he felt that it would be desirable to make this purchase as quickly as possible and not attempt to get the last dime. This suggestion is identical with one which you will notice in Berle's memorandum, which leads me to believe that they have talked the situation over, although neither Wallace nor Berle told me so specifically. Wallace said that

he had mentioned this possibility to the President but that the President had not greeted it with any particular enthusiasm. I am enclosing the original of the Berle memorandum. This memorandum was written after a discussion with Ransom and myself at my house. You will doubtless notice that there is a certain similarity between the Wallace and Berle approaches on other points, but I do not think that Wallace's talk with the President was inspired by any possible talk he may have had with Berle.

Wallace and I also discussed a modification of the credit and monetary policies and agreed that a change in the reserve requirements was a necessary accompaniment of the rest of the program, that this particular change was preferable at this time to a change in our gold policy, as in the minds of the public the raising of the reserve requirements was an important factor in the situation which later developed.

At the Berle-Ransom meeting we devoted a great deal of time to the railroad situation, and I made it quite clear that I did not think very much of the Splawn report to the President on the railroads and that I believed that you favored strongly the creation of a new Department with adequate powers. I gathered that Berle was inclined to agree with this point of view but did not believe that it was politically possible at this time. My own conviction is ~~even~~ stronger than when we last talked, that a comprehensive, constructive railroad program is an essential part of the picture and that this can only be accomplished by the establishment of a new Department with adequate powers. I have not included this recommendation in my separate memorandum as I believe that it requires separate treatment and should not be confused with the general selling program which I described.

- 4 -

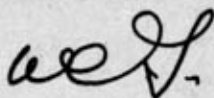
I also mentioned to both Wallace and Berle your strong feeling that the equivalent of a Human Resources Board should be established, and while they agreed with the approach and the necessity for such an organization, they gave me the impression that they were not over-enthusiastic about including it in what you might describe as the immediate program. I do not agree with their point of view, nor do I with Wallace's view that the establishment of a Department of Public Welfare will necessarily provide the long range planning of this character which is necessary. The same could be said about the National Resources Board, namely, that let us say that the Department of Interior could act as a planning board. In other words, I think that you are absolutely right in your insistence on the creation of such an organization.

Berle laid some emphasis on the change in the reserve requirements and agreed with the point of view expressed by Wallace, that the public had chosen this particular move as contributory to the decline in production which later occurred. I would certainly include Reserve Board action in my list of minimum requirements for an immediate program. Harry White, Dan Bell and George are submitting an additional memorandum covering the relationship of our gold policy to our prospective budgetary requirements, etc., so I will not go into this aspect here.

I believe that this summarizes the two conversations. I am enclosing a memorandum of my own which treats the questions somewhat differently and emphasizes the selling aspects which I mentioned above. I agree with the conclusion of Wallace and Berle and various other people here in Washington who believe that some program is necessary;

- 5 -

in other words, I do not think that the situation will right itself. I rather believe that the country expects the President to take action and that particularly in the middle and lower income groups this action will be welcomed and enthusiastically supported.

A handwritten signature in cursive script, appearing to be 'W. L. H.', located in the lower right quadrant of the page.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 6, 1938.

TO Secretary Morgenthau
FROM Mr. Taylor

Assuming that a new program of Government intervention is necessary, and I believe that this assumption is justified, I think that certain general principles should govern its selection and its execution.

1. That the program is intended to help and encourage private initiative, and that expenditures will be made and credits extended in those fields where private initiative and credit are unavailable or in those fields where private initiative and credit will participate in the endeavor.

2. That each element composing the program shall meet the requirement that it represents something that the country really needs and which has an individual appeal on its merits. For example, the establishment of a human resources board with its necessary research activities, flood control, farm security and rehabilitation, the C.C.C., housing, both private and slum clearance, the improvement of our regular and emergency airports, adequate credit facilities for small business enterprises, the modernization of railroad equipment, the maintenance of essential rights of way, the elimination of grade crossings on essential rights of way and adequate hospital and public health facilities, all have real appeal and should be undertaken whenever the condition of our economy permits or demands action.

- 2 -

3. That the manner in which the program is presented, executed and "sold" must be as carefully worked out as the program itself. Such a program should be announced by the President, first in the form of a message to Congress, followed that evening by a radio talk explaining the program and selling it, emphasizing its national non-partisan character, the necessity for the participation of all elements of the population, that the American people never fail and with their natural resources and advantages cannot fail, et cetera.

This should be followed up at convenient and regular intervals by articles, speeches and radio talks by such Administration leaders as Hull, Morgenthau, Wallace, Farley, Harry Hopkins, Garner, Jesse Jones, Eccles, Chester Davis and possibly Edison and M. L. Wilson and selected representatives from the Senate and House such as Barkley, LaFollette, Bankhead, Rayburn and selected business, labor, educational and local political leaders. All speeches should be prepared well in advance of their release and should be checked and double checked to see that they conform to the proper selling pattern. Muzzles should be issued to all other Administration spokesmen and the muzzles should be kept on until the Federal Reserve Index crosses 110 or until it becomes apparent that the plans outlined are ineffective. I do not believe that the latter, however, is a possibility.

I do not believe that we should recede from a single Administration objective or compromise any principles, nor does this approach contemplate any recession or compromise. I do believe that our recent

- 3 -

sales methods have been ineffective and should be completely revised as we have been losing customers fast and haven't been getting any new ones. The product itself is just as good as it ever was and can and must be sold.

Wayne Taylor

JR

GRAY

Paris

Dated April 6, 1938

Rec'd 1:55 p.m.

Secretary of State,
Washington.

RUSH.

545, April 6, 5 p.m.

FROM COCHRAN.

Paris exchange market witnessed another jumpy day of thin trading while Chamber debated Blum's financial program. When word of the passage of bill by 310 to 250 votes came out between 4 and 5 p.m., franc rate against sterling quickly moved from 160-3/4 to 161 1/4. Echoing the parliamentary incident of last night Breton songs were sung on the bourse this afternoon and personal clashes between traders threatened.

Market still expects Blum's defeat in the Senate but its optimism over his prospective fall has been sobered by the realization that whatever government is in power will be faced with raising approximately one billion francs per week for the remainder of the year. Furthermore, the increased strikes will likely diminish any move toward revival of confidence if they continue under new government.

Bank of France statement tomorrow will show further heavy borrowing by the state.

KLP:CSB

WILSON

REB

PLAIN

London

Dated April 6, 1938

Rec'd 3:30 p. m.

Secretary of State,
Washington.

284, April 6, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

The following excerpt from today's TIMES is
quoted because it has attracted attention in the city:

"Much as the proposed Blum reforms are disliked in financial circles it is generally admitted that the explanatory memorandum accompanying the special powers bill is a masterpiece of drafting. For the first time since the days of M. Poincare an attempt is made to see the economic problem as a whole and to solve it not by improvised expedients but by a bold plan worked out in detail. And though the Senate will probably reject the Government's programme it is realized that M. Blum's successor whoever he may be will be obliged to make use of a substantial part of it. What makes the Blum plan so important is that it marks the end of a period of illusions. M. Paul Reynaud, Professor Charles Rist and
a few

REB

2-#284, From London, Apr. 6, 6p.m.

a few others have during the past few years warned the country against these financial illusions but they have been lone voices crying in the wilderness. Now at last the truth is seen; France has reached the parting of the ways: the choice lies between the maintenance of a liberal economy and the introduction of a strictly regulated one. If confidence returns French money will be repatriated and the Government will get all the money they want. If it does not return and the Blum plan is based on that assumption the Government will be forced to create new money and to take steps to prevent it leaving the country. That means financial regimentation."

There was a genuine and strong demand for dollars today. The franc market however was not large and silver transactions were very small.

KENNEDY

WWC

RECEIVED

APR 6 1938

TREASURY DEPARTMENT
WASHINGTON, D. C.
APR 6 1938

GRAY

Paris

Dated April 7, 1938

Rec'd 2:55 p. m.

Secretary of State,
Washington.

553, April 7, 6 p. m.

In the past few days the metallurgical strikes in the Paris regions have spread to a number of important additional aviation and automobile factories (including one of the Matford factories) and now involve approximately 45,000 workers. Continual conferences between the Government authorities, the owners and labor organizations have been entirely unsuccessful. A government proposal to end the Citroen strike through immediate evacuation of the factories followed by prompt payment of wages due an exceptional super-arbitral award short-cutting the usual forms of procedure and the immediate resumption of work without retaliatory measures against the strikers was accepted by labor delegates who agreed to endeavor to have them approved by the strikers. The Citroen directors expressed their willingness to resume work at once but rejected the proposal for an exceptional arbitral

REB

2-#553, From Paris, Apr. 7, 6 p. m.

arbitral wage award, asserting that the procedure established in the arbitration law of March 4, 1938 should be followed. This attitude aroused further resentment on the part of labor elements and was presumably a contributory cause to the occupation of additional factories during the last two days. The Gnome Rhone workers voted a resolution yesterday demanding the nationalization of that airplane motor concern.

(END SECTION ONE)

WILSON

CSB

JR

RECEIVED
DEPARTMENT OF STATE

1938 APR 7 PM 4 32

DIVISION OF
COMMUNICATIONS
AND RECORDS
Secretary of State

GRAY

Paris

Dated April 7, 1938

Rec'd 2:40 p.m.

Washington.

553, April 7, 6 p.m. (SECTION TWO)

On the other hand it is probable that the owners are not displeased ~~at~~ the embarrassment caused the Blum Government by its inability to settle the strike and are therefore content to see a settlement postponed until the advent of a new Government. On the other hand the lack of clear-cut demands on the part of the strikers and the apparent absence of serious grievances do not tend to attract popular sympathy to their cause. There are signs that many of the strikers would welcome a return to work, though the Left press charges that the movement to this end is inspired by the Patronat. A secret vote on strike continuation is reported to have been promised by the Ministry of Labor. While bitterness between opposing forces seems to be increasing, no violence has as yet occurred.

Meanwhile French national defense needs are naturally suffering. This morning's press publishes a declaration

of

-2- #553, April 7, 6 p.m. (SECTION TWO) from Paris.

of an organization of engineers and technicians to the effect that the occupation of the Messier factory (which is the sole manufacturer of certain indispensable airplane accessories) prevents the turning out of a single military airplane until work is resumed. (END MESSAGE)

WILSON

CSB

RECEIVED
APR 11 1941
U.S. DEPARTMENT OF THE ARMY
WASHINGTON, D.C.

JR

GRAY

Paris

Dated April 8, 1938

Rec'd 9:25 a.m.

Secretary of State,
Washington.

561, April 8, 11 a.m.

Reference Embassy's 491, March 30, 1 p.m.

The attacks on the Senate made by the Socialist paper POPULAIRE, referred to in the above telegram, bore fruit last evening when the Socialist Federation of the Seine controlled by the extreme Left wing of the Socialist Party held a demonstration in front of the Senate. This demonstration was held despite the fact that permission to hold it was refused by Socialist Minister of the Interior Dormoy. Between 7 and 10,000 demonstrators participated and about 1200 police and gardes mobiles were called out by the President of the Senate under his constitutional authority in order to protect that body. The police were able to disperse the demonstrators with no more serious results than a number of fist fights and scuffles.

POPULAIRE this morning criticizes the Federation of the Seine for calling the meeting on the grounds (1) that it did not consult the directing body of the party,

-2- #561, April 8, 11 a.m., from Paris.

party, (2) the Minister of Interior is a Socialist and he should at least have been informed of their intentions, and (3) that demonstrations should not be held before a legislative body.

WILSON

RR:SMS

RECEIVED
APR 11 1934
FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE
WASHINGTON, D. C.

PARTIAL
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 7, 1938, 4 p.m.

NO.: 551

RUSH.

FROM COGHRAN.

Franc has weakened sharply today (from 159-7/8 to 162 1/2 by 4 o'clock) especially after appearance of the Bank of France statement as of March 31 stating this showed that Treasury had drawn on the bank to the extent of 1,900,000,000 francs, which means that 15,000,000,000 franc credit exhausted and 1,490,000,000 already drawn under the new 5,000,000,000 authorization. Note circulation gained by 3,279,000,000 to reach a record height. Coverage 45.85 versus 46.81.

Operators are worn out over French labor troubles and over threat of Socialist demonstration against the Senate whose finance committee is considering Blum financial plan this afternoon in preparation for the Senate debate Friday afternoon. The market is skeptical as to the ability of a Radical Socialist Government to make much headway in correcting the financial situation in view of labor troubles, political feuds and Treasury position as illustrated by the bank statement. Some operators are now speculating on an early fall of 10 francs against the pound, that is to around 170.

I was

- 2 -

I was told by the Bank of France at four o'clock this afternoon that the market was very thin today. The control was able to cover its requirements today. It is the opinion of my friend that this is due to rumor that tonight the Radical Socialist ministers may resign after vote in Senate Finance Committee in order to avoid the necessity of debating the bill in the Senate tomorrow ~~amx~~ which would result in upset of the Government.

French foreign trade for March showed deficit of 1,296,000,000 francs as compared with 1,969,000,000 in February. This improvement resulted principally from diminution of imports.

Since above message was prepared Senate Finance Committee has voted 25 to 1 against the Blum bill.

WILSON.

RECEIVED
APR 7 1933
TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON 25, D. C.

EA: LWW

April 7, 1938

This is HM, Jr's program which he wrote while
he was in Sea Island.

April 7, 1938

196



THE CLOISTER
SEA ISLAND, GEORGIA

6 Aug 25 1939

- I.
1. Pres. should carefully re-examine present spending, ^{and lending} program.
 2. Pres. next should study where there are gaps in present program and how they can be filled in.
 3. Pres. should then re-state whole spending program to the country
-

a.
II.

1. Re-Examine results of new ^(last 5 years) legislation, and find out which parts are not working efficiently. Such as T. V. A. etc. Railroads should have small highly trusted group meet twice a week with Pres. to get these agencies straightened



197

THE CLOISTER
SEA ISLAND, GEORGIA

out. Keeping Public informed
~~set~~ as to any real progress.

III. announce to Public at
once, what Pres. considers
necessary in additional
reform. Keep this down to
a minimum.

IV. all Publicity out of Washington
to be carefully supervised.
Set up State Committees of
Federal appointees to meet
once a week to sell Federal
Program in their particular
State.

Excerpt from Herman Oliphant's weekly report to the Secretary dated April 7, 1938:

Cement. We checked invitations which Procurement sent to cement manufacturers covering cement requirements for all Government activities from May 1 to August 31. Bids are to be on an f.o.b. mill basis and prices bid are to be available to contractors on all projects financed in whole or in part by the Federal Government. Justice and Federal Trade Commission are being kept advised of developments.

COPY

199 4/7/38

MEMORANDUM FOR THE PRESIDENT

Re: Tax-Exempts

The Treasury has read to me a memorandum which they prepared for you stating their objection to the application of the so-called Glass amendment to existing tax-exempt securities. Of course the Glass amendment will serve no purpose if it is not applied to existing securities since your recommendations, if accepted, would do away completely with tax-exempt privileges so far as future securities are concerned.

May I submit to you the following reasons in support of the Glass amendments:

1. It is true that existing state and municipal bonds were sold on the basis of counsel's opinion that the income therefrom was exempt from taxation under the federal income tax laws. But it would be difficult to find any authoritative statement in the opinions of the counsel on the strength of which such bonds were sold which asserts that income from tax-exempt bonds may not be taken into account in determining the rate of surtax applicable to income from taxable sources. The Glass amendment does not tax income from tax-exempt securities; it merely provides that the fact of its existence should not be ignored in determining the surtax rate on taxable income.

2. It is true that a number of individuals and trust estates will have to pay higher taxes by reason of the Glass amendment. But changes in the tax laws are constantly imposing new and frequently unexpected obligations upon taxpayers. The Federal Government has never committed itself not to change the tax laws. Certainly, since the Glass amendment was first suggested in 1919, the purchasers and holders of tax-exempt securities have been on notice that the Congress by statute might provide that the surtax rate on their income from taxable sources should take into account the existence of tax-exempt income.

3. I know of no convincing evidence to justify the Treasury's fear that the Glass amendment will render large amounts of existing tax-exempt securities unattractive to their present owners.

The Treasury's fear seems to be based on the assumption that the Glass amendment takes from existing tax-exempt securities virtually the whole value of their tax-exempt status. Although I have great respect for the opinion of the Treasury's experts, it seems to me that this assumption is unwarranted. Although the Glass amendment deprives the holders of existing tax-exempt securities of their right to evade the surtaxes on their income from taxable sources, it leaves them completely free of tax on their income from the tax-exempt securities themselves, and that is and remains a very valuable privilege. The value of that remaining privilege to the holders of existing tax-exempt securities will be enhanced by the fact that such privilege will have a growing scarcity value because it will be unavailable to the holders of future federal, state and municipal obligations.

Although it is difficult to underwrite the temporary vagaries of the bond market there is in my judgment no reason to anticipate a prolonged decline in the value of existing tax-exempt securities by reason of the enactment of the Glass amendment. I understand that it is estimated that the complete removal of tax-exempt privileges will increase the yield on federal obligations approximately one-quarter of one percent and the yield on state and municipal obligations about 6/10th of one percent. If this be the estimated effect of the complete removal of the tax-exempt privilege, it is difficult to believe that the Glass amendment should have serious, adverse effect on the market for existing tax-exempt securities, particularly in view of the growing scarcity value of such securities. There would be no tax advantage for holders to shift from existing tax-exempts into other high grade corporate bonds, and a shift by them into more speculative securities might even have a wholesome effect on the markets as a whole. Existing tax-exempts would be as valuable to institutional buyers as they ever had been, and would become decidedly attractive to institutional buyers on any recession.

M. Oribant - Price rec'd 4/7/38

As a matter of fact there is good reason to anticipate that a number of holders of existing tax-exempts will find it profitable to increase their holdings of existing tax-exempts so as to reduce the amount of their income from taxable sources which, by reason of the Glass amendment, becomes taxable in the higher brackets. It must be borne in mind that under the Glass amendment an individual or trust estate which derives the whole of its income from existing tax-exempt securities will be entirely free from the federal income tax.

My dear Mr. President:

In the letter to you of March 28, 1936, it was stated as the position of the Treasury that there should be recommended no legislation affecting outstanding tax-exempt securities, even to the limited extent of requiring that tax-exempt income be taken into account for the purpose of fixing the surtax applicable to taxable income. This letter did not state the reasons for this position of the Treasury. By direction of Secretary Morgenthau I am outlining these reasons below. They are:

(1) Such outstanding securities were purchased by their holders with the understanding, buttressed by judicial decision, that the income from such securities would not become the basis for any taxation. Indeed, Federal legislation has, since 1913, expressly exempted state issues. Trusts, estates, and other fiduciaries, among the other types of investors, hold these securities in their portfolios upon this understanding. This understanding, whether resting on Federal legislation or judicial decisions, should not be violated.

(2) There is no present impelling reason, as there was in the case of the gold legislation, for a modification of contract with holders of outstanding securities, in so far as tax exemption is concerned. The evils resulting from tax exemption will be remedied, as to the bulk of these securities, in a comparatively short period of time by confining the removal of exemptions to securities issued in the future. The arguments for completely eradicating this evil at the present moment seem to me to be far outweighed by the challenge that a solemn promise has been breached.

(3) New issues of state and municipal bonds are coming out at about a billion and a quarter dollars a year, and the market is adjusted to absorbing these issues and a moderate amount of trading in old issues. Should presently outstanding securities be made the basis of taxation, a total volume of perhaps \$8 or \$9 billions of such securities would become unattractive to their present holders. Secretary Morgenthau, Mr. Taylor, Mr. Oliphant and I are in agreement that the liquidation of any considerable part of such a volume of securities --- amounting to over six years' gross new issues at the present rate --- would so seriously disturb the state and municipal bond market that it would be years before its equilibrium would be regained. This difficulty would not arise, however, should the

Orig. by special messenger to White House- 4/7/36 - 4:20 P.M.
2 c.-Oliphant
1 c.-Secy. M.
at Sea Is.-Ga.

FILE COPY

removal of tax exemption be applied to future issues only, while all of the expected advantages would be attained within a reasonable period with a minimum of disturbance to the economic structure.

If your final thought is to recommend taxation of future issues only, the last paragraph and the quotation on page 5 of the last draft of the proposed message should be omitted.

May I also call your attention to the statement on page 4 of the draft of the message that "For more than twenty years an unbroken line of Secretaries of the Treasury has reported to Congress the growing evils of these tax exemptions." I find that such reports have been made to Congress by Secretaries Glass, Houston, Mellon and Morgenthau only, but not by Secretaries Mills and Woodin. I suggest, therefore, that the passage be revised to read as follows: "For more than twenty years the growing evils of tax-exempt securities have caused grave concern to the Treasury. Secretaries Glass, Houston, Mellon and Morgenthau have all recommended to Congress that these evils be eradicated."

Faithfully yours,

Wm. C. Clegg

Under Secretary.

The President

The White House

APR 7 - 1938

My dear Mr. President:

In the letter to you of March 28, 1936, it was stated as the position of the Treasury that there should be recommended no legislation affecting outstanding tax-exempt securities, even to the limited extent of requiring that tax-exempt income be taken into account for the purpose of fixing the surtax applicable to taxable income. This letter did not state the reasons for this position of the Treasury. By direction of Secretary Morgenthau I am outlining these reasons below. They are:

(1) Such outstanding securities were purchased by their holders with the understanding, buttressed by judicial decision, that the income from such securities would not become the basis for any taxation. Indeed, Federal legislation has, since 1913, expressly exempted state issues. Trusts, estates, and other fiduciaries, among the other types of investors, hold these securities in their portfolios upon this understanding. This understanding, whether resting on Federal legislation or judicial decisions, should not be violated.

(2) There is no present impelling reason, as there was in the case of the gold legislation, for a modification of contract with holders of outstanding securities, in so far as tax exemption is concerned. The evils resulting from tax exemption will be remedied, as to the bulk of these securities, in a comparatively short period of time by confining the removal of exemptions to securities issued in the future. The arguments for completely eradicating this evil at the present moment seem to me to be far outweighed by the challenge that a solemn promise has been breached.

(3) New issues of state and municipal bonds are coming out at about a billion and a quarter dollars a year, and the market is adjusted to absorbing these issues and a moderate amount of trading in old issues. Should presently outstanding securities be made the basis of taxation, a total volume of perhaps \$6 or \$9 billions of such securities would become unattractive to their present holders. Secretary Morgenthau, Mr. Taylor, Mr. Oliphant and I are in agreement that the liquidation of any considerable part of such a volume of securities --- amounting to over six years' gross new issues at the present rate --- would so seriously disturb the state and municipal bond market that it would be years before its equilibrium would be regained. This difficulty would not arise, however, should the

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removal of tax exemption be applied to future issues only, while all of the expected advantages would be attained within a reasonable period with a minimum of disturbance to the economic structure.

If your final thought is to recommend taxation of future issues only, the last paragraph and the quotation on page 5 of the last draft of the proposed message should be omitted.

May I also call your attention to the statement on page 4 of the draft of the message that "For more than twenty years an unbroken line of Secretaries of the Treasury has reported to Congress the growing evils of these tax exemptions." I find that such reports have been made to Congress by Secretaries Glass, Houston, Mellon and Morgenthau only, but not by Secretaries Mills and Woodin. I suggest, therefore, that the passage be revised to read as follows: "For more than twenty years the growing evils of tax-exempt securities have caused grave concern to the Treasury. Secretaries Glass, Houston, Mellon and Morgenthau have all recommended to Congress that these evils be eradicated."

Faithfully yours,

(Signed) Roswell Magill

Under Secretary.

The President

The White House

(COPY)

The Sixteenth Amendment to the Constitution of the United States, approved in 1913, expressly authorized the Congress "to lay and collect taxes on incomes, from whatever source derived." That is plain language. Fairly construed this language would seem to authorize taxation of income derived from state and municipal, as well as federal bonds, and also income derived from state and municipal as well as federal offices.

The reciprocal tax-immunity accorded such income was conceived when the nation was young to strengthen weak government finance and to protect the federal system.

Today, however, it constitutes a serious menace to the fiscal systems of both the states and the nation. Both the states and the nation are deprived of revenues which could be raised from those best able to supply them. Neither the federal government nor the states receive any adequate, compensating advantage for the reciprocal tax-immunity accorded to income derived from their respective obligations and offices.

In recent years both the federal government and the states have come to rely increasingly upon graduated income taxes for their revenues. In recent years the rapid expansion of federal and state activities has resulted in the issuance of an increased volume of tax-exempt securities and in the creation of an increased number of state and federal officers and employees who claim special tax-exemption. Tax-exemption which was once an inequity of relatively slight importance has become a most serious defect in the fiscal systems of the states and the nation.

Fundamentally our tax laws are intended to apply to all citizens equally. That does not mean that the same rate of income tax should apply to the very rich man and to the very poor man. Long ago the United States, through the Congress, accepted the principle that citizens should pay in accordance with their ability to pay, and that identical tax rates on the rich and on the poor actually worked an injustice to the poor. Hence the origin of progressive surtaxes on personal income as the individual personal income increases.

During the past few years we have become conscious

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more and more of the simple fact that these progressive surtaxes, established by the Congress to carry out a principle, were being avoided by various methods. Loopholes in the tax laws and the use of corporate devices give to hundreds of individuals the chance to escape the letter of the law, even though in so doing they were failing to carry out the spirit of the law.

Tax exemptions through the ownership of government securities of many kinds — federal, state and local — has operated against the fair or effective collection of progressive surtaxes and has, therefore, violated the spirit of the tax law itself. Actually, in operation, it has given a greater advantage to those with large incomes than to those with small incomes.

Therefore, I lay before the Congress the statement that a fair and effective progressive income tax and a high perpetual reserve of tax-exempt bonds cannot exist side by side.

Men with great means best able to assume business risks have been encouraged to lock up substantial portions

of their funds in tax-exempt securities. Men with little means who should be encouraged to hold the relatively secure obligations of the federal and state governments have been obliged to pay a relatively higher price for those securities than the very rich because the tax-immunity is of much less value to them than to those whose incomes fall in the higher brackets.

For more than twenty years an unbroken line of Secretaries of the Treasury has reported to the Congress the growing evils of these tax-exemptions. Economists generally have regarded them as wholly inconsistent with any rational system of progressive taxation.

I do not think the Congress should feel obliged to wait upon the realization of the cumbersome and doubtful remedy usually proposed for this evil, namely, a constitutional amendment. These tax-immunities are not inexorable requirements of the Constitution. The present unfortunate situation is the product of adjudication and adjudication can correct it. More than one hundred years ago doubts and difficulties attending these immunities were expressed by members of the Supreme Court, and in recent years the underlying assumptions

of the doctrine have been impressively questioned by the Court itself. The doctrine was originally evolved out of a totally different set of economic circumstances from those which are now dominant. It is a familiar principle of law that rules of law lose their binding force when the reasons which gave rise to the rules no longer exist.

I, therefore, recommend to the Congress that effective action be promptly taken to terminate these tax-exemptions for the future. The legislation should confer the same powers on the States with respect to the taxation of federal bonds hereafter issued as is granted to the federal government with respect to state and municipal bonds hereafter issued.

I suggest also legislation which will authorize that tax-exempt income be taken in account in fixing the surtax applicable to taxable income. As Secretary of the Treasury Carter Glass stated in his report for the fiscal year of 1919:

"It is intolerable that taxpayers should be allowed, by purchase of exempt securities, not only to obtain exemption with respect to the income derived therefrom, but to reduce the supertaxes upon their other income, and to have the supertaxes upon their other income determined upon the assumption, contrary to fact, that they are not in possession of income derived from state and municipal bonds."

The same principles of just taxation apply to tax-exemptions of official salaries. The federal government does not now levy income taxes on the hundreds of thousands of state, county and municipal employees. Nor do the states, under existing decisions, levy income taxes on the salaries of the hundreds of thousands of federal employees. Justice in a great democracy should treat those who earn their livelihood from government in the same way as it treats those who earn their livelihood in private employ.

I recommend, therefore, that the Congress enact legislation ending tax-exemption on government salaries of all kinds, conferring powers on the states with respect to federal salaries and powers to the federal government with respect to state and local government salaries.

The ending of tax-exemption, be it of government securities or of government salaries, is a matter, not of politics, but of principle.