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GROUP MEETING

February 1, 1939.
9:30 A. M.

Present: Mr. Gaston
Mr. Hanes
Mr. Taylor
Mr. Foley
Mr. Bell
Mr. Gibbons
Mr. Duffield
Mr. Haas
Mr. McReynolds
Mrs. Klotz

H.M.Jr: (White House telephone) Hello. Yes. I'll be there; I'll be there. Thank you.

Five minutes of ten.

(Speaks aside to Mrs. Klotz.) Yes. Excuse me.

(Whispers to Mr. Hanes.)

Hanes: Sure.

H.M.Jr: I want to explain it to you. I want to explain it to you.

Hanes: Sure.

H.M.Jr: Well, did you get lots of game?

Taylor: Well, I was out looking for them every day.

H.M.Jr: Did you try to fly back?

Taylor: No. I flew down, but I didn't fly back.

H.M.Jr: I knew you did. When I saw Monday that kind of weather and no Wayne, I thought you were ice-bound somewhere or other.

Taylor: Pretty nearly. That was an awful storm down there. I left Monday afternoon. Nice place to get back from on trains.

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H.M.Jr: But you didn't attempt to come back by air?

Taylor: No.

H.M.Jr: You got anything, Hanes?

Hanes: I want to speak to you about this after the meeting; it's another one of those Louisiana cases that Senator Ellender has been calling about; I've got a memorandum. I want to speak to you about it afterward.

Gibbons: Does that happen to be Shushan?

Hanes: Yes.

Gibbons: Senator Bilbo says he's moved over to Mississippi, and he's called me.

Hanes: I'll read that memo for the benefit of those here.

"Senator Allen J. Ellender called this afternoon around 4:30 p. m., and asked that you be given the following message: For eight or nine months he has been trying to get the Treasury Department to settle a few of the income tax claims in Louisiana, and he has been asked by a constituent, Abe Shushan, to try and get you interested in his claim. Mr. Shushan will settle for \$80,000.

"The Senator wanted you to be sure and get this message, so in case you were asked about it, you could say that he had spoken to you regarding it."

H.M.Jr: Well, all I can say is, this is Mr. X, and we don't like Mr. X.

Hanes: The same sort of thing we had before. I wanted you to know about it.

H.M.Jr: Having gone through the pattern, do I have to sit in on another one?

Hanes: No, we've got the pattern down, and I'll tell the Department to handle it. "Mr. X, I don't want to do anything else about it except what we have done in the past."

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H.M.Jr: I'd handle it just like Mr. X; I'd handle it just like Mr. X.

Hanes: That is all.

Duffield: I've nothing except I want to repeat that I think a courtesy call on Senator Glass is a good thing today - just a courtesy call.

H.M.Jr: Well, if you

Duffield: That's subject to his (Mr. Hanes') ratification.

H.M.Jr: All right, after I come back from the White House, if Hanes thinks so; it's up to Hanes to tell me so because you said you took that up yesterday.

Hanes: I have been talking to Gene about it this morning.

McReynolds: John said he'd like to have a copy; he'd like to look at the memorandum dictated by Crowley, dictated for your diary. I think he ought to see it, and see what....

H.M.Jr: Sure, sure, sure.

McReynolds: We'll get that for him.

H.M.Jr: Absolutely.

Hanes: I just want to get up to date; I am not familiar with what is going on at all since we had that long conference.

H.M.Jr: I have had other deals with Crowley; I sent Mac over there, with a stenographer, to take it down, so there could never be any question of what happened.

Hanes: Leo asked - said he wanted to see us today.

McReynolds: It isn't very long, but it's very brief and very satisfactory.

Hanes: I just want to be familiar with what is happening, that is all.

Duffield: There is a copy of the bill here.

McReynolds: He didn't want that.

Gaston: Elmer Irey wanted you to know that they have got the men down from New York, and they are pulling out all the Martin D. Manton tax records and going into it thoroughly.

At three o'clock this afternoon, ah - Alsop and Kintner?

H.M.Jr: Yes. But you'll have to talk to me about it again.

Gaston: Yes. Those are the things they wanted to look at.

H.M.Jr: Mac, do something for me; I was going to do it; will you call up Mr. Wallace and tell him I am terribly sorry I can't come at twelve o'clock. Mr. Parran is receiving a medal at twelve thirty, and he can't come either. See?

McReynolds: Twelve o'clock. Neither you nor Parran.

H.M.Jr: No, but that Mr. Taylor will be very glad to come if he wants him.

Taylor: (Nods "Yes.") It's on agriculture.

McReynolds: Have him come at twelve today.

H.M.Jr: If Mr. Taylor is here. Wallace has a plan to increase food consumption; you are carrying Agriculture for me from the Treasury.

McReynolds: Anything goes, under Agriculture.

H.M.Jr: O. K. Now, Wayne, I've been waiting for you to come back. If you've got a pencil, I'd like very much for you to take, as your baby, whip them into shape, and when you're ready, we'll go to see the President. I'd like you to take them through on the Hill and see them through.

One is the thing mentioned in this Budget Message, that we get the other lending agencies into the form of Commodity Credit. That bill, I take it, Foley's got it ready.

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The other thing is what I call my Conservation Corporation - the selling of issues for T. V. A., Boulder Dam, and the rest of them.

Foley: That is ready too.

H.M.Jr: I'd like you to take those, get them into shape in a couple days so I can say, "Mr. President, we are ready to have you go over them." Just the way Johnny takes the tax bill on the Hill and sees the whole thing through - soup to nuts.

I'd like you to do those two. Is that all right with you? In other words, they are yours; when you are ready, I'll tell the President we'd like to come over and have him see them, and so forth and so on. Huh? I'd like to just hand those two things to you, and it is possible - I mean, say to the President, oh, if he'd see us, say Monday afternoon, why we'd be ready then.

Taylor: All right.

H.M.Jr: O. K., Wayne?

Taylor: (Nods "Yes.")

H.M.Jr: You know what I am talking about. And I've talked about this to Johnny, and Mac, and they think it is a good way to move, and then the other thing, Herbert Feis was at the house last night, and "When is the State Department ready to talk to us about Brazil?" As of last night they are not ready; they haven't finished their thinking, and you haven't lost anything on that. I said, "Please now, don't do what the State Department does -- wait until the last minute and say, 'Here is our plan.'" They are covering the whole map of foreign exchange - Export-Import Bank, Central Banks - they are doing the whole business, and as of last night they are not ready - not yet ready to see us. And so I am waiting - the Treasury is waiting to hear from the State Department. That is the status. But when they are ready, the whipping of the thing into shape, and all of those, I mean I expect you to sort of head our own committee if you will. See, Wayne? See, there are three things I am handing you today. And there are a lot of cables on your desk waiting, about

Brazil. They've come up, back and forth, and everything; I sent them all in to you.

Taylor: (Nods "Yes.")

H.M.Jr: All right?

Taylor: Fine. Archie and Harry away, or are they....?

H.M.Jr: Oh say, Archie is quite sick; it's all around. I have been in and out of the office and bed for about ten days myself. And when you get into the thing, if you want to know more about it, I am available.

George, do you think eleven o'clock Thursday you'd be ready for the first meeting on Social Security, based on that memorandum Mr. Brown gave us on what I've got to say yes or no on.

Haas: What Altmeyer gave you? Yes.

H.M.Jr: You've got to be, George; that's all there is to it.

Haas: That was what I was going to ask.

H.M.Jr: You've got to be; I can't wait any longer.

Haas: We worked on it yesterday.

H.M.Jr: Can you be here, Dan, at eleven o'clock? Anybody interested in Social Security is invited to hear Professor Haas give a lecture.

Gaston: Tomorrow?

H.M.Jr: Tomorrow. If you sleep in your clothes and they look mussed up, I won't criticize you.

Haas: Thank you.

Gibbons: I found you'd gone all over the situation as far as Bennett Field is concerned, on the airplane failure to get down.

H.M.Jr: Yes. Well, the least said about that the better; I told Admiral Waesche the Coast Guard let me down all right.

Gibbons: Yes.

H.M.Jr: And the President had the memorandum from Bell asking for these three cutters and fifteen planes, and brought it up yesterday in front of McIntire, and Mac said, "Didn't you want to take it up with the Secretary?" And he said, "He would go to Boca Grande. He wasn't around, so I just cut it out."

Bell: That is about the story.

H.M.Jr: It was the story. He said, "You will go down to Boca Grande; how do you expect to get your three cutters and fifteen airplanes?" It's the truth.

McReynolds: I don't even think it's funny.

H.M.Jr: What?

McReynolds: I don't think it's funny.

H.M.Jr: He said, "You were away."

Bell: It wasn't brought to his attention.

H.M.Jr: He certainly didn't place the blame on you.

Gibbons: Ah - ...

H.M.Jr: You mind if I keep moving? Is it important?

Gibbons: No, I'll talk to you sometime again about Coast Guard.

H.M.Jr: No use talking; it's your people, and those people down there are just not on their toes. Now, I told this fellow Waesche, and I told him over a year ago to take von Paulsen off active flying duty, and he hasn't done it. He is still flying people.

Gibbons: I didn't know that.

H.M.Jr: Just because he is a pal of his, he doesn't do it, and these people up there - if they'd been on their toes they'd gotten a plane down there. The only reason I didn't say anything more is because those people were saved; if those people had been

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drowned, it would have been nobody's fault but Coast Guard's. It's the most outrageous performance I ever saw. Waesche doesn't defend it.

Gibbons: He can't defend it.

H.A.Jr: I said, "If you'd gone down there and gotten those people, I could go up on the Hill and ask for three cutters and fifteen planes. There's no excuse; I don't get the opportunity now. They fuss around - why don't they put a man up there? It's your people.

Gibbons: I know it is. But I didn't know anything about putting Paulsen off.

H.A.Jr: Paulsen was supposed to have been taken off.

Gibbons: I didn't talk to you about it on account of your throat condition.

H.A.Jr: I did it the same day; the same night. I wanted to know where was Coast Guard. The only reason I haven't fired somebody is because the people lived, but if those people had drowned, -- it was nobody's fault but Coast Guard's. Absolutely nobody's fault but Coast Guard's.

Gibbons: Of course they haven't got - they just had that one old plane there; they should have some more.

H.A.Jr: They had the new Hall aluminum plane.

Gibbons: They had one brand new plane. They didn't even find out how many people were to be rescued.

H.A.Jr: Well, the people lived; no use getting excited, but I hope - I mean, if they had died, then we'd have had a nice investigation and we couldn't have excused ourselves at all.

Gibbons: All right. Well, the only thing that annoys me, I didn't know about Paulsen.

H.A.Jr: The story was, he was attached to aid Secretary Ickes and Mr. Hopkins when they had that boat, and Paulsen was so drunk they had to put him to bed; that was while he was attached as Aide to Secretary

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Ickes. I said, "A man who drinks like that when he is an aide to a member of the Cabinet - remove him from active flying." And when they went to sea - of course, Hopkins backed down on his story.

Gibbons: Does Waesche know that?

H.M.Jr: Oh, he knows all about it. I said, "If the man is so drunk he can't show up for lunch," I said, "take him off flying, because," I said, "the first thing you know he'll be flying when he's drunk and kill some people." Then Hopkins will say, "I told Morgenthau the fellow was drunk."

(Miss Chauncey brings in a telegram.)

Just a moment.

(H.M.Jr. and Mrs. Klotz discuss telegram.)

Ed?

Foley: We asked the Department of Justice for an opinion on German countervailing duties, and the thing was prepared and read to us over there, and now I find that Cummings put a memo in the file that you didn't want the opinion, and the matter was dropped.

H.M.Jr: I didn't want it?

Foley: That is what Townsend says. We couldn't understand why it didn't come over.

H.M.Jr: Triple confidential - triple confidential, Sumner Welles asked the President to ask the Attorney General to hold it up until these negotiations with - what is the man's name?

Taylor: Rublee.

H.M.Jr: Rublee; and Cummings told me myself that the President asked him to hold it up. So I have checked that, and that is correct. Cummings told me the President asked him to hold it, and Sumner Welles told the President to ask him to hold it.

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Foley: You sent some people down the other day who were protesting because German hammers and horse shoes were being dumped in this country. Well, we had this - we can take care of it.

H.M.Jr: O. K. It's the President of the United States. You ran into something?

Foley: I wanted you to know it.

H.M.Jr: Well, now you know too. (Laughter)

Foley: They said the Secretary has a note to hold it up. I said, "Our Secretary?" They said, "Yes."

H.M.Jr: No. I haven't got any documents to show this time either. You will just have to take my word.

Gaston: That is probably Chit in there.

Foley: There's some memos on Customs and Internal Revenue, on Manton.

H.M.Jr: You Manton boys see me afterwards. I have still got airplanes. I've got to go over and see the President about airplanes now.

Foley: The other thing, there is a dispute in Chicago that has come up between the Alcohol Tax agencies and the District Attorney's office out there. I wondered if you want me to talk to Bill Campbell about it.

H.M.Jr: Better wait a minute. There is a long history to that. If there is a dispute about that..... Again getting ready for the Annenberg trial.

All right, I guess I'd better go. I've got one of the toughest jobs this morning I have ever had. If I seem a little excited today.... I'm going over to see the President.

February 1, 1939.

Mr. William Schwarz,
Member,
Board of Review.

Sir:

You are hereby promoted and appointed, effective February 1, 1939, a Member and Chairman of the Board of Review established by Title VII, Section 906(b), of the Revenue Act of 1936, with compensation at the rate of eight thousand dollars per annum, payable from the appropriation, "Internal Revenue, Salaries and Expenses, Refunding Processing Taxes, 1939".

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

WFM:mas

February 1, 1939.
10:57 a.m.

HMJr: Hello. Hello. Hello.

Operator: Just a minute.

Robert Wagner: Hello.

HMJr: Hello, Bob.

W: Who is this, Henry?

HMJr: Yeah.

W: Well, gee, I didn't want you to get on the phone first being a -- a Cabinet officer, you know, why --

HMJr: Say, listen, I'm so used to sitting around and waiting for you Senators it's gotten to be a pleasure. (Laughter) I thought you'd like to know we're making Schwartz chairman.

W: Oh, well, that's nice. I -- that's awfully nice. He's an old friend of mine and -- I'll tell you what he is, one of those dead straight fellows, you know.

HMJr: Yeah.

W: I know them when they're straight and I know them when you can't trust them either. He's one of those dead straight fellows.

HMJr: What do you mean, "dead straight"? I'd like them alive and straight.

W: Well, -- ah -- I used an unfortunate word, but you can absolutely depend on his integrity, don't you know, and that's -- that's a lot.

HMJr: Well, if you'd say he's alive and straight that would sound much better.

W: Well, I'll -- I'll make it. Yes, I'll -- I'll put it that way. (Laughter) Henry, are you in any great haste about your Stabilization Act?

HMJr: Well, I'd like it to go along --

W: Yeah, well I -- did -- I told Glass to get in touch with you. You know he's Chairman of the Sub-committee, and I gotta kinda go along with the, you know --

EMJr: Yeah, well --

W: Feed it to him a little bit. He's --

EMJr: Yeah, I say -- I mean --

W: Yeah, you understand.

EMJr: Not today or tomorrow, but I'd like it to go --

W: Yeah. I had a talk with him and he's a little bit doubtful. You might -- about the devaluation proposition.

EMJr: I see. I see.

W: What do you -- how do you feel about that yourself?

EMJr: Well, I think we ought to have it.

W: You do?

EMJr: Yes, just to use in case some of these countries don't behave, to hold it over their heads as a club.

W: Yeah, I think he had an idea that you could do it with the Stabilization --

EMJr: No.

W: Act.

EMJr: This -- this is a big club to use --

W: Yeah.

EMJr: To shake it but never use it.

W: Now -- well then, you'd be ready on that when he --

EMJr: Any time.

W: He -- he kind of will fuss with that a little bit, you see?

EMJr: I get you.

W: All right, Henry. Thanks a thousand times.

EMJr: Thank you.

W: Thank you. Good bye.

February 1, 1939.
11:30 a.m.

HMJr: Hello.

Operator: Senator Pittman calling.

HMJr: O. K.

O: Go ahead.

HMJr: All right.

Key

Pittman: Hello.

HMJr: Hello.

P: How are you, Mr. Secretary?

HMJr: Key?

P: Yeah.

HMJr: How are you?

P: Why, I suppose that you may have had called to your attention there a resolution introduced by -- by Senator Townsend, and it was referred to the Banking and Currency Committee.

HMJr: Well, I saw the headlines, but --

P: Well --

HMJr: That's about all I know about it.

P: Yeah. He is asking that a special committee of the Senate be appointed for the purpose of -- of investigating the -- the Silver Bill and all matters connected with it. So I wanted to stop that.

HMJr: Uh-huh.

P: And so far have been successful in stopping it.

HMJr: Well, what -- what would you like me to do, Key?

P: Well, I think we're going to probably ask you to come up here sometime next week. Whenever it is convenient for you.

HMJr: Well --

P: And bring up there the statement of all, up-to-date, silver bought and so forth.

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WJr: O. K.

P: But now I -- I stopped it by -- I asked them -- I had four extra new members put on that committee, so now it consists of -- of nine and put Townsend on himself.

WJr: Yeah.

P: I went to him and told him. I said, "What's the use of having two committees here?" "Well," he said, "I want a fair committee." Well, I said, "God, I don't know what fairer committee you've got." I said, "We've got McNary on this thing and he's the leader of the minority, and he doesn't come from the state that produced any silver, so he's certainly fair." And I said, "Of course, we've got Borah on here; he's another Republican. I haven't actually -- I imagine he'd be pro-silver in every way, naturally," but then I said, "We've got other fellows on here that haven't got any silver in their state at all -- nothing to do with silver. But," I said, "I'll put on four more."

WJr: Gosh!

P: And I did. I put Townsend on, and Radcliffe of Maryland. Radcliffe is a banker himself, and I put a couple of more fellows on. We've got a committee of nine. I think that stops -- that'll stop the Banking-Currency Committee from -- from reporting his resolution out, but I've got to -- I've got to get the information for him about all these purchases and things; otherwise they will kick. Now what time next week would be convenient for you?

WJr: Oh, any -- any time that you say.

P: Well, that will give you time to direct them to bring up as near as they can to date these purchases.

WJr: Sure.

P: Well, you can't get them -- you can't get them exactly up-to-date, I realize that.

WJr: Oh -- I imagine they've got them up to December 31st which ought to be good enough.

P: Oh, I think they've got them pretty near up because they've been doing a good job in that line, you know. Every time we want one of those statements they bring it up to about a month back.

WJr: Now about -- how about the middle of next week?

P: Well, I think that's a good idea.

HMJr: Say about Wednesday?

P: Well, Wednesday is the Foreign Relations Committee day meeting. We're not having any meetings now if we can help, you see?

HMJr: Well, what --

P: I don't want any meetings with the committee.

HMJr: Well, do you want it Tuesday?

P: What?

HMJr: Tuesday?

P: I think Tuesday would be a good day.

HMJr: What time?

P: Oh, I should say, Tuesday at ten thirty.

HMJr: Where would that be, Key?

P: Oh, I'll use the Foreign Relations Committee room here.

HMJr: Will I get a formal notice?

P: Yes, sure. I'll write you a letter and invite you. I didn't want to do it until I found out when it's convenient.

HMJr: And you just want me to come up and give you statistics?

P: Yes, go ahead and give -- well, Townsend will ask you these questions, you know. If he can ask the questions he'll probably want to know why you are buying foreign silver; what good it does, if it does any good; or anything of the kind, that's --

HMJr: Well, --

P: In other words, he had a long interview the other day -- a made-up interview by somebody. I don't know who made it up.

HMJr: Well, I won't -- I won't aid and abet him, I'll just give him facts, and we're down here carrying out a mandate in Congress and will continue to do so. Is that all right?

P: Yeah, but naturally he'd want to know whether or not you think the purchase of any of this foreign silver is doing any good.

HMJr: Well, --

P: Of course, as far as China is concerned, I know damn well it did good.

HMJr: Well, I -- I'll have plenty of people up there to help me.

P: All that money that went to China, that really went to pay for goods, didn't it?

HMJr: Of course it did.

P: Huh?

HMJr: Well, I mean, you -- you and I know that -- that the silver we bought from China made it possible for them continue.

P: I know it damn well, and if -- if it didn't do anything else it was certainly a good thing there.

HMJr: And we didn't buy -- I don't -- we didn't buy the cost of one battleship from them.

P: As a matter of fact I think -- think that the -- the records that I have disclose the fact that -- that every bit of silver that you bought in London was used in this country to buy exports.

HMJr: Well, I couldn't --

P: By God, it went right up and down with your purchases.

HMJr: Yeah.

P: But --

HMJr: You be there and you help me out.

P: Oh, I will, of course.

HMJr: And you'll find that I'll be extra cautious.

P: As a matter of fact, I'm going to put on a -- an actuary that I've had working for months on this thing. I think he's going to show by his curves, and he's got some magnificent curves, I think he's going to show

that -- that every damn bit of this silver that you bought abroad has bought -- bought exports in this country.

EMJr: Well, we'll -- you put him on and we'll listen. We'll be glad to listen.

P: I think it goes right -- it goes right up and down with the amount of purchases.

EMJr: For heavens sake, that's very interesting.

P: Yeah, it is interesting. All right.

EMJr: Thank you, Key.

February 1, 1939.
11:37 a.m.

13

Operator: All right.

EWJr: Hello.

Ronald
Ransom: Good morning, Mr. Secretary.

EWJr: Hello, Ronald.

R: How are you today?

EWJr: Oh, getting over a cold.

R: Well I heard you'd had a cold and I hope it's better.

EWJr: What's your worry?

R: Mr. Haines McFadden, who is the Secretary of the Georgia Bankers Association and the publisher of the Southern Banker, one of the better banking magazines, is in town today and his purpose is to extend to you the invitation of the Association to make an address to them at their annual convention during the early part of the month of May when they will meet in Savannah, Georgia.

EWJr: My gosh!

R: I sincerely want to second that. I had the pleasure of being President of that Association at one time, and it is a very representative group of bankers and they are not only going to have their own group, but at this meeting in Savannah they are asking in to meet with them on the last day the bankers of Florida and of South Carolina so that you would have an adequate audience and a representative one, and they seem to have a very high regard for what you have accomplished in a difficult position and they are quite anxious that if possible you accept that invitation, and I can assure you if you have never been to Savannah, which I suppose you have, that it's one of the most hospitable and pleasantest places in the south to visit.

EWJr: Well, all the south's nice.

R: Thanks.

EWJr: Ronald, I -- I -- I'd do it for anybody. I'd do it for you, but I just can't commit myself for next May.

R: Yes.

EWJr: It's impossible.

- 2 -

R: Yes. I -- I understand your difficulty.

WMJr: And I wish you'd tell them I appreciate it very, very much, but I'm not making any speaking engagements.

R: Yes.

WMJr: Will you tell them that?

R: I will.

WMJr: Thank you so much.

R: I'm sorry that you can't, but I can understand how difficult it is for anybody in any position in Washington to know their plans that far ahead, but it is a nice compliment, and --

WMJr: I appreciate it very, very much.

R: And I -- for myself would arrange my plans to be present if you could accept, so that I might have the pleasure of being there when you were there.

WMJr: Thanks, Ronald.

R: Good luck to you.

WMJr: Fine.

R: I'm sorry you can't.

WMJr: Thank you.

February 1, 1939.
11:48 a.m.

HJr: Hello.

Operator: Mr. Helvering. Go ahead.

HJr: Hello.

Guy

Helvering: Hello.

HJr: Guy--

H: Yes'

HJr: In regard to Gougan--

H: Yeah.

HJr: Here's the dope. Last -- at Cabinet, the President said he'd seen Senator Walsh.

H: Yes.

HJr: And I said, "Did you talk any politics to him?" and he said, "None." I said, "Well, what about Gougan?" So the President said -- turned to Frank Murphy and he said, "Henry's awful fussy. He won't take that fellow because he hasn't paid his income taxes." So he says, "How about United States Marshal?" Well, Frank Murphy seemed to know all about it.

H: Yeah.

HJr: And I remarked in a jocular way, "You better wait until the birthday party is over because the present U. S. Marshal is Chairman of the birthday party for Massachusetts. (Laughter) And Murphy seemed to know that, but the way I left it, inasmuch as I'm bothering you, is the President told Frank Murphy to take up the question of making Gougan United States Marshal.

H: Yes.

HJr: So that leaves us out.

H: Yeah, good.

HJr: So that's that.

H: Yeah.

HJr: But I think, if I may make the suggestion, as long as you sent word to me, I just would sit tight and do nothing.

- 2 -

- Q: Well, I -- I just -- I thought the other day, what I wanted to get over to you was, the other day I thought the President made the remark to you, saying something to the effect, "Now, Henry, you checked him because he failed to file his income tax for three years," or something like that.
- Q: Yeah.
- Q: And I thought maybe you had that idea, that it was for three different years.
- Q: No, I -- I just --
- Q: Of course, he failed to file and didn't file until the investigation started for 1935.
- Q: No, no, I -- the President said for a couple of years. I just didn't check it. I didn't -- as long as it was off my chest -- I got it off my chest and onto Frank Murphy's, I just wiped my plate clear of Gougan.
- Q: Yes. Well, of course, I'm not -- the only thing, I hear that Senator Walsh had sent for him and that he was here today and Walsh was going to insist on his appointment as collector, and I thought maybe he might call you and --
- Q: Well, if he does, I'm going to tell him --
- Q: Yeah.
- Q: Politely but firmly, "No".
- Q: Yeah. All right.
- Q: That's -- because it's -- it's in Frank Murphy's lap, and as far as I'm concerned, it's out of mine.
- Q: All right.
- Q: Jim knows -- Jim Farley knows about this.
- Q: Yeah.
- Q: He knows -- he said to me, "Now, is the door closed tight?" I said, "Yes." He said, "Definitely closed tight? O. K." He said, "Have you got any candidates for the position?" I said, "None, Jim, except I want an honest fellow." He said, "All right."
- Q: Yeah. (Laughter) All right.

HMJr: Does that clear it with you?

H: Yes.

HMJr: But what I told you about between the President, Murphy and myself is just between us, see?

H: Yes. All right.

HMJr: Everybody else happy?

H: Yes, I think so.

HMJr: All right. Thank you.

February 1, 1939.
5:12 p.m.

Sol
Bloom: Sol Bloom speaking.

HMJr: Yes. How are you?

B: I want you to -- to do a favor for the Congress of the United States.

HMJr: What's that?

B: On March the fourth -- a resolution just passed the Senate and the House to celebrate the hundred and fiftieth anniversary --

HMJr: Yeah.

B: Of the first Congress.

HMJr: Yeah.

B: That's passed -- both houses. Now, we've -- we have no appropriation and the only expense that we would have would be a little printing and the invitations, and I wonder if it would be all right with you if you would kindly give the word so that we could have the Bureau of Printing print our invitations for us.

HMJr: I'd have to find out what the law is, Mr. Bloom. I don't know what it is.

B: Yes, well, all right, but if it can be done, naturally. I -- I'd appreciate it very much. If it was up here in our end of it, of course we could do it, and --

HMJr: Well, --

B: We have a fund for that, you see.

HMJr: Well, I'll find out whether it's legal. I don't know whether it's legal or not.

B: Yes, well, if it can be done. Then will you let me know --

HMJr: Yeah.

B: And Mr. Hall?

HMJr: Sure.

B: Thank you very much, I appreciate it. Good bye.

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NOTE:

Mr. Taylor acknowledged this communication orally in conversation with Mr. Mallet on 2/1/39. He also reported orally to Secretary Morgenthau 2/2/39
mel-R

BRITISH EMBASSY,
WASHINGTON, D.C.
February 1st, 1939.

My dear Mr. Secretary,

In Bewley's absence in New York I am sending you the following confidential message dated January 31st from the Chancellor of the Exchequer:-

"I am about to introduce a bill
"implementing the statement made on
"January 7th when gold was transferred
"to the Exchange Account that Parliament
"would be asked to deal with the fiduciary
"issue. The bill will provide for
"revaluing gold in the Issue Department
"each week to current market price, any
"gain or loss to the Issue Department
"so caused to be adjusted with the Exchange
"Account. If gold falls in price the Exchange
"Account must provide resources to
"enable the Issue Department to keep
its/

The Honourable

Henry Morgenthau, Jr.,

United States Treasury Department,

Washington, D. C.

-2-

"its books balanced and conversely if
"gold rises in price any surplus in
"assets of the Issue Department is
"transferred to the Exchange Account.
"On first revaluation of one hundred and
"twenty-six million pounds of gold
"remaining in the Issue Department (which
"is of course at the moment still carried
"there at the old par price of eighty-five
"shillings an ounce) the Issue Department
"will show a surplus of assets of eighty
"or ninety million pounds which has not
"been transferred to the Exchange Account.
"There will thus be no increase in the
"total note issue due to writing up of
"Gold. The Issue Department will in fact
"retain its present stock of gold written
"up to its new value of two hundred and
"ten or two hundred and twenty million
"pounds/

-3-

"pounds, but the fiduciary issue now
"standing as a result of last January's
"transaction at four hundred million
"pounds will be fixed by the bill at three
"hundred million pounds. This latter
"figure of three hundred million pounds
"will replace the previous statutory normal
"figure of two hundred and sixty million
"pounds. The bill will also deal with
"securities held by the Issue Department
"but this is of domestic interest only.
" The Bill will be published here in
"London on Wednesday evening; in the
"meantime proposals are being kept
"confidential."

Believe me,

My dear Mr. Secretary,

Yours very sincerely,

Winston Churchill

February 1st, 1939.

My dear Mr. Secretary,

In Hawley's absence in New York I am sending you the following confidential message dated January 31st from the Chancellor of the Exchequer:-

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"London on Wednesday evening; in the
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"confidential."

Believe me,

My dear Mr. Secretary,

Yours very sincerely,

(SOD) V. A. L. HALLAT.

February 1st, 1939.

My dear Mr. Secretary,

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the Honorable

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-2-

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" The Bill will be published here in
"London on Wednesday evening; in the
"meantime proposals are being kept
"confidential."

Believe me,

My dear Mr. Secretary,

Yours very sincerely,

(SGD) V. A. S. HALLEY.

REB

GRAY

London

Dated February 1, 1939

Rec'd 3:35 p. m.

Secretary of State,
Washington.

136, February 1, 4 p. m.

FOR TREASURY FROM BUTTERWORTH.

One. In the course of a conversation at the Treasury, Phillips and Waley showed me the telegram despatched to Bewley for communication to you regarding the legislation to be introduced today revising the Currency and Banknotes Act of 1928. In the circumstances I will only telegraph the subsequent press and city reaction thereto.

Phillips expressed considerable satisfaction at the behavior of the Exchange since the beginning of the year and indicated that the gold losses of the British fund had been quite small. He felt it was the fact that so large an amount as pounds (sterling) 300,000,000 of gold had been added to the equalization fund which had impressed the market; no doubt that the embargoes had helped somewhat but he went on to compare them to tax evasion legislation which was merely effective for a
limited

REB

2-#136, From London, Feb.1,4p.m.

limited time after which new methods of avoidance would inevitably be evolved. He said that in any case without the steps taken the rate would undoubtedly not be where it is today but at the same time he implied that there was no surty that conditions would not further adversely affect sterling in the days to come.

He commented on the recent increase in apprehension about the European situation emphasizing its stultifying effect on trade and industry and cited the state of the city before Hitler's speech which was definitely jittery. It was to be expected that further waves of apprehension would ensue since Hitler's actions were largely unpredictable. On the other hand Waley remarked that diplomatic services are peculiarly adapted to picking up alarming rumors and reports and he was not without hope that Mussolini would only ask of France what France could appropriately concede.

As regards Germany, Phillips and Waley had very little to add to the information repeated in my 80, January 20, 3 p. m. They regarded Schacht's departure as inevitable but it had come sooner than expected and its consequences were not yet clear.

Two.

REB

3-#136, From London, Feb.1,4p.m.

Two. A well-informed city banking source has given me the following account from its Berlin representative which may be of interest: "The immediate cause for Schacht's dismissal arose out of a discussion at the office of Field Marshal Goering on the financing of last year's budget deficit. 1938 was a very expensive year both from a financial and economic point of view. Germany's export trade was permitted to take a junior position, with very heavy imports causing the consumption of the Austrian gold and foreign exchange reserves, liberal spending of Germany's own exchange resources and heavy domestic expenditure on the part of the Government. The 1938 budget is reported to show on the revenue side an income of 18 billion marks and on the expenditure side outgoings of about 20 billion marks. Only a very small part of the subsequent 11 billion marks deficit could be taken care of by the issue of delivery treasury notes the instrument suggested by Schacht. In previous years the deficit was not as high, moreover it was financed by the issue of the so-called special bills which were eligible for rediscounting at the Reichsbank. As in other fields the financial field in 1938 produced unpleasant

CA

--4--136 from London..

unpleasant results at a progressive rate. The inclusion of the Austrian economy and of that of the Sudeten territory called for additional financing; the mobilization of the army speeded up wear and tear; nevertheless these items represent expenditures which might have been met somehow provided that the ambitious building program had been drastically cut down and the extravagance of the Nazi party and its leaders curbed. The deficit of previous years, which had been financed by special bills amounted to figures which are not definitely known but it is more important to appreciate that only 15 billion marks thereof could be converted into a long term Reich loan, that the amount still outstanding has completely absorbed all available funds in the banking system including the Reichsbank and its subsidiaries, that the self financing possibilities of industry have been almost completely mobilized and that taxes, corporate and individual, have been brought to a height where it is difficult for the exchequer to devise new taxes which would produce large sums of revenue. Likewise it is not possible to expand production on a larger scale because of the shortage of raw materials and above all of labor. Of course the relatively high standard of living of the German population may

CA

--5--136 from London..

may still leave a certain margin for further decrease. The standard of living has been decreased over the last five years by about 30%, and according to the latest reports of the Reichs-Kredit-Gesellschaft, the food supply has been about 22% below normal and the supply of clothing about 23% below normal. The Jewish expropriations have as of January 18 only produced 150 million reichsmarks, a negligible sum compared with actual requirements. If Schacht's scheme of credit inflation backed by an increase of industrial production had been used more judiciously, namely, had it been possible to forego unnecessary expenditure on the part of the Nazi party and postpone the ambitious building program then it still might have been possible to finance not only 1938 but possibly two more years as well. While it is difficult to prophesy what Funk will now do to ensure current financing it is not probable that he will continue to issue special bills which the Reichsbank will rediscount and that the internal purchasing power of the mark will be permitted to continue to decrease. In addition thereto the entire control system will be further tightened, the export trade will be subsidized and private consumption as against Government consumption will be throttled to an even greater degree."

CSB

JOHNSON

REB

PLAIN

London

Dated February 1, 1939

Rec'd 4:09 p. m.

Secretary of State,
Washington.

141, February 1, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

My trip to the north included Glasgow, Liverpool and Manchester. Inasmuch as a third of the population of the United Kingdom lies within a radius of 75 miles of Manchester I used it as a point of departure. My general impressions are as follows:

1. As regards the dollar-sterling rate there is a much keener realization in the north of England than in the London area, that due to the extent of the sterling area a depreciation of the pound offers no solution of the British export trade problem. The desire for stability of exchange rates was the over-riding attitude but the expectation is fairly general that due to developments in the European situation sterling will in fact depreciate further. There was more interest in Liverpool than in the industrial areas in the day to day dollar-sterling rate due to the trade in raw cotton.

But

REB

2-#141, From London, Feb. 1, 7 p.m.

But stocks of American cotton are declining because of uncertainty as to the policy to be followed in holding or disposing of the American Government's enormous stock. This consideration overshadows the expectation of a reduction in the value of the pound in terms of dollars. Manufacturers stocks of American cotton are also declining and Sir Kenneth Lee the head of Tootal Broadhurst Lee Company was the only one whom I came across holding large supplies and he was moved to do so, (a) as preparation against the contingency of war, (b) because of his expectation of a weakening pound and, (c) because he could turn the cotton bales into airraid protection trenches.

2. As to the British economic outlook I found nothing to contradict the general considerations advanced in the economic analysis contained in No. 75, January 19, 6 p. m.

It was very evident in the industrial areas the important part armament expenditure was playing in cushioning the decline but it was equally clear that on its present scale it could not change the trend. The fear of war is very real and is holding up large capital outlays. The general expectation is that
business

REB

3-#141, From London, Feb.1, 7p.m.

business activity will continue to decline as will exports but that the rate of decline will not be precipitous in the near future.

3. Price fixing arrangements both as regards domestic and wherever possible as regards export markets are running like wildfire through British industry. This movement which gained impetus with the imposition of the tariff in 1932 has been further stimulated by recent Government statements the latest of which was made by the President of the Board of Trade in the House of Commons yesterday. "I have urged export industries to consider the desirability in each industry of organizing themselves to deal with the problem of international competition by means of agreements between the industries in competing countries and I am ready to do what I can to assist in any case where my help might be needed." It seems probable that decided price differentials as between products consumed locally and those exported abroad may develop and several leading industrialists are actively fostering this development as a means of forcing a reduction in real wages without attacking money wages directly and at

REB

4-#141, From London, Feb.1,7p.m.

at the same time stimulating the movement of British exports abroad.

4. Although the apprehension of war is real the people in the north of all classes are less alarmed at the possibility of war than in the London area. This seems to be due to, (a) the fact that they are a more stolid type, (b) the fact that their lives in mines, mills, factories and ships normally entail danger, (c) the fact that London is the center of the governing and financial classes who realize they stand to lose most by a war. However, considerable progress is being made in airraid precautions in the north to protect factories and their workers, for example, Imperial Chemical Company has spent 750,000 pounds on this to date. But little or nothing is being done for the householder - the expense involved in ensuring adequate safety is too great.

JOHNSON

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 1, 1939, 5 p.m.

NO.: 181

FROM COCHRAN.

There was no important amount of trading, but after Chamberlain's statements there was continuation today of the cheerful tone which pervaded the Paris market yesterday following the speech by Hitler. There were not such marked gains in quotations. It is hoped that Mussolini will now hesitate to spoil the improved international feeling by any premature demands or intemperate statements. Some sterling was gained today by the stabilization fund. Guaranty had purchased \$700,000 for it by five o'clock. At Amsterdam yesterday the new 4 percent French external bonds issued at 95 were quoted as high as 96. The most fluctuating of the European currencies is still the florin, but Dutch control resources are so important that speculators against the florin will probably suffer losses similar to those which are being liquidated on the sterling market now.

Today I had a visit from Jacobsson of the BIS, who came to Paris after having spent several days in London. It is his belief that sterling will improve above rather than decline below the present dollar-sterling rate. He again told me that he thinks American costs, due to a

to a large extent to high and inflexible wages, will show that the dollar is not undervalued against the pound even though British prices may not have dropped as far as the American. The continuance of a spending policy which has not accomplished its aims and now inspires less confidence is of concern to Jacobsson. Our public works construction, he remarked, was making costs of private construction more prohibitive and thus making it more difficult for private initiative to take over from the Government.

In my friend's opinion, there has now been liquidated at least 2/3 of the speculative position against sterling which was estimated at £80,000,000 on January 9. He does not think there was any British capital in the £250,000,000 of capital which has left London since August, unless perhaps it is some belonging to large concerns which have important accounts on several markets. He said he does not think that in the immediate future the American stock market will be very attractive to British or European investors.

I had a telephone conversation with President Beyen of the Bank for International Settlements at Basel. They had not yet received word as to whether Funk or Brinkmann will represent the Reichsbank at the meeting of the BIS in February. According to Jacobsson, Brinkmann had

- 3 -

insisted that good technicians such as Vocke, Blessing and Puhl be retained in the Reichsbank, and he thinks that Brinkmann might not do so badly. He expressed the opinion that it might even be easier for foreign creditors of Germany to deal with a real Nazi like Funk than through Schacht, a non-party man. Norman's visit to Schacht, he said, had not injured the Governor of the Bank of England. Rather, he believed it had strengthened the feeling that it is desirable for Chamberlain to follow a policy of keeping contact with the totalitarian as well as more friendly states through personal visits.

END OF MESSAGE.

BULLITT.

DEB

GRAY

London

Dated February 1, 1939

Rec'd 5:40 p. m.

Secretary of State,
Washington.

142, February 1, 8 p. m.

FOR TREASURY FROM BUTTERWORTH.

Apart from giving about 30 bars of gold at the fixing the British fund has hardly operated today though remaining in the market as offering dollars at 468-3/4, around which market operators were selling. The Bank of France bought dollars on the cross rate 37.82-1/2 and took about 700,000 dollars the franc sterling rate remaining around 177.

184 bars of gold were sold at the fixing 64 of which were married. The price was 140S 5-1/2D and the premium 1/2.

The stock market was again stronger, gold shares and British Government securities showing the most marked strength.

J. J. J.

CSB

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

CONFIDENTIAL FILEL. W. KnakeDATE February 2, 1939.SUBJECT TELEPHONE CONVERSATION WITH
BANK OF FRANCE.

Mr. Cariguel called me at noontime. The capital movement towards France was still going on, he said; they had not had a bad day for a long while and were gaining daily "a satisfactory amount." The general situation, in his opinion, was very much improved and it seemed to him that the recent move made by President Roosevelt was all for the good.

LWK:KW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 2, 1939, 4 p.m.

NO.: 188

FROM COCHERAN.

This morning at 11:00 o'clock I talked with the Bank of France. The French stabilization fund by that hour had gained \$330,000 at 37.8275 by purchase through Lazard; at 176.98 it gained \$90,000. I was told by my friend that primary British currency and banknotes bill announced after the close of business last night had not had any effect here on exchange trading. On the market there is inclination to interpret this bill as providing for the British a currency arrangement which is somewhat similar to the French. The marked exception is that British gold holdings are to be revalued each week. This would signify even less tendency toward stabilization than in France, and a more definite acknowledgment of an accepted policy of management of the currency.

This afternoon exchange trades reported that today the market had been exceptionally quiet, with not many transactions being made. There is uncertainty on the part of operators as to whether the new British monetary move should be interpreted as further evidence that sterling needs bolstering. They are likewise not much influenced by political news from Washington, awaiting disclosure

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disclosure of the specific character of concrete assistance that may definitely be counted on by the French.

Very steady florin. Yesterday the belga weakened, and there was weakness today also in this currency because of political demonstrations at Brussels.

No significant changes in statement of the Bank of France as of January 26.

END OF MESSAGE.

BULLITT.

EA:LWW

REB

GRAY

London

Dated February 2, 1939

Rec'd 5:10 p. m.

Secretary of State,
Washington.

152, February 2, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

One. This morning's press expresses unanimous approval of the currency and bank notes bill introduced yesterday describing it as a logical sequel to the gold transfer, an end of the gold fiction, a desirable bookkeeping adjustment, a valuable addition to the technique of managed currency and as embodying a realistic view of money problems. Practically all commentators note that the new legislation means no change in monetary policy and no inflation or deflation of the note issue.

Though the financial editor of the MANCHESTER GUARDIAN considers that the measure may be interrupted as a first approach to a gold standard at a new gold content of the pounds equivalent to about 4/7 of the sovereign, most commentators regard it as foreshadowing no early stabilization and implying no official view

as

REB

2-#152, From London, Feb. 2, 6p.m.

as to the future value of gold. I may say that from my contacts with the British Treasury I have the impression that no long range view is implied. I gather that the new bill is intended merely to clear up the inconsistencies in the 1928 legislation which have arisen from the events of the past decade and that likewise future events will perforce determine policy and management.

Most newspapers welcome the greater clarity which will result especially in continental eyes as to the country's gold position and the FINANCIAL TIMES sees in the measure an effective manifestation of the "strength and determination behind the defence of sterling" while the FINANCIAL NEWS regards it as putting "the best possible showing on our remaining gold assets."

The most interesting comments are those of the TIMES. In an editorial the new bill is taken as implying "an extension of the original purpose of the account (exchange equalization account) which, founded to iron out excessive fluctuations in the exchange value of sterling in terms of other currencies, will now apparently be used also to iron out excessive fluctuations in the supply of currency. It may thus become a currency
equalization

REB

3-#152, From London, Feb. 2, 6p.m.

equalization as well as an exchange equalization account." The city editor of the TIMES points out that whereas hitherto the gold in the issue department has governed the note issue now apparently the note issue will govern the amount of gold in the issue department and that "the roles of the note issue and the gold reserve are interchangeable as those of cart or horse according to whether it is the continuous sanction of the 1928 or the weekly sanction of the 1939 act which is called into play."

While the TIMES phrasing is apt, I might mention that the management of the exchange equalization account's operations has since its establishment been of necessity an integral part of the management of currency and credit. Though the relation between the gold purchases and sales of the account and the Bank of England reserve have been complicated by the continued valuation of the Bank of England's gold reserve at 85 shillings an ounce, in practice the transfers of gold between the account and the bank with the changes in the fiduciary issue have all along given the British authorities the power to achieve what the present bill makes only more obvious and convenient.

My

REB

4-#152, From London, Feb. 2, 6p.m.

My only other comments on the terms of the bill are with regard to the profit arising from the revaluation of the Bank of England's gold, and with regard to the future profits arising from the note issue handed over by the Bank of England to the treasury which are, under the bill, to be paid into the exchange equalization account. The current profit arising from the revaluation of the gold amounts to about 95,000,000 pounds and will be reflected in a reduction in the securities held against the fiduciary issue which by the terms of the bill is to be lowered from 400,000,000 pounds to 300,000,000 pounds. Presumably these securities will be transferred to the exchange equalization account and will form a part of the accounts sterling assets and may eventually result in a corresponding reduction in the issue of treasury bills through the tap to the exchange equalization account. The gold profit will be added to the total profits of the exchange equalization account.

The routine profits arising from the currency note issue hitherto belonging to the treasury have varied since 1928 very considerably, the highest being pounds

11.4

REB

5-#152, From London, Feb. 2, 6p.m.

11.4 million in 1932-33 but in 1937-38 no profit was made and very possibly a loss was incurred due to the operations of the issue department in long term government securities. Since the gold profit is a part of the note issue profit the section of the bill under which the note issue profits are handed to the exchange equalization account is mainly a means for transferring this 95,000,000 pounds. Since the routine profits from the note issue are seldom large, were nil in 1937-38, and are not likely to be much better in the immediate future in view of the need for manipulating the long term gold-edged market, the loss of revenue to the treasury from this source is insignificant.

Though the gold profit could be taken over by the treasury as revenue by the inclusion of a clause in the annual finance act I gather that such a step is not now contemplated.

Two. The foreign exchange market experienced one of the most inactive days of recent times. Gold was fixed at 148 shillings 7-1/2 pence giving a one-half penny premium and of the 205 bars sold 124 were married and fifty odd supplied by the British fund.

JOHNSON

• NPL
• EMB

February 2, 1939.
10:00 a.m.

WMr: Hello.

Operator: Secretary Iokes. Go ahead.

WMr: Hello.

Secretary
Iokes: Hello, Henry.

WMr: How are you?

I: Fine. How's your cold?

WMr: It's -- I'm practically over it right now, except that it has settled in my back.

I: In your back?

WMr: How are you?

I: That's no place for a self-respecting cold.

WMr: No. Well, I have a memo here from Admiral Peoples --

I: Yeah.

WMr: And I've got McReynolds sitting here --

I: Yeah.

WMr: And Mac says that if the President has to change this executive order, see -- hello?

I: Yeah. Well, now I talked with the President about that yesterday.

WMr: Good!

I: And he suggested that I ask Burlew to get in touch with Peoples and then work out a procedure. Let's work out something first and then take it to him.

WMr: Well, what I would suggest -- I'd like to amend that, Burlew get in touch with McReynolds.

I: Well, that's better still.

WMr: And let the two of them work it out and I'll sign anything that the two of them agree on.

I: All right, I'll tell him to do that.

WMr: How's that?

I: And tell McRenolds he'll hear from Burlew.
Wife: I'll tell him. He's sitting here.
I: All right.
Wife: Anything the two of them agree on I'll sign.
I: All right, fine.
Wife: Thank you.
I: Thank you. Good bye.

February 2, 1932.
10:06 a.m.

Mr. Allen: Hello.

Sproul: Good morning, Mr. Secretary.

Mr. Allen: Hello, Sproul. How does the market look to you in regard to the R.F.D. note issue?

S: Well, right now it looks as if -- it's between a three-quarters and a seven-eighths coupon. The seven-eighths, if anything, looks a little on the rich side and the three-quarters a little on the thin side.

Mr. Allen: How thin is the three-quarters?

S: That's that?

Mr. Allen: How thin will the three-quarters be?

S: Well, on the prices at the close last night the three-quarters would show a premium of nine and ten thirty-seconds.

Mr. Allen: That's pretty thin, isn't it?

S: Yes. I think something depends on how the market acts in the next couple of days.

Mr. Allen: Yeah.

S: Before you could really make the final -- give a final opinion on it.

Mr. Allen: I see. Well --

S: If the market holds up well, now that the announcement is out, and it's strong, and I think we might consider three-quarters.

Mr. Allen: Good.

S: If it doesn't, I think seven-eighths would be the safer coupon.

Mr. Allen: Good. Well, I'll talk to you tomorrow.

S: All right, fine.

Mr. Allen: Did the -- the market took it all right, didn't it?

S: Oh, yes. It took the announcement all right and there's no question in anyone's mind, I think, about the issue.

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It's going all right. It's just a question of what's the best rate.

Mr.: Did anybody up there ask any questions, does this mean wasn't the Treasury to ask for cash in March?

S: We've had some comments this morning on a story which appeared in the Wall Street Journal this morning that this three hundred million offering is taken as an indication that there will be no cash financing in March.

Mr.: I see.

S: The market's feeling, I think, is that if that is going to be the fact, then they might consider a little finer rate on the three hundred million.

Mr.: I see. O. K.

S: All right. I'll talk to you tomorrow.

Mr.: Thank you.

February 2, 1939.
2:07 p.m.

Operator: I beg pardon.

MR: Hello.

W: Senator Wagner?

MR: Yes.

W: Go ahead.

MR: Hello.

Robert Wagner: Hello, just a moment, please.

MR: Hello, Bob.

W: Just a moment. Ah --

MR: Henry talking?

W: Secretary?

MR: Henry.

W: Oh, Henry, this is Bob Wagner.

MR: Yes, sir.

W: Say, Henry, the U.S. Housing is consulting you about some -- the -- the matter of getting local authorities to put up a little more money and invest a little more, private funds at least, and -- and you're -- if you're opposed to the attitude, I wish I could see you before you write any letter about it.

MR: I wrote a letter --

W: Already?

MR: And signed it this morning, which they -- I understand from Ed Foley that they had agreed to.

W: Oh, well then -- I was with Nathan last night a little --

MR: Well, he didn't know that I signed it this morning.

W: Well, is it adverse, or --

MR: No, it's -- Ed Foley told me they had been over it and I understand he worked it out, and that they had agreed to everything in the letter.

W: Oh, is that so?

HW: Oh, they can go ahead.

W: Oh, they can go ahead?

HW: Oh, yes.

W: Oh, well, then -- then they've -- they must be -- he talked to me last night. I told him I might drop in to see you, because you know it's my -- one of my "babies". (Laughter)

HW: In Treasury, you know, we always say we're on a twenty-four hour basis.

W: Yeah.

HW: I imagine that -- and we had this meeting this morning. We spent three-quarters of an hour on it. We cleared it and the letter went, and all I had is Foley's word, which is good with me, that if I had signed it it was agreeable to the U.S. Housing.

W: Yeah. Say, by the way, Henry, when you spoke to me yesterday about Schwartz. You didn't mean that you were giving him a temporary designation, did you? On that chairmanship.

HW: I don't know how that is. I -- my impression is that if it's wrong I'll call you back, if my impression is permanent.

W: Yeah, well that's what I understood, but he -- I understand he just got a -- a temporary designation as chairman.

HW: Well, let me look into it, but what I -- there must be some mistake again.

W: Yeah.

HW: If I'm wrong on both these counts I'll let you know. Supposing I send you up a copy of the letter that I sent to -- ah -- Nathan.

W: Well, that will be very nice of you.

HW: And I'll send you a copy of the letter I sent to Schwartz, and if either of -- either of --

W: If it's temporary you are going to make it permanent, aren't you?

EMJr: Well, I intended to make it permanent.

W: Well, that's what I understood. Well, thanks very much, Henry.

EMJr: Now both those letters will be up within the hour.

W: Oh, that's swell.

EMJr: And if they're not satisfactory, call me back.

W: All right, Henry. Thank you a thousand times.

EMJr: They will both be up to your office within the hour.

W: Thanks very much, Henry. Good bye.

February 2, 1938.
4:23 p.m.

WMr: Hello.

Operator: Mr. Halvering.

WMr: Hello. Hello.

Guy
Halvering: Hello.

WMr: Guy--

H: Yes?

WMr: Senator Walsh is here with Mr. Gougan of Massachusetts --

H: Yes.

WMr: I'd like you to go with me tomorrow to give Mr. Gougan
a formal hearing.

H: How's that?

WMr: I'd like you to give him -- arrange to have a formal
hearing.

H: I see.

WMr: As to the -- I don't know the word used -- charges or
whatever is the -- whatever the Bureau feels -- where
he has been delinquent in filing his returns. Hello?

H: Yes?

WMr: In other words, I -- I'd like you to -- whoever has the
evidence as to -- whatever evidence we have is to be
presented to Mr. Gougan and let him have a chance to
answer it, and, of course, he's sitting here; he appre-
ciates once we start on this thing we don't know where
it will end, and -- but he wants a chance to have a
formal hearing. Let me have -- (Talks aside).

H: Hello?

WMr: Hello.

H: Hello?

WMr: So I say, for all I know, he may end up without a job,
or he may end up with a hundred percent record.

H: Yes.

WMr: But once we start we'll go through with -- with the

investigation, and that's what he wants.

Q: Uh-huh.

WMr: So -- so will you arrange for it? Supposing I have him at your office, say ten o'clock tomorrow?

Q: Yes, I can -- well --

WMr: Is that a bad time? You name the time.

Q: Well, I've got -- I've got a hearing on a pretty sizable case.

WMr: Well, how about in the afternoon?

Q: Well, I think the better time would be immediately after lunch at two fifteen.

WMr: Two fifteen?

Q: Two fifteen.

WMr: And -- and he says that's all right, but, I mean, I -- I'd give a -- have a formal hearing, and let's run the thing down one way or the other, Guy.

Q: Yeah.

WMr: O.K.?

Q: Yeah.

WMr: And he -- he wants that, so if you'll do that for me, please.

Q: Yes, all right.

WMr: Thank you.

Q: Yeah.

February 2, 1932.
4:35 p.m.

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Operator: Go ahead.

WMr: Hello.

Guy
Silvering: Hello.

WMr: Guy--

G: Yes?

WMr: The Senator has left.

G: Yes.

WMr: He stayed behind, and he said, "Now, I had to go through with the motions--"

G: Yeah.

WMr: "Because the organization wants him, and then if the party's snub", he said, "if you look up and see how many days Goughan was at the office, I think you'll find he's away a great many of the days. Not attending to his job."

G: Yeah.

WMr: See?

G: Yeah.

WMr: So I'm passing that along for what it's worth.

G: Yeah, he -- well, he was.

WMr: That?

G: He was away a good deal.

WMr: Well, so Senator Walsh says.

G: Yeah.

WMr: So I told Goughan, I said, "Now we'll go into this thing, but I said, "You may end up by having no job." He said, "That's all right."

G: Um-hm.

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EWJr: So we understand each other?

E: Yeah. The fact of the matter is -- ah -- on the recommendation that went over from here that time we did mention that due consideration might later be given to the fact whether or not he should stay in there.

EWJr: I told that to the Senator. He said, "All right, if he wants it go ahead and make a complete investigation."

E: All right.

EWJr: O.K?

E: Yeah.

EWJr: So when he's coming down he may lose his job.

E: Yeah.

EWJr: All right.

E: Good day.

EWJr: Fine.

GROUP MEETING

February 2, 1939.
9:30 A. M.

Present: Mr. Gaston
Mr. Taylor
Mr. Bell
Mr. Gibbons
Mr. Foley
Mr. Duffield
Mr. Lockhead
Mr. McReynolds
Mrs. Klotz

E.M.Jr: Sol Bloom called up yesterday, "Could the Bureau of Engraving print the invitations, since they have no money?" I said we would if we could do it legally.

McReynolds: He called direct, and I said, "You ask the Secretary of the Treasury."

E.M.Jr: Thanks, Mac.

McReynolds: I thought maybe you might have something you wanted out of Sol, and that he might ask you.

(Mr. Bell comes in)

E.M.Jr: You are next.

Bell: I am next?

Well, I haven't anything. I'd like to see you and Mr. Foley sometime today on the Straus letter.

E.M.Jr: Has Foley got time?

Foley: My time is your time.

E.M.Jr: Does Taylor sit in on this?

Bell: Yes.

(E.M.Jr. speaks aside to Mrs. Klotz)

E.M.Jr: Well, I've switched - is Hase sick? Let's see, better make that - let's see if Hase is sick.

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(Over telephone) Is Mr. Haas ill today? Oh.

Haas will be in.

(H.M.Jr. speaks aside to Mrs. Klotz)

We can do it - I can give them half an hour. Got any hearings at eleven thirty?

Bell: No, but didn't you have Social Security on at eleven?

H.M.Jr: I marked it off; I put Social Security to three o'clock this afternoon. I am changing Social Security to three.

Bell: Eleven thirty is all right with me.

H.M.Jr: Who do you want on that, Bell?

Bell: Mr. Taylor and Foley.

H.M.Jr: All right. Ed, you can stay behind if you want to. Have you got some things? Mrs. Klotz said you wanted to see me about Campbell.

Foley: On that Alcohol Tax thing in Chicago.

H.M.Jr: You stay behind at eleven thirty. I have switched Social Security to three.

President Dodds, at Princeton, has granted permission for Professor Douglas Brown, of Princeton, - for two or three years he has been Chairman of the Advisory Council on social security, and I have asked him to act as special advisory on social security matters, and President Dodds has granted that. He is going to see us through this legislation. He is a grand fellow.

How's your financing coming along?

Bell: It's all right; they are ready to talk to you tomorrow and Saturday morning.

H.M.Jr: On what?

Bell: Well, seven-eighths seems to be a little rich, and three-quarters seems to be a little thin. Would you give consideration to selling at about eight thirty-seconds premium?

H.M.Jr: No.

Bell: That will solve the difficulty. Of course, March may change it some.

H.M.Jr: What's the fellow's name up in New York?

Bell: Matteson, or Sproul.

H.M.Jr: Sproul. I'll call him.

George, are your boys figuring on the R.F.C. note?

Haas: Ah.....

H.M.Jr: Will you please?

Haas: I'll start them.

Lockhead: You notice the market comments this morning that the pricing would be between three-quarters and seven-eighths.

Gaston: The Herald-Tribune priced it.

Lockhead: That's about where it belongs.

Bell: That's where it belongs - about eight tenths.

H.M.Jr: George, I put you over till three o'clock.

Haas: Fine.

Lockhead: On these security figures, you will notice, as a general rule, they are running more or less with the market.

H.M.Jr: You didn't give me the names of the Housing.

Lockhead: Mr. White's division is getting that up; I'll have to check with them and see what they have on it. You remember, you asked me to get in touch with Bewley. Bewley is out of town but he will be back the middle of the week.

Taylor: He's back ; he got back last night.

H.M.Jr: I wanted to answer that letter yesterday to the British.

Taylor: There wasn't any answer.

H.M.Jr: You mean, acknowledge received,

Taylor: If you want to do that.

Lochhead: One think I've noticed in the last two weeks, France has been taking gold from us.

H.M.Jr: For what?

Lochhead: Ear marking it. They have built up their ear-marked from one hundred million to a hundred ten million since they started to gain. They are living up to their press notices; that is, that they gained this morning.

H.M.Jr: Oh. Now, you people who are interested - I take it that you know I have got to go up on the Hill at two thirty. Wayne Taylor wants to go to testify on silver, but he insists on going, but we'll flip a coin, and I agreed to go up there.

Lochhead: That is Tuesday, isn't it?

H.M.Jr: Yes. I think the less material I take up, other than just the actual sales and purchases, is about all that is necessary.

McReynolds: White's office is also working on that.

H.M.Jr: All right.

Lochhead: Yes.

Gaston: Harry has a list of mines that have sold to the Treasury and the amounts they have sold, which is quite interesting.

H.M.Jr: Well, I want you to know I am taking the attitude which Key Pittman, all I am going to do is stay neutral; if they ask any embarrassing questions, it is up to him to carry the ball. I told him - I have indicated to him I am going to be strictly neutral. I think that is my position that I should take. I said, "I am simply carrying out a mandate of Congress; that is all."

Lochhead: Mr. Morgenthau, I noticed in the testimony, always that the same thing - there is always confusion on

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outside silver, with domestic silver, of 1934. They asked you whether you do certain things. You can't do it, or don't do it, under the Silver Act of 1934. All this silver is under the proclamation.

W.M.Jr: And they want to mix up the Mexican thing. I explained to the President how you could not identify Mexican silver that was refined. After it comes through the American refinery, it is just a block of silver.

Lockhead: We have gone into this question of whether you could ask for a certificate of origin. We could. If you did it would not be an awful hardship on Mexico; it would mean Mexico would go into industrial, and we'd get the other silver. Secondly, even if we have that right, it doesn't seem we could discriminate between Mexican silver; it would be putting the State Department in a terrible position.

W.M.Jr: There is no precedent anywhere for us to discriminate in our purchase of gold or silver in any country.

Gaston: That would be establishing a foreign policy.

(W.M.Jr., Mr. Lockhead and Mr. Gaston all talking at once.)

W. Jr: Right, Wayne?

Taylor: On the silver thing? I was thinking about that, that is, I have from time to time, and suppose the Congress passes the buck back and says, "All right, what's your recommendation?" which it is more than possible that they will do.

W.M.Jr: Well, I think I have a very safe bet. That is, I am opposed to all government subsidies.

Taylor: Well, that's.....

Lockhead: That's domestic or foreign?

W.M.Jr: All inclusive.

Gaston: Shipping?

W.M.Jr: Everything. Because the reason I say that, Wayne, is they say, "well, if you subsidize shipping, airplane, post office....."

Tolley: Housing.

H.M.Jr: Housing, why not - what's the matter with the Rocky Mountain States? So I have done that for twelve months; I have gotten away with it. I am sincere about it, although I realize it is a little smart alec. I am perfectly sincere that if you are going to - as soon as I say, "No subsidies for silver," but I am for subsidizing housing, then I've got eighteen Senators who say they don't believe in that. But if I say I am against all subsidies, which I am, as Secretary of the Treasury, I think I am on fairly safe ground.

Taylor: Well, I think even if you do that, and I think that is perfectly safe ground to be on, why silver is supposed to be a monetary metal and you - well, that's fine, but suppose you do away with the subsidy aspect of it. What place do you think silver should have in the scheme of things?

H.M.Jr: Well then, I'd have to scratch my head a little bit. I think I'll turn it over to Harry White and let him testify. I mean, I am not going to forget. I went up there and I was amazed when I went up there - oh, sometime that I have seen Jack Garner, he asked me what we were going to do about silver, and I told him, and to my amazement - "Good," he said, "That's all right." He said, "Don't forget, Harry, that eighteen Senators who vote can block this thing." I was surprised he should take that position on domestic silver. "It was all right this year to continue the subsidy," Jack Garner said, "but eighteen Senators - I wouldn't say anything to stall if I myself were on it."

Taylor: It's such a natural thing to say. Here is this very interesting problem.

H.M.Jr: I'm simply going to try and duck it; "I am very sorry gentlemen, but you've got people here who have been brought up in the silver mining country and they can talk about this thing much better than I can." I'll try to duck it. I'm glad you asked me. I'll do the best I can. It's just like Bob Wagner called up yesterday, and I am fearful there is a deal on between Wagner.....

(Mrs. Klotz calls attention of H.M.Jr. to notes brought in by Mr. Kieley.)

- H.M.Jr: I am very much afraid there is a deal on between Wagner and Glass to oppose the President's future right to devalue. See? There is something - some question whether he should have it. But I'll just - you'll just have to say a little prayer for me Tuesday morning.
- Taylor: Well, I wasn't trying to stick up Streus' plan, but I think it is.....
- H.M.Jr: I think it is very wise that you do, but as I said to my wife this morning, I mean, heretofore, I said, "The things I believe in, I'll continue to say so, but from now on everything I say is weighed." What this means in terms of delegates, I don't know; I don't talk that language, and it is very difficult for me to play the game that way. I don't know how to play it. Everything comes up - "Is this good or bad or better?" I don't know how to play that game, and I can't change. What I may say may be good or bad as far as delegates are concerned, on silver; I just can't change. I'll just - I have played it this way for six years and I'll play it the same way as long as I am here. Does that satisfy you?
- Taylor: Well, as I say, I think that sometimes, someplace, somebody has got to produce an answer on it.
- H.M.Jr: I hope I don't have a headache, and I hope I've got a sense of humor that day. And the hearing is going to be public. That is one place where Jerry and I agree. I am not going into any executive session.
- Gibbons: Speaking of Wagner, he called me up yesterday - said he promised to appoint Mr. Schwartz.
- H.M.Jr: I had to. Mac came in and cried on my shoulder; I never saw such a demonstration in my life. Mac just raised hell around here and I gracefully gave in.
- Gibbons: Well -
- DeRayabla: He is praying now; he's praying for that hearing.
- H.M.Jr: You've got to treat Mac differently than you used to. I mean, he's got a silk hat and coat.
- Gibbons: And I am still wearing overalls. Speaking of delegates, incidentally, do you have to go along with Mr. Gougan in Boston, for Internal Revenue?

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H.M.Jr: Gougan? Do I?

Gibbons: Yes.

H.M.Jr: No.

Gibbons: Senator Walsh was down here.

McReynolds: I told Steve to talk to Guy; you had already told him.

H.M.Jr: No. The answer is no. I have said for two years if there are five hundred thousand French Canadians in Massachusetts, there must have been one that paid his taxes. If there is, why not produce him.

Taylor: He's down in Rhode Island.

H.M.Jr: O. K?

Gibbons: I was in the Mayflower last night and saw Jim Farley. This is off the record. (Few remarks.)

H.M.Jr: All right.

Ed?

Foley: Frank Groetzer, one of the lawyers over at the Maritime Commission called yesterday - said he wanted to come over and talk about financing agency agreements in connection with the Ship Mortgage Act. I don't know how much they need. They are coming over.

That's all I have.

H.M.Jr: I got the President to give us a green light on those three cutters and fifteen planes for Coast Guard.

Gibbons: You did?

H.M.Jr: I mean, on the bill; you are going up to the legislature. I'll see how much political influence you've got.

Gibbons: I want to talk to you about that some day.

H.M.Jr: Just go on up on the Hill. It's your bill now.

Gibbons: I'd like to get a clearance on my idea with you before I do it.

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H.M.Jr: It's your bill. See if you can get it. The President said he'd give it his blessing.

George?

Hass: I have nothing.

H.M.Jr: George, three o'clock this afternoon?

Hass: I'll be ready.

H.M.Jr: And Douglas Brown is coming tomorrow as a consultant.

Hass: Oh, he's finally accepted? That's excellent.

H.M.Jr: He's accepted.

Wayne?

Taylor: (Nods "Nothing.")

H.M.Jr: (Over telephone) Mr. McIntire or Mr. Kannee, please.

Sumner Welles asked me last night whether he could come over on Brazil next Monday. I am going to ask the President whether he won't see us on your bill - the Conservation Corporation - so will you tell Sumner - will you call him and say that I am saying - that I have asked the President to see me on something, so I'd much rather make it three o'clock Tuesday for Brazil, which gives us a little more time. And if I don't hear from you, I'll say it's all right.

(Telephone conversation with Mr. Kannee at 9:40 A.M., is attached.)

February 2, 1939.
9:49 a.m.

WMr: Hello.

Operator: Mr. Kannee. Go ahead.

WMr: Kannee--

Kannee: Yeah.

WMr: Would you tell Mr. McIntyre to ask the President if he has me for lunch Monday, I would like to have a half an hour right after lunch.

W: Well now look, Mr. McIntyre put you down for twelve noon today for a half hour. Of course, he's taking the list over right now.

WMr: What's that?

W: Mr. Mac's taking the list over right now. Would you prefer to let the whole thing go over until Monday?

WMr: No, I'll ask him -- when I -- when I see the President I'll ask him for Monday.

W: I see.

WMr: This is another matter. He's putting me down for twelve today?

W: Yeah.

WMr: Fine.

W: Well, that's of course, subject to the President's approval, but I'll call you back, sir. I'll call your secretary.

WMr: Well, you let me know. When I come over I can tell him what I want Monday.

W: Yes, sir.

WMr: We've got some business over here.

W: All right, sir.

WMr: Thank you.

W: You're welcome.

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W.M.Jr: Well, anyway, I'd rather do it Tuesday.

Taylor: All right, fine.

W.M.Jr: You got anything?

Taylor: (Made 'No'.) On that Wallace thing, I guess it will be somebody in Dan's shop that I will want to work with a little bit on that, but there's another meeting on that next week.

W.M.Jr: O. K.

Duffield: May I ask, did you call Senator Glass yesterday?

W.M.Jr: No. No, because I have been waiting to hear from Johnny Bates. He was here - came in at four o'clock - didn't say anything to me. The way I left it, he was to give me a green light and he didn't.

Duffield: All right, I thought he and I had agreed that he would suggest it to you, but it's all right.

W.M.Jr: We'll be back in the morning; you can ask him again.

Duffield: That's all right.

W.M.Jr: You going to start at ten?

Gaston: Yes.

W.M.Jr: Will you read every page before?

Gaston: Yes. Last night I spent the evening reading through Cochran's report to you, and I don't think there is anything dangerous in that at all. I think it is a very illuminating story in the whole thing. Bob Horton, of the Maritime Commission, called me up yesterday or the day before, and wanted to know if there wasn't some way we could induce the French to ship part of the planes by American ships. I told him I didn't think that was in our province, but I'd report it to you.

W.M.Jr: I am carrying enough.

Gaston: Premier called me and said he called me to spare your time, and his complaint was that the Comptroller had dismissed a bank examiner who was an old friend of his, through a man he got O'Connor to appoint.

Cy told me the man has had five years of trial; that he is not a bank examiner and can't be one, and he is dropping him.

H.M.Jr: Why don't they give a man a chance to demonstrate whether he's good or not?

Gaston: Five and a half years is all they have given him. He is a North Dakota boy.

H.M.Jr: Non-partisan League?

Gaston: He is a Democrat and a Liberal and his father, old Captain Baker, was a supporter of the Non-partisan League. He was a banker in Bismarck.

The Fortune is definitely going to do an article on whether the Swedish budget system can be applied to the United States, to our budget, and they want to send one of their girls down tomorrow and John Devanport, and Charlie Murphy, want to come down - two good old World reporters - they want to come down and finish the story.

H.M.Jr: Well, the acting director is going away for two weeks; it is up to him.

Gaston: They wanted to know whether there was still a chance to see Dan this week.

Bell: Yes I am going away Sunday.

Gaston: If they want to see him tomorrow they can?

Bell: I talked two hours the other day with the young lady who was going to handle it. She didn't know any difference between the accounting budget and the municipal budget. She is taking the place of one of the other girls. She is filling in.

Gaston: One of these girls - Miss Bell - is coming down tomorrow.

I don't know whether George gave you that proposed Wallace letter or not. They have something - developed a very interesting memorandum on it.

H.M.Jr: On Wallace? Oh yes.

Gaston: The President's reply to Wallace.

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H.M.Jr: Wayne, that is a budget thing; let it come to me, through Wayne, as long as he is handling Wallace for me.

Haas: That's all right.

H.M.Jr: Let it come through Wayne. All right?

Gaston: That's all I have.

H.M.Jr: O. K. I just want to talk to Wayne.

RE LOCAL HOUSING AUTHORITY SECURITIES

February 2, 1939.
11:30 a.m.

Present: Mr. Taylor
Mr. Bell
Mr. Foley

H.M.Jr: Go ahead, Professor.

Foley: The only hesitation I have ever had about this plan of his is that he is switching from the local credit of these housing authorities to the Federal subsidy for his ability to sell these obligations. Now, if he were selling them in the normal way - New York City Housing Authority has a million dollar project; the Government buys a hundred thousand dollars of the bonds, nine hundred thousand dollars of the bonds are sold in the open market in New York - I wouldn't have any hesitation. That's what the Act contemplates and that would be perfectly all right.

But what he's attempting to do, sir, is to take San Francisco, St. Louis, New Orleans, Chicago, and New York, and then get them all together and come out with not a million dollar issue but with a five million dollar issue for the five local housing authorities.

H.M.Jr: Would it be one piece of paper for five cities?

Foley: No, it would be five pieces of paper. But the purchaser would rely upon the annual subsidy contract that each housing authority would enter into with the United States Housing Authority, and he would look upon that as the equivalent of a Federal guaranty of the obligation of the local housing authority; and I say to the extent that that isn't as good as an annual appropriation to pay principal and interest on a Federally guaranteed obligation, because it's merely a moral obligation on the part of Congress to continue to make an appropriation each year to meet this subsidy contract - that there may be a default some day because

Congress fails to make the appropriation. And if that does happen, because the purchaser relies upon the full faith and credit of the United States to make that appropriation in purchasing the local obligations, such a default may hurt the Federal credit. That's been my main objection to this thing all the way through. In so far

H.A.Jr: May I take the other side for a minute? I don't get the difference, in your argument, whether Straus sells the bonds of five cities at one time, relying on the subsidy from Congress, or whether he sells the bond from one city at a time. I mean if you're going to rely on the same thing, it's just doing it wholesale. I don't see where your argument - I mean if you question - I take it you question the soundness of the bond because they've got to rely each year on a subsidy from Congress to make up the ...

Foley: ... difference between the normal economic rent and the subsidized rent.

H.A.Jr: Yes. Now, they'll have to do that just as much if New York City sells its own bonds locally as - well, as if Straus takes four other cities and sells them nationally.

Foley: The difference, sir, is that he has framed the subsidy contract between the United States Housing Authority and the local housing authority in such a way that the ability of the United States Housing Authority to withhold that subsidy at any time the local housing authority wasn't living up to rents or tenant selection or operation in a sanitary way or any of the other standards that the United States Housing Authority might lay down - that ability is impaired in order to get national credit instead of local credit for these obligations.

H.A.Jr: Now wait a minute. Just stop right there. I understand under the law that the United States Housing had the right to withhold certain subsidies if these people, say, didn't rent these rooms to certain income groups and so forth.

Foley: That's right.

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H.M.Jr: Right?

Foley: That's right.

H.M.Jr: I mean that was the purpose.

Foley: Yes, it was intended to be a sanction to compel these fellows to live up to these standards.

H.M.Jr: But wouldn't that be exactly the same contract with New York as it would be with five cities?

Foley: It would be, sir, but in working out this plan he has written this contract in such a way that many of the advantages to the United States are given up that he would have had if he didn't have to make these concessions to this financing group in order to get this national credit phase.

H.M.Jr: Well, now it's beginning to come out. What you're telling me is in order to sell this thing on a national plane he's given up certain prerogatives.

Foley: Yes.

H.M.Jr: Now you're getting down - I mean I - it's like drawing teeth. What's he given up?

Do you understand all this, Wayne, or can I pursue the thing through my way and you take it?

Taylor: You bet.

H.M.Jr: What's he given up? Now I get you. You say in order to put this thing on a national basis he's given up certain prerogatives, is that it?

Foley: That's right, yes.

Taylor: Just one question I'd like to ask at this point. It was never contemplated in the Act or any other time that the appropriation which would be made would be in the form of subsidies to individual housing authorities, was it? In other words, it's going to be a bulk job, that is.

Foley: It was intended to be subsidies to individual local housing authorities.

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- Taylor: To individual local housing authorities, but there was no tie-up between the appropriation by Congress and any individual housing authority.
- Foley: No, the appropriation was made by Congress to the United States Housing Authority.
- Taylor: Yes, that's the point.
- Foley: And then the United States Housing Authority, in accordance with contracts for the payment of that subsidy that it had entered into with individual housing authorities, would either make the payment or withhold the payment.
- Taylor: The appropriation goes to the United States Housing Authority.
- Foley: To Straus.
- Taylor: That's - to Straus, and he's the channel through which it feeds to the other one; but Congress would never contemplate to appropriate for the New York Housing Authority.
- Bell: Not directly, no.
- Foley: That's right, and what he's ...
- Taylor: Therefore I don't see that it makes a hell of a lot of difference whether you do it on the basis of one or five.
- Foley: Well, the Secretary ...
- Bell: It doesn't make any difference from the standpoint of the appropriation. But Eddie goes a little further than that. He's got a right to withhold the granting of the subsidy under certain conditions. He's almost - he hasn't actually
- Taylor: But the money would be paid in, however, on the basis of the original schedule, in the form of an appropriation to Straus.
- Foley: To Straus, that's right; there's no change in that. My only point is that in order to get this national

credit he's had to enter into this contract with the local housing authorities in a way that he wouldn't have done it if he was dealing just with the New York City Housing Authority.

- H.M.Jr: What's he giving up?
- Foley: He's practically tying his hands, and he can't withhold that payment at all. He has to make up ...
- Bell: If it doesn't go to the local authority, it may even go to the trustees, might it not?
- H.M.Jr: You mean these bankers who want to do the underwriting have insisted that he give up ...
- Foley: ... certain sanctions that he would be able to hold over the local housing authority to compel the local housing authority to live up to the standards that he would lay down as to tenant selection, as to method of operation, as to rent that they charge, and so forth.
- H.M.Jr: Well then, looking at it from the standpoint of the banker, the thing that he's done improves the value of the bond, because they're making it practically impossible for Straus to act as a channel to withhold a subsidy. That's what you're telling me.
- Foley: Yes, that's it.
- H.M.Jr: And you say that I as Secretary of the Treasury - what you really say - should get in on the social aspects of the thing. That's what you're telling me.
- Foley: No, I'm not, sir.
- H.M.Jr: Let me just run through - that I should say here that I'm afraid that Straus is giving up the right to forbid that a family with income of \$10,000 should get these apartments, that he's going to give up that right.
- Foley: That's not my point.
- Taylor: What did he give up?

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H.M.Jr: What do they give up?

Foley: Well ...

H.M.Jr: As I get it, this national marketing organization, in order to make these bonds good, says to Straus, "By God, any money you get from Congress, pass it along; we're not going to have any strings attached."

Foley: That's about it, and I'm not - my objection goes farther than the contract. My objection goes to the appropriation that Congress must make each year. And when the bankers insist that Straus set this thing up in much the same way as a Federally guaranteed obligation, I say that there is a difference between making an appropriation to meet these rent subsidies on the part of Congress and making an appropriation to pay principal and interest on Federally guaranteed obligations.

H.M.Jr: Well, Congress won't distinguish as between them.

Foley: I think they will, sir. In other words, you have a fellow from Alabama and he says, "I'm not going to vote for an appropriation of 50 million dollars to the United States Housing Authority this year to permit negroes in Harlem to live off the people in the South."

H.M.Jr: But that bridge was crossed when they passed the bill. That was my whole fight. I was opposed to the subsidy method. I said, "Build the god-darn houses, give them to the authority, and then our responsibility ceases." I mean that was my whole argument.

Bell: That's right.

H.M.Jr: I said, "Let's cut the responsibility, let's build them, finish it, and give them to the New York Housing Authority, and it's up to them to run them any way they want."

"No," said this lawyer of Straus's and all the rest of that - "No, we're going to hold the strings, and we're going to - this room in order to be self-maintaining would have to earn eight dollars a room

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and in order to make them rent to the right kind of people and the right income people we're going to give them a subsidy, and we're going to hold the strings in that way. What we're going to do is, we'll pay a million dollars for the building, then Congress will have to appropriate a million dollars for the next sixty years to subsidize it, pay ourselves interest and the difference of the cost." I mean that was the whole philosophy, and that's what I was opposed to. I mean I fought the thing and I was licked. Am I stating it right, Dan?

Bell: That's right, yes.

H.M.Jr: What? It took us, you remember, six hours to sweat that thing out of that fellow - what's his name?

Foley: That's Keyserling.

H.A.Wr: To sweat that out of him. That was the picture. You remember, Wayne, we went all through that thing.

Now, Christ, now can Straus - the bill is passed and Congress each year votes 28 million dollars, isn't it?

Bell: That's the limit for the present.

H.M.Jr: They're supposed to give that much. Now, now can I as Secretary of the Treasury say to Straus, "You're going contrary to the spirit of this bill and you're giving up certain rights, and I'm getting in"

Foley: I don't think you can, and I've written this letter.

H.M.Jr: If you don't mind my saying, I think if you were counsel for - back in your old job with Mr. Ickes, for whatever they called it when housing was over there - what was it called?

Foley: P.W.A.

H.M.Jr: I'd come around on your side of the table and say you're a hundred percent right. But from the standpoint - all I can say to Straus, if it was the other way around, "You've entered into a contract which

gives you the authority to go beyond Congress and make it possible for you to withhold the interest, and therefore the bond to me looks as though it wasn't worth the paper it was written on, and the only thing left is a Government guaranty, and you're weakening the position of that bond." But that isn't what he's doing; strictly from the standpoint of the investor, what he's doing - he's giving up certain rights and therefore the bond is better than what Congress intended it to be.

Foley: That's right, it's better than what Congress intended it to be.

B.A.Jr: I mean if I wanted to be a nouser and go against everything that I said - but I'll go back to my original position: "Build the thing in Harlem and then give the building free to the New York Housing authority and cut all Federal strings and all Federal obligations, but for God's sake let's get out of this thing." Do you (Taylor) check with me? Are we together?

Taylor: I think they have obviously given up these hedge clauses which they had in order to make the bond salable.

Foley: In order to make the bond salable at a lower rate than it would command if they didn't give up those hedges; that's it. Now, my only point, Mr. Secretary, in making this argument is to give you the caveat that by doing this thing they'd be endangering the credit of the United States, because they're approaching it - in order to be able to get the interest rates that they're talking about, what they'll have to represent to the public is an obligation guaranteed by the United States, and it's not, and if there is a default ...

B.A.Jr: Isn't it guaranteed?

Foley: No, it's not guaranteed; no, no.

B.A.Jr: Well, they can't say that.

Foley: Of course they can't.

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- Bell: He's afraid the bond salesmen will say the United States Government is behind this, although on the face of the bond it will be plainly stated it is not an obligation of the United States.
- Foley: That's right; that's the point I think you have to consider, sir.
- H.W.Jr: Well, as Secretary of the Treasury, all I've got to watch out for is that in my opinion ... This is the impression that I was under originally: that Straus was selling a bond which would carry certain features; that when he permits the local housing authority, he gets the income tax exemption, which he doesn't - additional income tax exemption, which they don't get when he sells it. Isn't that correct?
- Bell: Gets a fully tax-exempt security.
- Foley: The New York Housing Authority may issue its obligations at the present time fully tax-exempt. If Straus issues an obligation guaranteed by the Treasury, the proceeds of which will be used to buy the obligations of the New York City Housing Authority, it isn't fully tax-exempt.
- H.W.Jr: Well, and on that ground I'm perfectly safe, and that was the position that I took: that you were going to dump 90 percent of 800 million dollars worth of bonds, 720 million dollars of totally tax-exempt bonds on the market, for what? - for no reason whatsoever; and that we could borrow this money for him for a lesser rate and not give up the totally tax-exempt thing - feature. And on that basis I felt I was on safe ground.
- Foley: Well, the weakness in that argument, sir, was that he would buy those obligations to resell when he could and when he resold them ...
- H.W.Jr: He'd buy what obligations? I sold a hundred million dollars the other day for him at 1-3/8.
- Foley: He would take that one hundred million dollars and he would buy obligations of the New York City

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Housing Authority and the Chicago Housing Authority and San Francisco Housing Authority and with the proceeds those housing authorities would build their projects. Then when they were completed Straus would offer to the public the obligations he bought from those local housing authorities and they'd be fully tax-exempt.

H.M.Jr: Well, we never crossed the bridge that we'd let him sell those.

Foley: You haven't any control over that ...

H.M.Jr: Well ...

Foley: .. by law, unless you ...

H.M.Jr: I understand that, but the point is that we should have an agreement with him and the President. This thing, to me, from my standpoint, as I see it, looks very, very simple. "Should we, Mr. President, buy a hundred million dollars worth of the United States Housing obligations, give a hundred million dollars to Straus; he finances these housing authorities during their construction period, then he takes their obligations and at his time, when he sees fit, sells a totally tax-exempt. Or should he keep those in his treasury as a" - what do you call it, asset?

Fell: Collateral.

H.M.Jr: "... - as collateral against...." No, I mean ...

Fell: They're collateral against the guaranteed obligations the Government would issue.

H.M.Jr: Yes. "Or the other alternative: should he in the first instance take the local housing authority and let them sell their 90 percent?"

Now, I think the position - I'm watching my time - the position that I want to take - I've taken, as I understand it - was: we gave them the hundred million dollars, then he kept those obligations in his treasury and did not resell them, in order not to put another 700 million dollars worth of

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totally tax-exempts on the market. Now, on that position I think I'm on entirely safe grounds and Straus has nothing to kick about.

Foley: Well, may I point out ...

S.M.Jr: are you with me so far, Wayne?

Taylor: (Nods yes)

Foley: May I point out his answer to that? His answer will be that you are not laying down to Ickes and to Jesse Jones, who are buying obligations fully tax-exempt of municipalities all over the country all the time, for the P.W.A. program, the same kind of prohibition. He'll say, "If you tell them they can't do that, it's all right for you to tell me I can't do it."

Taylor: Different type of obligation.

Foley: No, it's the same type of obligation.

S.M.Jr: are they totally tax-exempt?

Foley: Yes.

Taylor: Totally tax-exempt, but they're supposedly the pledge of the local organization, which in turn is not being, let's say, holstered up, subsidized by the Federal Government. I think there's a material difference there.

Foley: Well, to that extent there is a difference.

Taylor: Very material difference.

S.M.Jr: What?

Foley: Wayne's pointing out that in one instance the obligation is being subsidized by the Federal Government and in the other it isn't.

Taylor: I think that's a very important difference.

Foley: You mean on account of the subsidy?

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- Taylor: Yes. Here's the City of Chicago that pledges its credit to do a certain thing.
- Foley: They'll say the P.W.A. grant of 55 percent is the equivalent of the annual rent contribution, and to that extent ...
- Taylor: Well, the P.W.A. grant is exactly what the Secretary was talking about, which was to give it to them and there's no further strings on it.
- Foley: That's right. It's not an annual thing, it's a lump sum contribution.
- Taylor: That's done, they've built the subway or whatever the hell it is they're building, and the Federal Government has made a contribution to that, but there's no continuing interest of the Federal Government in the maintenance of that particular thing.
- Foley: That's right.
- B.M.Jr: What I'd like to see is this. This is what we're doing: We're building a house and we give them 90 percent of the money, don't we? They only put up ten, don't they?
- Bell: In the end we'll give it all to them.
- Foley: We can't loan them more than 90 percent of the cost. The other ten they have to raise locally.
- Bell: In the end we'll give the whole hundred percent.
- B.M.Jr: We give them 90 percent. They build a hundred million dollars worth of projects. And then for this million dollars worth of projects how much subsidy do they get, and interest?
- Foley: Well, it depends on the going Federal rate. If it's two and three-quarters, it would be three and a quarter.
- B.M.Jr: You mean
- Foley: Each year the United States Housing Authority would give the local housing authority three and a quarter

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percent of the capital cost of the project, which is a million dollars.

H.M.Jr: Three and a quarter percent?

Foley: \$32,500 every year.

H.M.Jr: How do you get the three and a quarter? How do you arrive at that?

Foley: That's the formula in the statute: one-half percent above the going Federal rate, and the going Federal rate ...

Bell: It's two and a half now.

H.M.Jr: In round figures, it's two and a half, and that's three percent.

Foley: That's right - \$30,000.

H.M.Jr: Three percent a year. That would be \$30,000 a year. What else?

Foley: That's all.

Bell: For that period that \$30,000 is probably - some cases it will more than pay interest and retire the principal of the outstanding bonds; in some places it will have to take care of maintenance deficit.

H.M.Jr: They're getting a contribution on maintenance?

Foley: Well, that \$30,000 can be used for

H.M.Jr: Then on top of that three percent we give them total tax-exemption.

Foley: That's right.

H.M.Jr: I mean they could go out if they want to and borrow a million dollars totally tax-exempt and get that bonus. I mean they get the bonus that way; on top of that they get \$30,000 besides. Now, what I'm saying is they should have one or the other, but not both. That's my position; I'm gradually clearing ...

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Foley: But his answer is that they are permitted both in the law and that Congress has authorized that.

Bell: They are both permitted, certainly, for the ten percent; you have no control. And it's questionable whether you have any control on anything that they want to go over the ten percent.

H.M.Jr: Well, why not - are they going to come up - is the bill going to come up?

Foley: Well, he's got an amendment in, yes.

Bell: Going to ask for another 800 million.

H.M.Jr: Well, why don't we do this? What I would do is ...

Foley: But even if we take it out of the law, out of our law, the exemption that they get

Bell: It's in the local.

Foley: ... is in the local statute, and unless we're willing to construe the Gerhardt case to mean that we'll go after these securities, even though we don't get the legislation at this session of Congress, we're going to have a lawsuit on our hands.

H.M.Jr: Well, I think I've never understood this as fully as I do today, and I think we better let the damn thing go and let Straus do what he wants.

Bell: That's

Foley: That's about what we've said in this letter, sir.

Bell: I think Eddie has pointed out to you the objections to this whole procedure, but after he's pointed it out I think he'll agree there isn't a hell of a lot of control the Treasury has over it. They put the authority in the Administrator.

Foley: That's my position.

Taylor: Haven't you got this possible authority? Couldn't you construe the authority of the Secretary to approve and handle these securities on such terms as he may require?

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Bell: "ell, those aren't guaranteed securities. That's not the ten percent or anything over the ten percent ...

Taylor: What did you require when you sold that hundred for him the other day?

Foley: Those are guaranteed securities.

Taylor: Yes, they're guaranteed securities, but didn't you require that those - just what the Secretary said, that obligations which he was getting should be held on ice for them?

Foley: No, we didn't lay down any strings at all.

Taylor: You didn't lay down any strings.

Foley: No, we gave them a hundred million dollars.

Bell: I think, Mr. Secretary, that Eddie's got a good letter there.

H.M.Jr: Read it there, will you please?

Foley: "Dear Mr. Straus:

"Since receiving the drafts of documents enclosed in your letter of December 2, 1938, a conference has been held between Mr. Foley and Mr. Keyserling, and I have discussed the matter with Mr. Foley and other members of my staff. As a result of these conferences, I have decided not to oppose further the consummation of the proposed scheme of financing the low-cost housing program. I am taking this action with the understanding (1) that the annual contributions agreement will be approved as to legality by the Attorney General, (2) that no local housing authority securities will be sold except at such times and in such amounts as will not interfere with any Treasury financing, and (3) that no such securities will be sold except at an interest cost to a local housing authority less than the interest cost would be if the United States Housing Authority purchased them."

H.M.Jr: And that they're willing to do? I don't get that.

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Foley: That simply says they won't employ this method if the rate that will be obtained is more than the minimum rate that can be given to the local housing authority

H.M.Jr: Give me an example. I don't get it.

Foley: Well, let's say that the New York City Housing Authority wants to - has a million dollar project. If the United States Housing Authority buys nine hundred thousand dollars of the New York City Housing Authority

H.M.Jr: If who does?

Foley: Straus buys nine hundred thousand dollars of LaGuardia's bonds.

H.M.Jr: Yes.

Foley: He can't buy them for less than three and a quarter percent interest. Now, unless they are able by this scheme that they have outlined here to get under three and a quarter, they should do it in the usual way and they shouldn't employ this scheme.

H.M.Jr: Just - now just a minute. Supposing - why shouldn't he, if he can, buy them from LaGuardia on a three percent - why shouldn't he?

Foley: That's why I'm saying he should do it unless by employing this scheme he can get below three percent, which he claims he can do.

Well: That would be the only reason for adopting this scheme.

Foley: Yes, the only reason for adopting this scheme.

H.M.Jr: Today's going rate is ...

Foley: ... two and a half.

H.M.Jr: Then it would be three percent.

Foley: That's right - unless he can beat the three percent rate.

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H.M.Jr: In other words, unless he can go in the market and sell these bonds ...

Foley: ... for less than three percent. That is, the local housing authority - unless they can do it for less than three percent, then he's got to do it our way.

H.M.Jr: Then he's got to do it our way.

Foley: Right.

H.M.Jr: That's all right. In other words, he's got to save money.

Bell: They've told us that that's the scheme.

Foley: They told us they're only interested in saving money, they wouldn't be talking to us about this plan unless they could.

H.M.Jr: They'll never sell them.

Foley: I don't think they'll ever sell them either.

H.M.Jr: So you think they will, Wayne?

Taylor: (Nods yes)

Bell: The Chemical Bank of New York is heading a syndicate working it up. They think they can sell them.

H.M.Jr: That's a good clause, that clause there.

Taylor: You've got your competition as between, let's say, a three percent fully tax-exempt bond; that's what it ...

Foley: That's what it will be.

Taylor: All right. They can sell those.

Foley: It'll be two and three-quarters.

Taylor: Fully tax-exempt. Sure.

Foley: It will be 40 or 50 years - whatever the local housing authority does.

Bell: They'll sell them, if they think they can rely on this annual subsidy which is in the nature of a guaranty.

Taylor: You bet your life.

Bell: They sell them fully tax-exempt.

Foley: The last paragraph.

"In taking this position I do not wish to create the impression that I am in any sense passing upon the wisdom of the annual contributions agreement as a matter of policy, or upon its financial soundness or legality. These matters properly are the concern of the United States Housing Authority."

H.M.Jr: I'm satisfied. Has Wayne initialled it?

Foley: Dan has. Wayne hasn't.

Bell: Wayne has read it.

Taylor: I didn't see it until just before.

H.M.Jr: That rush you, to initial it?

Taylor: No.

H.M.Jr: I think that's all right.

Bell: I think that's about all you can do.

Foley: I think it's the safest kind of a letter that ...

H.M.Jr: I think it's all right. Here, I'll sign it.
I think it's all right.

Taylor: I still don't like it, but ...

H.M.Jr: You and me both, Wayne.

Bell: We don't like it either.

Foley: I don't like it either, Mr. Secretary.

Bell: But I think what Mr. Foley ought to do - and the Secretary - is be sure the people in the Attorney

-19-

General's office, when they pass upon this question as to legality, understand that the Treasury doesn't in any way approve this. They might send over a bare statement that the Treasury does not object. The Treasury has done more than just say they don't object.

H.M.Jr: You'lli (Foley) do that.
Foley: I can do more than that.
H.M.Jr: No, I'd be fair about it.

FEB 2 1939

Dear Mr. Straus:

Since receiving the drafts of documents enclosed in your letter of December 2, 1938, a conference has been held between Mr. Foley and Mr. Keyserling, and I have discussed the matter with Mr. Foley and other members of my staff. As a result of these conferences, I have decided not to oppose further the consummation of the proposed scheme of financing the low-cost housing program. I am taking this action with the understanding (1) that the annual contributions agreement will be approved as to legality by the Attorney General, (2) that no local housing authority securities will be sold except at such times and in such amounts as will not interfere with any Treasury financing, and (3) that no such securities will be sold except at an interest cost to a local housing authority less than the interest cost would be if the United States Housing Authority purchased them.

In taking this position I do not wish to create the impression that I am in any sense passing upon the wisdom of the annual contributions agreement as a matter of policy, or upon its financial soundness or legality. These matters properly are the concern of the United States Housing Authority.

Sincerely yours,

(Signed) H. V. [unclear]

Secretary

Honorable Nathan Straus
Administrator
United States Housing Authority
Washington, D. C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 2, 1939

TO Secretary Morgenthau

FROM W. H. Hadley

Coupon Rate on \$300 million R. F. C. Offering

A 7/8% coupon would give a premium under present market conditions of 15/32nds to 17/32nds. This gives an adequate cushion for serious market reactions. Since the two outstanding R. F. C. note issues have 7/8% coupon, this new one would adjust itself in the market readily.

On the other hand, a 3/4% coupon would go at the present peak market with a premium of 4/32nds to 6/32nds. Although such an issue would give a saving over a 7/8% note of \$1,090,000 in interest during the life of the note (2 years 11 months), the cushion is felt to be rather thin when consideration is given to the possibility of serious market reactions later on.

<u>Coupon Rate</u>	<u>Yield Bases</u>	<u>Estimated Premium</u>	<u>Remarks</u>
7/8%	0.68	17/32nds	Most probable Conservative
	0.71	15/32nds	
3/4%	0.68	6/32nds plus	Most probable Conservative
	0.71	4/32nds minus	

February 2, 1939

My dear Mr. President:

In reply to your memorandum of January 26th, I asked Hanes to see Chairman Doughton and let him know how you felt in regard to this proposed legislation.

Attached herewith you will find a copy of Hanes' memorandum to me, bringing you up to date on how the Ways and Means Committee feels about this proposed legislation.

Yours sincerely,

The President,
The White House.

February 2, 1939

My dear Mr. President:

In reply to your memorandum of January 26th, I asked Hanes to see Chairman Doughton and let him know how you felt in regard to this proposed legislation.

Attached herewith you will find a copy of Hanes' memorandum to me, bringing you up to date on how the Ways and Means Committee feels about this proposed legislation.

Yours sincerely,

The President,
The White House.

January 31, 1939

To: The Secretary
From: Mr. Hanes

In accordance with the memorandum received by you from the President concerning the government salary and government bond taxation matter, I did as directed and reported to Chairman Doughton that it was the wish of the President that these two items be considered together at one and the same time. I stated that the President was fearful that the legislation would fall by the wayside and urged upon Mr. Doughton the desirability of considering it at the earliest possible moment.

As I reported to you in my memorandum of January 24th, there was a strong desire in the House to take up the question of retroactive taxation and the granting of relief to those taxpayers falling under the Port of New York Authority case and having such a bill passed quickly in view of the fact that there was little or no controversy on this issue. The situation in the Ways and Means Committee which confronted us was that hearings on social security and old-age pension plans had been set for Wednesday, February 1st. The Committee was of the opinion that there was not ample time to grant full hearings to both of these subjects prior to the opening of the social security hearings and the Committee was further unwilling to delay the February 1st date for such hearings. We also faced the possibility that in the absence of a definite recommendation by the Treasury, the Committee might act upon one of several bills already introduced in Congress, for granting relief on the retroactive feature of the salary question without considering at the same time the future policy of making such salaries taxable. In view of all the circumstances, therefore, we decided to ask the Ways and Means Committee to start the hearings immediately on the subject of taxation of State and Federal salaries, in the future as well as the retroactive feature.

These hearings have been held and I have been before the Committee continuously since last Thursday. The completed draft was agreed upon by the Committee this afternoon and will be introduced in the House tomorrow. It will then be referred back to the Ways and Means Committee for final vote. I am convinced by what I have seen and heard and from discussions with members of the Committee that the bill will be reported out favorably next Tuesday. The bill has been worked out by counsel for the Ways and Means Committee, counsel for the Treasury, and representatives from the Department of Justice, headed by Assistant Attorney General James W. Morris. So far as I know, there is no disagreement

- 2 -

among counsel, that the bill accomplishes the object sought by the President insofar as State and Federal salaries go. I should say that the prospects for the bill passing the House are favorable at this time as it seemed to be the general consensus of opinion among the members of the Committee that it will be extremely difficult for any public official to stand up and say that he is in favor of a privileged class in taxation. I hope that you will agree with me that we have pursued the right course in this matter.

John Hawes

THE WHITE HOUSE
WASHINGTON

MEMORANDUM FOR

THE SECRETARY

Will you
Chairman Doughty
date to see the
as government
referred, for I
by the wayside
hope they can tie
with the retro
that is necessary
fifteenth?

SECRETARY OF THE

1939 JAN 27 PM 3 17

THE SECRETARY OF THE TREASURY
WASHINGTON

January 24, 1939

My dear Mr. President:

I submit herewith for your information a progress report, which was given to me by Under Secretary Hanes, on the state salary taxation question. If you have any suggestions to make with respect thereto, we will be pleased to receive them.

Faithfully yours,

Henry H. Hays

The President,

The White House.

January 14, 1939

The Secretary

Mr. Wages

Yesterday afternoon, January 13, at 4:00 P.M., I attended a conference at the office of Chairman Doughton of the Ways and Means Committee. Those present besides the Chairman and myself were two members of the Committee, Mr. Jere Cooper of Tennessee and Mr. John D. Edwards of Massachusetts, who, together with the Chairman, formed the Committee steering group, and

Mr. Middleton Tamm, Legislative Counsel of the House
Mr. Colin Stans, Chief of Staff of the Joint Committee
Mr. Thomas Wickers, Legislative Counsel of the Treasury.

It was immediately apparent that the feeling of the Committee members was that a bill should be immediately passed to provide relief to those taxpayers who are State and municipal employees, and who were taken by surprise by reason of the Gerhardt Decision. The Congressman seemed to feel that it was impractical to take up the question of the future taxation of State and municipal salaries at this time because of the necessity for extended public hearings and the lack of available time for such hearings as to social security legislation and other matters, which might prevent the passage of the bill by the 15th of March.

I presented in as strong terms as possible the undesirability of separating the retroactive features from the matter of future taxation, and I spent over two hours in arguing every phase of the matter with the Congressman.

In substance I pointed out that the problems of both retroactive and prospective taxation in salaries were part of one problem and that an attempt to separate them might only result in the gaining of one part at the expense of the other. I suggested that because of the lack of time it might be well to separate salaries from the question of tax-exempt securities and take up immediately at one time the retroactive and future taxation of salaries leaving bonds for action later in the session. After considerable debate, I believe that I won Mr. Doughton and Mr. Cooper to my view and Mr. McCormack seemed inclined, at least,

to a sympathetic consideration. It was decided by the Commission, however, that if there was an urgent necessity for a passage of retroactive legislation by the 15th of March, that it might be necessary to intentionally pass a retroactive bill without any consideration of the prospective taxation of State salaries. If, however, after consultation with Commissioner Helvering, I could assure them that while it might be helpful, it was not urgent, that legislation be passed on the retroactive point by the 15th of March, then the Commission would consider a bill as quickly as possible in which the retroactive and future taxation of State salaries would be treated together. Possibly such a bill might receive consideration before the Social Security hearings started, but if time would not permit, then immediately thereafter.

I have called Commissioner Helvering this morning and I hope that by this afternoon I can get some definite idea from him as to the necessity of obtaining the retroactive legislation by the 15th of March.

John Hanes

January 24, 1939

My dear Mr. President:

I submit herewith for your information a progress report, which was given to me by Under Secretary Hanes, on the state salary taxation question. If you have any suggestions to make with respect thereto, we will be pleased to receive them.

Faithfully yours,

The President,

The White House.

I.W.H.

January 24, 1939

To: The Secretary

From: Mr. Hanes

Yesterday afternoon, January 23, at 4:00 P.M., I attended a conference at the office of Chairman Doughton of the Ways and Means Committee. Those present besides the Chairman and myself were two members of the Committee, Mr. Jere Cooper of Tennessee and Mr. John McCormack of Massachusetts, who, together with the Chairman, form the Committee steering group, and

Mr. Middleton Beaman, Legislative Counsel of the House
Mr. Colin Stan, Chief of Staff of the Joint Committee
Mr. Thomas Farless, Legislative Counsel of the Treasury.

It was immediately apparent that the feeling of the Committee members was that a bill should be immediately passed to provide relief to those taxpayers who are State and municipal employees, and who were taken by surprise by reason of the Gerhardt Decision. The Congressmen seemed to feel that it was impractical to take up the question of the future taxation of State and municipal salaries at this time because of the necessity for extended public hearings and the lack of available time for such hearings due to social security legislation and other matters, which might prevent the passage of the bill by the 15th of March.

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In substance I pointed out that the problems of both retroactive and prospective taxation in salaries were part of one policy and that an attempt to separate them might only result in the gaining of one part at the expense of the other. I suggested that because of the lack of time it might be well to separate salaries from the question of tax-exempt securities and take up immediately at one time the retroactive and future taxation of salaries leaving bonds for action later in the session. After considerable debate, I believe that I won Mr. Doughton and Mr. Cooper to my view and Mr. McCormack seemed inclined, at least,

to give it sympathetic consideration. It was decided by the Congressman, however, that if there was an urgent necessity for the passage of retroactive legislation by the 15th of March, that it might be necessary to immediately pass a retroactive bill without any consideration of the prospective taxation of State salaries. If, however, after consultation with Commissioner Helvering, I could assure him that while it might be helpful, it was not urgent, that legislation be passed on the retroactive point by the 15th of March, then the Congressman would consider a bill as quickly as possible in which the retroactive and future taxation of State salaries would be treated together. Possibly such a bill might receive consideration before the Social Security hearings started, but if time would not permit, then immediately thereafter.

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My dear Mr. President:

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Faithfully yours,

The President,

The White House.

My dear Mr. President:

I submit herewith for your information a progress report, which was given to me by Under Secretary Hanes, on the state salary taxation question. If you have any suggestions to make with respect thereto, we will be pleased to receive them.

Faithfully yours,

The President,

The White House.

RE IGOE APPOINTMENT

February 3, 1939.
12:20 a.m.Present: Mr. Irey
Mrs. Klotz

E.A.Jr: Elmer, what I want to ask you is this. I'm sitting next to the Attorney General. What happened when you went over to see him?

Irey: He was very much in sympathy with our views, but he thought the thing had gone to the extent now where it wouldn't be a wise thing to do anything about it. In other words, the thing which I presented to him indicated clearly the man should never have been nominated.

E.A.Jr: Who? Frank Murphy?

Irey: No, Igoe.

E.W.Jr: Mike Igoe we're talking about.

Irey: But Mike Igoe having been nominated and the case laid before the Senate, he thought we should at least have some criminal charges against him before we could ever be justified in bringing out, if necessary, in a public hearing charges against him. He said, in other words, the things which I presented to him were things which appealed to us but wouldn't appeal particularly to the public.

E.A.Jr: Let me ask you a question. Doesn't the Department of Justice, through the F.B.I., ever investigate proposed judges - judicial candidates' characters?

Irey: I understand they do. Sometimes they make written reports. They sometimes make oral reports.

E.A.Jr: Be interesting to see the report on Mike Igoe.

Irey: One of the men - one of the assistants to Edgar Hoover came in to look into Igoe's case and interviewed Madden, and at that time told Madden he was making an oral report, had been directed not to make any report in writing.

-2-

H.M.Jr: Well, we've done our bit.

Irey: Yes, sir, we have. And he seemed to be very appreciative. His attitude was all right.

H.M.Jr: I am disappointed.

Irey: I was too, but I couldn't insist.

He brought up also the Judge Manton case. I told him we were working on that in connection with income tax matters. And he mentioned also the Annenberg case, and I told him we were prepared on that any time they were.

H.M.Jr: All right.

Irey: All right.

H.M.Jr: Everything O.K.?

Irey: Yes, everything's lovely.

H.M.Jr: I'm disappointed.

Irey: Yes. All right, sir.

H.M.Jr: Well

Klotz: I knew you would be.

H.M.Jr: No, I'm sorry

Irey: Yes.

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Prepared by Lawrence H. Seltzer

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 3, 1939.

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: RFC Financing

A coupon rate of $7/8$ percent is recommended for the \$700 millions RFC 3-year note issue to be offered on Monday.

Such coupon rate should result in a premium of between $1/2$ and $5/8$ of a point.

This is a very liberal premium for an issue of such short maturity (2 years 11 months), and the possibility of a $3/4$ percent coupon rate therefore rises immediately to mind. The $1/8$ percent saving in coupon would mean an interest saving of \$1,094,000 over the life of the notes.

Our opinion, however, is that a coupon rate of $3/4$ percent would provide too small a premium -- $5/32$ to $8/32$ -- to insure the success of the issue in the event of a sharp disturbance in the market. In these days, when statesmen are given to thumbing noses at each other across frontiers several times a month, allowance for the possibility of such disturbances is essential.

The effective rate could be pared to a level somewhere between $3/4$ percent and $7/8$ percent by offering the lower coupon at a small discount, say 99- $7/8$, or the higher coupon at a small premium, say 100- $1/4$. In either of these two cases, the market price would be likely to be between $8/32$ and $12/32$ above the offering price, with the higher figure more likely in our opinion.

Banks and many other subscribers dislike to pay premiums but would no doubt welcome the opportunity to purchase the proposed notes at a discount. In the present instance, we do not believe that enough is to be gained by departing from precedent by issuing the notes at a discount. We should not favor offering them at a premium unless reports from dealers and banks in New York are such as to leave no doubt of the success of the issue at an offering price of 100- $1/4$.

February 3, 1939.

MEMORANDUM FOR THE PRESIDENT:

Referring to the recent conference in your office, at which time you indicated that all proposed appointments in the Third Internal Revenue Collection District of New York shall be brought to your attention before any action is taken, you are respectfully informed that the Collector has indicated a desire to recommend the reassignment of Mr. Andrew B. Kelly from the position of Chief Field Deputy in Grade 12 at \$4600 per annum to his former position of Assistant Chief Field Deputy in Grade 9 with a salary of \$3800 per annum, and the appointment of Mr. Henry Alexander as Chief Field Deputy in Grade 12 at \$4600 per annum, in the event such action is agreeable to you.

The Collector's office is faced with a great volume of work incident to the income tax filing period, and upon receipt of your advice that the proposed changes are agreeable to you, the necessary investigation will be immediately made to determine the qualifications of Mr. Alexander.

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury

February 3, 1939

Saw the President. Showed him this chart and said that the document I was going to hand him was directed towards trying to find out why there was such a sharp drop in '37 of our national income and the thought was that if he would send me these questions, as Chairman of the Fiscal and Monetary Committee, and make it public, that Lubin would help me and that Lowell Mellett had seen it and thought it would be excellent to make it public, as it would throw the editorial writers into complete confusion.

The President's first reaction was not good. He said, "You haven't covered the complete field". But the more he argued with himself the more he liked it. He said, "This takes care of two sides of the cube but you haven't covered the other four sides. A lot of questions the Monopoly Committee are looking into - patents, etc. The most important question we have always ducked, because we have been afraid of it since the NRA days, is over production. Call in Leon Henderson and let him take a look at this - he's the best man". Then he questioned me who was on this committee and I told him. He said, "I think it is all right. I want them to study it".

I said, "The A.F. of L's January Bulletin is very much worried about what is going to happen in 1940 and then they end up by making a recommendation that what we need is a National Planning Board. He said, "That's fine - that's fine. I would show this to Harry Hopkins and let him show it, in confidence, to the Chairman of his Advisory Board and let them make suggestions. That will help Harry and please the Chairman of the Advisory Board." I said, "All right".

He said, "You want to make these questions just as provocative as possible" and the more he talked about it the more he seemed to like the whole idea. He said, "This is fine - this is good. Go ahead with it. Start your own group on the Fiscal Monetary Committee."

I was very much pleased because I think that this will be one of the really important contributions that I will make during the next two years and I know that the President will release this to the country and that the country will be impressed. Amongst his first reactions was - "If we give this out at present the people will say 'Has Washington suddenly woke up to the fact that they don't know what's the matter?'" So I said, "Well the 26 questions here - nobody can answer those to-day".

- 2 -

Because what I want is that the President should let the country know that he realizes that there isn't any way of solving this problem through a compensated budget but that there are at least 26 things that have to be solved before we can reach an 80 billion national income.

I said, "To show you how people think - Win Riefler thinks that No. 7 'Shortage of Skilled Labor' was what choked off the building boom in the spring of '37 and that is the principal thing that caused the collapse and that is what he actually thinks". The President said, "That is ridiculous". I said, "I know, but there are lots of people in the country and each one thinks there is one thing that did it. At least we have 18 different things which might or might not have done it."

The President never brought up any question about my making a speech and I think that showing him how many things were the matter with the country that he will be fair enough not to try to force me out to talk about one item, namely, the compensated budget as a cure-all.

I feel that a great weight is off my shoulders and I also feel, now that he has approved of this plan, we really can accomplish something in the next two years.

I asked him if he had heard from Frank Murphy about Hollenberg and he said he had not but he would ask him.

I.

The setback in national income in 1938 has been attributed by various people to a number of causes. These need to be appraised. Among the more immediate of these are:

- (1) An over-accumulation of inventories
- (2) Excessive speculation in commodities
- (3) Consumer resistance to rising prices
- (4) Deflationary effects of increases in reserve requirements
- (5) The curtailment of government spending
- (6) Labor difficulties, including rapidly increased wage rates and sit-down strikes
- (7) Shortages of skilled labor in key positions
- (8) A too-rapid increase in production costs
- (9) A decline in new construction
- (10) A contraction of the market for new capital issues
- (11) Government tax policies
- (12) Maladjustment of prices, and price rigidities
- (13) Fear of gold price reduction

- 2 -

- (14) Government competition
- (15) Excessive short-term installment buying

II.

It is proposed that an investigation be made of certain fundamental factors which may have been significant in bringing about the decline in industrial activity in 1937 and 1938, and which may stand in the way of increasing the national income in the future. Specific recommendations based on the findings of these investigations should be made in order that policy might be formulated which would lead to an increase in the national income. The following are some of the basic questions to which the investigation should be directed.

- (1) What important industries have made less than a proportionate contribution to the increase in the national income in the past five years? What important industries have made more than a proportionate contribution to the increase in the national income in the past five years? What can be done to convert specific industries which have retarded recovery to stimulators of recovery?
- (2) How far is the claim that new investment is being seriously blocked by specific government measures justified?
- (3) To what extent does new capital investment for plant expansion and new industrial development come from (a) cash assets? (b) borrowing? (c) sale of equity securities?
- (4) To what extent and why are depreciation charges not being reinvested?

- 3 -

(5) What elements of our tax structure, Federal, State and local, serve substantially to retard the growth of the national income through their effects on consumption, on new investment, or in other ways? What modifications that would stimulate or encourage the growth of national income could be adopted with respect to:

- (a) Level of upper bracket personal surtax rates
- (b) Carry-forward of losses and averaging of income
- (c) Consolidated returns and taxation of intercorporate dividends
- (d) Undistributed profits tax
- (e) Capital gains taxation
- (f) Capital stock tax
- (g) Excess profits taxation
- (h) Social Security payroll taxes
- (i) Sales and other excise taxes
- (j) Tax exemptions and other specific incentives to encourage employment, investment, etc.
- (k) Depreciation allowances
- (l) Other elements of the tax structure

(6) Do industries or specific ventures with reasonably bright prospects have any difficulty obtaining the necessary capital?

(7) In what industries should capital be invested during the next two years? How much is likely to be invested in these industries during the next two years?

(8) What is the volume of savings likely to be available for investment during the next two years?

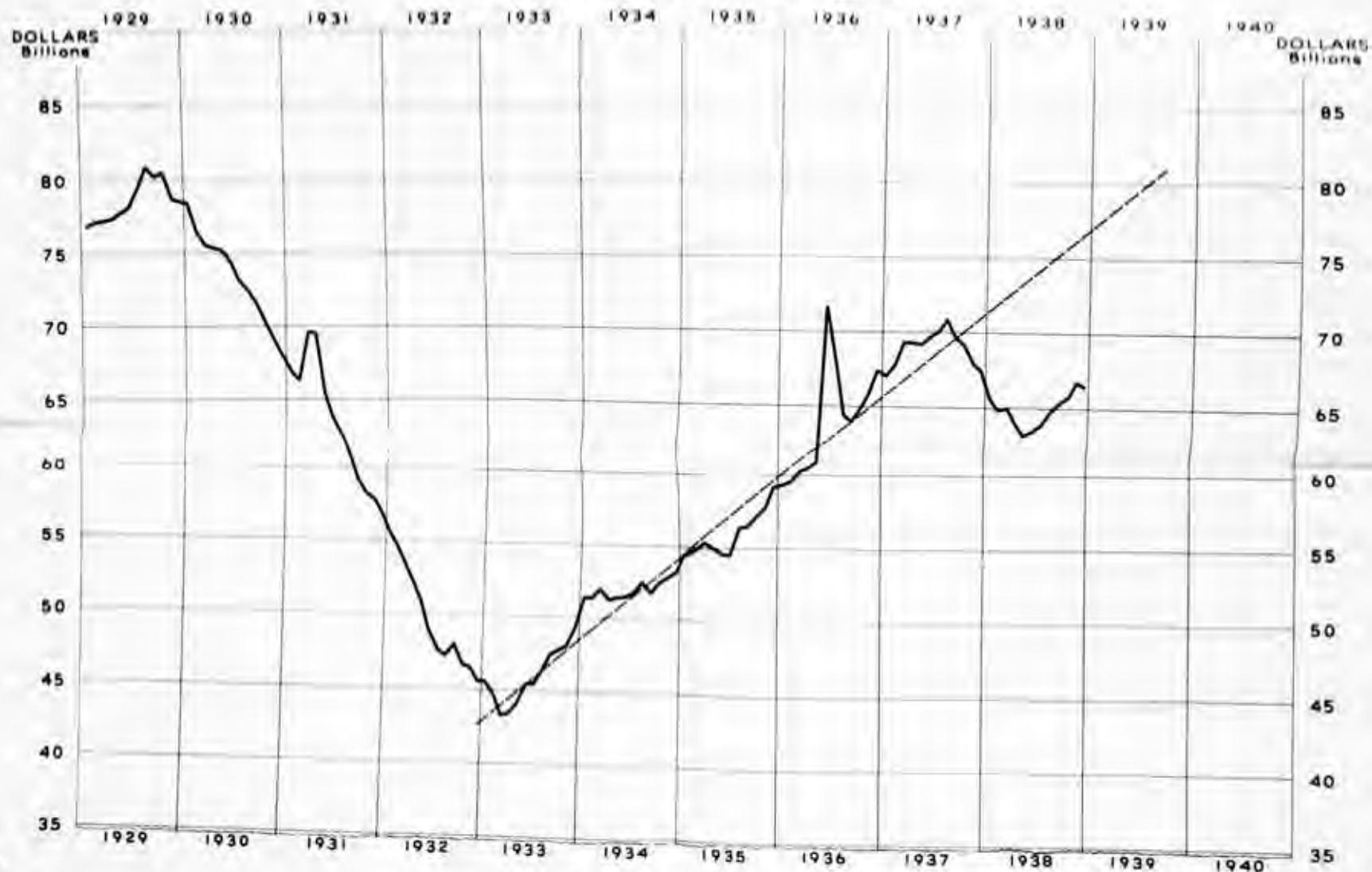
- 4 -

- (9) How much would substantially lower rates of interest to borrowers of capital for production of capital and durable consumers' goods increase borrowing? What can the Government do to lower such rates of interest?
- (10) How much would a reduction in the cost of borrowing to potential purchasers of durable consumers' goods (e.g., home purchasing) increase the demand for such goods?
- (11) How important would a longer rate of amortization be as a stimulant to the demand for durable goods?
- (12) At what points and what level of increased production will the lack of adequate skilled labor retard expansion?
- (13) To what extent would private investment be stimulated were the Federal Government carefully to delineate the areas of our economy to which it proposes to confine its investment program in the near future, leaving other areas exclusively for development by private enterprise? Is it possible for the Government to specify exactly -- by industry, or location, or function -- the field of investment activity to which it proposes to confine itself during the next two years?
- (14) What measures could the Government take, either independently or in cooperation with State and local governments, to increase government investments in self-liquidating enterprises without competing with private industry and without adding to the budgetary deficit?
- (15) It has been claimed that private industry by itself cannot profitably absorb current savings. Were this true a continued national income of \$80 billions or more would be impossible unless the Government provided investment opportunities for capital through public works, etc. What evidence is there that supports this claim?
- (16) What types of Federal Government expenditure operate to increase the national income most, and which least? To what extent is it possible to shift from those that increased income least to those that increase income most?

- (17) Is there any justification for the claim that governmental spending on public works or WPA projects results in a decrease in spending on the part of private enterprise?
- (18) Would a substantial increase in the public debt during the next few years have any important effect on government credit?
- (19) Are there any prospects that (a) inflation or (b) deflation will emerge in the immediate future?
- (20) To what extent are world developments likely to constitute a drag on recovery in the United States during the next two years? What steps, if any, can be taken to protect our economy from possible adverse economic effects coming from abroad?
- (21) For what specific products can we expect a substantial increase in exports during the next two years? What, if any, removable obstacles lie in the path of important increase in our total exports?
- (22) To what extent, in what fields, and with what effects on our national income, has the Government contributed to an uneconomic price structure?
- (23) What will be the net contribution that the Federal Government (and if ascertainable, State and local governments) will make in 1939 and 1940 to the volume of buying power in the hands of the people?
- (24) Would the maintenance of a substantially higher national income require a change in the existing ratio of savings to consumption?
- (25) To what extent would a redistribution of our national income contribute to the attainment and maintenance of a high national income?
- (26) How much unemployed would we have were our national income soon to reach \$80 billions? What are the distribution and what skill classification will make up the unemployed group at that level of income? How large a volume of unemployed must we expect to make provision for during the next five years?

NATIONAL INCOME PAYMENTS

Monthly Figures on Annual Basis*



*Seasonally Adjusted Monthly Figures Multiplied by Twelve

February 3, 1939.
10:15 a.m.

EWJr: Hello.

Operator: Bell -- go ahead.

EWJr: Hello.

Daniel

Bell: Yes.

EWJr: Dan--

B: Good morning.

EWJr: Dan, good morning. I did with the President.

B: Yeah.

EWJr: And I said, "When Bell left the other day with Smith, he was under the impression that you want to offer this position to Smith, but Smith didn't know." I said, "Is Bell correct?" He said, "Yes, offer him the job."

B: Ah -- offering it to him?

EWJr: Yes, definitely offer him the Director of the Budget.

B: Yeah. Well, that's what I told him when he left. I said, "Knowing the President as I do, you have been offered the place."

EWJr: Well, you could --

B: And I said, "I -- I realize that you've probably got a different impression." No, I told him he was definitely offered the job in my opinion.

EWJr: Well, I wish you'd call him up.

B: Call Smith?

EWJr: Call him up, will you?

B: Yeah, I will.

EWJr: And tell him that I was with the President --

B: Um-hm.

EWJr: And the President has confirmed your impression and that you are authorized, definitely, to offer him the job.

- S: Fine, I'll tell him that.
- QMr: And that we'd like to know when he can come.
- S: Yeah.
- QMr: And the President -- "well, what -- what's Dan Bell going to do?" So I said, "Well, Dan's going to spend his end -- his time at my end helping me on financial matters, but he's available, to you, Mr. President, and to the new man." So he said, "Well, does that take care of the Civil Service status?" I said, "Yes." And so the President said, "Well, that's fine."
- S: That's good.
- QMr: So I said, "What Bell wants is to be -- take --" I said, "Not go back to his old position but be in a position that on fiscal and monetary matters he's number one."
- S: Well, that's fine.
- QMr: And I said, "Just the way McReynolds is number one on Administrative matters."
- S: Yeah.
- QMr: So the President said, "Well, that's fine. That suits me perfectly."
- S: Well, that's good, he took that attitude on it.
- QMr: Yeah.
- S: Well, I'll call him right away then.
- QMr: So will you tell him -- tell him we'd like to know whether -- the reasonable time, see?
- S: All right. Yeah. He said the other day when he left here, he said, "I hope you won't rush me on this -- that is, a week or two weeks." He said, "I've really got a lot of strings."
- QMr: Well--
- S: And I told him, "Well," I said, "It's quite a decision to make and we can't rush you. We'd like to know as soon as possible, of course, as I'm anxious to get out of it and get back on my job."
- QMr: Well, I think he ought to be able to give us answer -- when will you be back?

B: I'll be back the 20th.
HUr: By the 20th?
B: Yeah.
HUr: Tell him we want a "yes" or "no" by the 20th.
B: Oh, I think he'll give it to us then.
HUr: O. K.
B: Yeah. All right, thanks a lot.
HUr: Give him a good sales talk, now.
B: All right I will. Good bye.
HUr: Good bye.

February 4, 1939.
12:13 p.m.

Johnny
Hanes: All right, now you're making a record.

WJr: Is the light on?

H: Yeah.

WJr: O. K. Can they hear me?

H: Yeah. (Aside -- Can you hear all right?)

WJr: Johnny, I've talked to Sproul; I've talked to George Harrison --

H: Yeah.

WJr: And they both lean towards the three-quarters of a cent rate.

H: Yeah. Well, I think that's about the -- the consensus here.

WJr: What?

H: I say, I think that's the consensus here. I have -- I don't know as there is any difference in opinion -- then -- that they've got here.

WJr: Well--

H: Is that all right with you, Danny? (Pause)
Well, Danny Bell says he thinks it's a little thin.

WJr: Yeah, I do too.

H: And -- (Aside -- What do you think?) George Haas says he thinks it's a little bit thin.

WJr: I do too.

H: Well, Wayne -- Wayne says he thinks it's all right at three-quarters.

WJr: Well--

H: He says he thinks--

WJr: Mathematically what is George Haas' estimate -- how many thirty-seconds?

H: About eight thirty-seconds.

WMr: Yeah, well, Sproul says from six to ten.

T: Yes.

WMr: Well, on that basis, if Mr. Mussolini comes out tomorrow and says he wants Tunisia the thing will go below par.

T: That's what Danny thinks.

WMr: I -- Has Wayne talked to Jesse this morning?

T: Yes. Here's Wayne; wait a minute and I'll put him on there and tell you what Jesse said.

WMr: Hello.

Wayne
Taylor: Hello?

WMr: Hello, Wayne.

T: Yeah. I talked to Jesse two or three times, and I talked to Allan Sproul and I talked to Archie --

WMr: Yeah.

T: Who is up there and has been checking around. Three-quarters is all right with them. They did -- had a lot of conversation about selling a three-quarter at a -- a possible discount, but nobody liked that any better than they liked seven-eighths at a premium.

WMr: Well, would Jesse take a three-quarter?

T: Yeah.

WMr: Well, I -- I can't do it, Wayne. I mean, I think it's too risky.

T: Well, that's -- you're the Doctor; I don't agree with you.

WMr: Well, I'm asking advice, but if it's wrong, it's Henry Morgenthau who has to take it, and I -- I just can't take the chance with only a possible six thirty-seconds.

T: Yeah, pretty short maturity you know.

WMr: Pardon me?

T: Pretty short maturity.

EMR: I know. Personally, I'd like to split the difference and make it seven-eighths and sell it at a hundred and eight thirty-seconds.

T: Well, I think you could do that all right, but Sproul says that the market doesn't like that.

EMR: Oh! Well, I -- I know they don't but he says that in one breath and the next breath he says that the private securities are sold that way every day.

T: That's right.

EMR: He says they're sold -- private securities are sold that way every single day.

T: That's right.

EMR: What?

T: That's right.

EMR: So it isn't as though we were doing something new. And that, if I am correct, would just about split it in half, wouldn't it?

T: Yeah.

EMR: What?

T: Yeah.

EMR: Take a look around the room and see if anybody's with me.

(Pause)

T: They all like it.

EMR: They all like it?

T: Yeah.

EMR: How does Wayne -- How does Wayne Taylor

T: It's all right with me.

EMR: What?

T: It's all right with me. I'd like the three-quarters at per better.

EMR: Well, -- ah -- I always want you to tell me what you think, but I can't help it -- I'm awfully nervous.

T: Well, I -- I don't feel that way.

EMr: Well, I -- I do, and -- and I feel doubly so where I'm doing it for another agency.

T: Well, do you want to switch on to Jesse?

EMr: What's that?

T: Do you want to talk to Jesse?

EMr: Yes, I'd like to.

T: All right.

EMr: Can you fellows listen?

T: I think so.

Operator: Operator.

T: See if you can put this through to Mr. Jones.

EMr: And let the people listen on this line.

T: Keep it on this line.

O: All right I'll do that.

T: All right.

O: Right away. (Pause)

O: Mr. Jones.

Jesse
Jones: Hello.

EMr: Hello.

J: Hello, Henry.

EMr: Can you hear me?

J: Yeah.

EMr: The men are listening in my office--

J: Yeah.

EMr: Also Wayne and Johnny Hanes.

J: Yeah.

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Q: Jesse, this is the way I -- I see it. New York, the Federal Reserve People say that a three-quarters could go--

A: Yeah.

Q: There's only a six to eight thirty-seconds leeway--

A: Yeah.

Q: And I just don't want to take that chance for you.

A: Yeah.

Q: If it was entirely mine, why then I could say, well if it goes wrong that's my business.

A: Yeah.

Q: And I think it's too great a risk.

A: All right.

Q: Now, Mussolini is supposed to make an announcement the next twenty-four hours about the French colonies.

A: Yeah.

Q: And if he did it, six thirty-seconds would just disappear.

A: Yeah.

Q: Now, on the other hand -- this is the way I argue -- seven-eighths looks awfully rich.

A: Yeah.

Q: So what I'm suggesting is that we -- we do seven-eighths but add an eight thirty-second premium.

A: Add eight thirty-seconds?

Q: Yes, and that would just split it between three-quarters and seven-eighths.

A: Uh-huh.

Q: In other words, offer it at a hundred and a quarter.

A: Uh-huh.

Q: Now, the New York fellows say they don't like it, but damn it, every day the -- the private issues are sold just that way.

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J: Eight thirty-seconds?

WJR: Well, I mean, the private issues have all been a hundred and two, a hundred and three, a hundred and four, you know?

J: Yeah.

WJR: And they go -- they're sold. It's nothing new.

J: Yeah. Well, is eight thirty-seconds --

WJR: Pardon me?

J: I don't -- I don't think that eight thirty-seconds -- that's -- that's a fourth, isn't it?

WJR: It's a quarter.

J: That's selling out at par and a quarter.

WJR: Par and a quarter.

J: Well now, that yield -- you think it's about half way between.

WJR: It just figures half way between.

J: Uh-huh. Well, now, if that's your judgment about it, deliberate, it's acceptable to us.

WJR: Well, that's my best judgment, and I -- I feel on that basis there's enough cushion there that'll go, but I'm not willing to take the risk at three-quarters.

J: You wouldn't want to sell at -- at three-quarters and a discount.

WJR: No, that everybody seems to be opposed to.

J: Uh-huh.

WJR: That -- that seems to be opposed to.

J: I see -- eight thirty-seconds. Wayne, you're on the phone?

WJR: Yeah, Wayne's on the phone.

J: Yeah.

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- J: Well now, the figures we made a while ago on this eight thirty-seconds -- how -- what did that run at? I didn't think it was -- I didn't think it was half way between.
- J: Well, you were figuring on at three-quarters that we had three -- roughly it was three-sixteenths if you -- at a discount.
- J: Yeah.
- J: Well, it's -- I think the -- it works out to be about the same thing. In other words, seven-eighths at four-sixteenths premium is about the same thing as a three-quarter at a three-sixteenths discount.
- J: Oh. Could I get Sullivan on the phone there?
- J: Yeah. I think we're -- we're talking about a sixteenth maximum either way.
- J: You're talking --
- J: I mean, you're talking about a sixteenth maximum, and I think that you'll find out that on a fully yield basis, it would be about the same.
- J: Harry?
- S. J.
Sullivan: Yes, sir.
- J: Mr. Morgenthau, and Mr. Taylor, and Mr. Hanes are on the phone.
- J: Yes, sir.
- J: And they -- they've about decided, the Secretary has that -- that seven-eighths at eight thirty-seconds premium.
- J: Yes, sir.
- J: Well, now, is that -- do you understand that to be about half way between?
- J: That's a little more. That's -- that's nearer to the three-quarters. That would give you a yield of about seventy-eight eight or seventy-nine.
- J: That's what I was thinking, Henry. I don't believe that that's half way between.
- J: It's more than half way. It's nearer the three-quarter side.

- 8 -

J: Well, I mean it's more -- it's below the -- it's below the half way.

M: Yes, sir. It's to our seven--

J: Did you get that, Henry?

W: Yeah. I can hear that. The way they figure it is this -- that the three-quarters would sell at, they say from six to ten thirty-seconds.

J: Yeah.

W: Hello.

J: Yeah.

W: And the other one would -- the seven-eighths would sell at around a hundred and twenty thirty-seconds.

J: Yeah.

W: And, now we deduct eight -- that gives us about a hundred and twelve -- it's as your man says, this is -- the eight thirty-seconds is velvet for you.

J: Yeah.

W: Hello?

J: That's right.

W: It -- it isn't exactly, but it leaves on your side in that -- it gives you the money a little cheaper.

J: Yeah. Well, I was -- I'm agreeable, of course. I think either one would go.

W: When I said half way, I mean, there may be a couple of thirty-seconds either way, but if it was -- if it leaned any way, it would be to your advantage.

J: This would be a seven-eighths at a premium of eight thirty-seconds.

W: Yeah.

J: Ah -- well, that's acceptable to us, of course.

EMJr: Well, I just -- I just feel -- let me just check with our people once more, and ask them how much cushion there is on that basis.

J: All right.

EMJr: Just hold on so that --

J: All right.

EMJr: We get as near mathematically correct as possible.

J: Got a maximum of twelve.

EMJr: How much?

J: A maximum of twelve.

EMJr: A maximum of twelve, and a minimum?

J: Eight, I suppose.

EMJr: That's --

J: Well, ten -- call it nine to twelve as your range there.

EMJr: Nine to twelve, and the other was about six to ten?

J: Six to ten.

EMJr: Well, it's just a little --

J: Six to -- call it six to -- six to nine if you want to.

EMJr: The other one is six to nine.

J: Yeah. You've got three -- you've got three thirty-seconds more in this one.

EMJr: Well, I -- I -- it's just a little bit more, and I feel that's much more comfortable.

J: What would you think about three-sixteenths, instead of six -- instead of eight thirty-seconds?

EMJr: What's that?

J: What would you think of three-sixteenths?

EMJr: You mean making a three-sixteenths premium?

J: Yeah.

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Mr. J: Well, I think it's -- the coupon, I think the boys have checked me that if we're going to offer it, it ought to be at a hundred and a quarter or a hundred and a half. I think it would be too hard to figure it.

J: I see.

Mr. J: They can answer that if they want to.

J: Well, that's -- it's perfectly all right with us.

Mr. J: Let me just ask Bell, I mean, whether he could do it other than a hundred and a quarter. Hello?

J: A quarter is the way to express it.

Mr. J: That's what, Bell?

J: This is Wayne talking. A quarter is the way to express it if you wish to express it in thirty-seconds.

Mr. J: That?

J: You wouldn't express it in thirty-seconds. You'd express it in flat quarters.

Mr. J: Yeah.

Mr. J: That?

J: Yeah.

J: You think you'd rather make it a quarter than three-sixteenths, huh?

Mr. J: Well, Jesse-- Hello?

J: Yeah.

Mr. J: The way I arrived at this -- the way I've done my thinking is this -- to offer with three-quarters a premium, I don't want to take the chance.

J: Yeah.

Mr. J: It's too close.

J: Yeah.

Mr. J: Now, what's the next best thing is seven-eighths and add a quarter premium.

J: All right.

WJr: Now that -- that's the way I've arrived at it, and I don't think there is any question but what it would go and it's just a little bit sweeter.

J: All right. It's perfectly all right with us.

WJr: Well then, let's call it a deal.

J: All right.

WJr: Thank you.

J: Good bye.

WJr: Thank you.

J: Ah --

WJr: Hello.

J: Ben wants to talk to you.

WJr: Thank you.

J: Hello.

WJr: Yeah.

J: I just want to tell you that, of course, we'll have to tear up all those papers you signed yesterday.

WJr: Well--

J: It's practically a rewriting job.

WJr: Well, I'm sorry but--

J: Well, that's all right -- I just -- we'll have to send them out.

WJr: Well, what's his name, Hanes can sign as "Acting".

J: All right. Probably it would be better if we send them out in your name as long as the circulars are that way and --

WJr: Why don't you do it, and if you want to you can put a man on the train. We can come up tomorrow and I'll sign them tomorrow.

- S: Well, if you want to do that. Of course, the only change will be--will be that hundred and a quarter, but it's sort of scattered through the statements. We'll have to rewrite, I'm afraid, each page.
- W.Sr: If you want to send a man up on the train tonight, I'll sign it in the morning.
- S: We'll do that if you want to. I don't think it's necessary.
- W.Sr: Well, I'll be back Monday morning.
- S: Rather simple to change.
- W.Sr: I beg your pardon?
- S: I say, it's rather simple to change, and if you'll trust us, why --
- W.Sr: I'll leave it to you.
- S: We'll get Mr. Hanes to approve them before they go out.
- W.Sr: Are you a hundred percent satisfied?
- S: Yeah.
- W.Sr: That?
- S: I am.
- W.Sr: Would you have felt easy with three-quarters?
- S: No.
- W.Sr: Are you -- are you -- do you feel satisfied this--
- S: I think this is all right. I think that Wayne is right, that the three-quarters would go, but if anything happened that it would immediately go to a discount and that's what you tried to avoid in all your financing.
- W.Sr: Well, there's another thing, Sprout raised the point -- he doesn't want to see it go below par between now and the fifteenth of February.
- S: Well, I think that's -- it certainly would have gone below par in the last three weeks of the bond market had we issued before. (Aside -- Is that right?) Hadley says that's right. It would have gone below par in the last three weeks had we issued it.

WJr: Who -- who says that?

B: Hedley. I mean, this is the decline in the market between now and the fifteenth, to the same extent that the decline in the last three weeks than we'd have had below par.

WJr: Well, this -- we're selling at seven-eighths--

B: --you've got a greater cushion.

WJr: Chances going below par are -- are slight. What?

B: Well, you've got from, well, I think you've got from three to five thirty-seconds -- a greater cushion.

WJr: Yeah, it would be something.

B: That's right.

WJr: What?

B: That's right. I think it's a little sweeter, and I think it's better.

WJr: Well, it is -- it is -- Jones was right, it isn't exactly half way, but it is five thirty-seconds better.

B: That's right.

WJr: And, well I just feel -- I can't -- I just can't feel comfortable with the world in the condition that it is and when I see -- the week before last there for three or four days our bond market was very sloppy and it might perfectly well be sloppy again next week.

B: Well, personally, I think you're right.

WJr: Well, I think I am. How does George Hess feel?

B: He feels the same way you do about it.

WJr: Is Saltzer there?

B: Yeah.

WJr: How does Larry feel?

B: Exactly the same way.

WJr: Larry and I agree?

B: Yeah.

HMJr: That's wonderful.

B: (Laughter) Oh, he thinks it is too.

HMJr: What?

B: He thinks it's wonderful too.

HMJr: All right.

B: Well, I think it's all right. Well, we'll go ahead and put her out.

HMJr: One of you boys break it to Allan Sproul, will you?

B: All right, sure. (Laughter) I haven't got but a couple of things left over that you've given me. Hello?

HMJr: Yes.

B: One of them is that Nolan memorandum. Do you remember it?

HMJr: No.

B: Where Nolan wanted to change the executive order of the President regarding airplane travel.

HMJr: Oh, well, I never knew --

B: It can -- it can wait until I get back. I'll just hold it up in the budget bureau. It's quite a long story.

HMJr: Well, why not.

B: And I told Mr. Nolan the other day I didn't think he should go in the back door of the White House trying to get the President to sign budget circulars. Well, he agreed it was a little out of order, but he was --

HMJr: Well, handle it any way you want it. It's--

B: All right. The other one is the so-called balance sheet. I'll send you down a memorandum which you will get Monday showing some deductions there if you want to use them.

HMJr: O. K.

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S: Those are the only two things I have hanging over.

WJR: Well, will you -- you let -- is Gelson around?

S: Yeah, right here.

WJR: Well, then he'll take care of this.

S: Yeah, do you want to talk to him?

WJR: I'll say "hello".

S: O. K.

Gelson: Hello.

WJR: Hello. Herbert, where is our frontier today?

S: Our frontier?

WJR: Yes.

S: Well, we don't have any frontier today. The consensus of the formed opinion is that we have a first line of defense in France and Great Britain but we have no frontier.

WJR: Well, if anybody asks, our first line of defense is my back yard.

S: Wh-huh. I -- I learned a couple of interesting things.

WJR: Yeah?

S: One is that -- about that place out there, that is was flown publicly several times before this occasion and there were pictures taken of it by the newspapers. I got that from a Douglas man.

WJR: Oh, really?

S: Yeah. And another little interesting item is that Jerry Nye is really running for President and he's got a lot of big money behind him.

WJR: Really?

S: Yeah. Yeah.

WJR: Big money?

S: So I'm -- so I'm told. I'm promised more details of it this week.

Q: Who's running him for President.

A: Well, the friend that told me said that Jerry has sold out. He's running for the Republican nomination.

Q: Oh!

A: Um-hm.

Q: Well, did you know that the day that that Douglas plane was flown and there was the accident that they counted four hundred cameras were present?

A: No, I didn't know that.

Q: There were four hundred cameras in the crowd.

A: But the plane was photographed; it was publicly flown several times before that and it -- pictures of it were printed in the newspapers.

Q: I see.

A: Yeah.

Q: Well, the day it was flown at the Los Angeles airport --

A: Yeah.

Q: There were four hundred cameras present.

A: Yeah. Yeah.

Q: There was an absolutely --

A: Yeah.

Q: Secret showing to the press since the four hundred cameras.

A: Um-hm.

Q: Well, all right. Anybody else got anything said?

A: They're all shaking their heads.

Q: Before Jerry Vye runs for President they ought to find out how much the State of North Dakota owes the Treasury.

A: Well, maybe he's going to abandon the State of North Dakota.

Mr: Tell, it's very interesting.
S: Yeah.
Mr: Nobody else has got anything?
S: No, nobody else has anything.
Mr: All right.
S: Right. Good bye.

PAP

PLAIN

LONDON

Dated February 3, 1939

Rec'd 3:23 p.m.

Secretary of State

Washington

156, February 3, 6 p.m.

FOR TREASURY FROM BUTTERWORTH

The foreign exchange market was again inactive today with the dollar remaining steady around 4.67 7/8. There was some Japanese selling of dollars in the late afternoon. The small but steady flow of funds from London to Paris also continues. Gold was fixed at 148s. 7 1/2d., 1/2d. premium, and of the 111 bars sold 53 were married and a few supplied by the British fund.

JOHNSON

DDH

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 3, 1939, 4 p.m.

NO.: 199

FROM COCHRAN.

The stabilization fund acquired a little sterling and Morgans bought a few dollars for it; the market was extremely inactive and narrow. The American development coming so soon after declarations of policy on this side of the Atlantic has confused traders. The latter are waiting to see whether Mussolini may reveal the intentions of the axis powers in present circumstances in an early speech. The attacks on the Prime Minister are having continued adverse effect on the belga. Open market operations are strengthening French national defense bonds. The new French bonds were quoted on the Amsterdam market yesterday at one and three-quarters points above the issue price, or at ninety-six and three-quarters.

In the financial press in Europe there still appears analysis and comment on British gold legislation, and speculation whether the Dutch and Scandinavians will revalue their currencies, following the lead of the British.

BULLITT.

KA:LWW

AC

GRAY

London

Dated February 4, 1939

Rec'd 10:04 a.m.

Secretary of State

Washington

161, February 4, 2 p.m.

FOR TREASURY FROM BUTTERWORTH

The foreign exchange market continues inactive. The Bank of England left the gold market to its own devices and consequently the gold fixing period lasted unusually long. Eventually gold was fixed at 148 shillings 7 pence and of the 162 bars 100 were married, the market supplying all.

JOHNSON

GW

TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro
DATE: February 4, 11 a.m., 1939
NO.: 48

Reference my 40 of January 27, 1 p.m.

I am informed by the Director of Exchange that the Bank of Brazil will close exchange from January 1 to January 7 inclusive, during the week of February 6, for maturities and daily quotas.

SCOTTEN

EA:DJW

February 4, 1938.

Dear Mr. Spruill:

In the absence of the Secretary I am acknowledging your letter of February 2nd, commenting upon new security financing.

Your communication will be brought to Mr. Morgenthau's attention as soon as he returns to the office on Monday.

Sincerely yours,

E. C. Klats, 
Private Secretary.

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

WZ/Ch

**FEDERAL RESERVE BANK
OF NEW YORK**

February 3, 1939.

Dear Mr. Secretary:

Only four days have elapsed since the last, somewhat delayed, report on new security financing, but inasmuch as two large flotations have been marketed meanwhile, and no further large issues are expected for some time, a report now may be serviceable.

The \$106,000,000 of North American Company debentures and preferred stock, which were offered on Wednesday, February 1, were very well received. Maturing in 10, 15, and 20 years and priced to yield from about 5.29 to 5.42 per cent, the \$70,000,000 of debentures were subscribed the first day and bid up to premiums of 1 to 2 points. Sixty-nine per cent of the preferred stock was taken by holders of the preferred stock to be refunded, and the remainder is quoted at a fractional premium in the market. The complete success of this financing has been encouraging. It was the first large corporate issue this year; it is reported to be the first holding company financing in several years, and it is the first large operation in compliance with the Holding Company Act. Of course, it does not mean additional employment or orders for capital goods, since the whole amount is for refunding, but considerable saving in debenture interest and preferred dividend costs will result. Unfortunately, no other large holding company seems equally well situated to comply with the Holding Company Act, and no other is ready quickly to follow North American's lead in getting on with this sort of compulsory refinancing which has been hanging over the market.

On Tuesday, New York City awarded \$30,800,000 of long term securities

2/3/39

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with an average maturity of 24.4 years. The average interest cost of the winning bid was 3.0839 per cent. The award was divided into \$10,000,000 3 per cent corporate stock maturing in 1979, reoffered at 98 to yield about 3.09 per cent, and \$20,800,000 of 3 1/4 per cent serial bonds maturing up to 1979, to yield from 0.50 to 3.17 per cent. Of the entire \$30,800,000, less than \$3,000,000 of the serial bonds are now reported unsold. Both the interest cost and the reception were considered very satisfactory. About \$7,200,000 other municipal bonds were awarded during the week.

Despite these successes in distributing nearly \$144,000,000 of securities in three days, and the apparent readiness of buyers for further offerings, none of large size appears ready to take advantage of the demand. Several large corporate issues mentioned in previous reports remain in the offing, but are not yet reported to be definitely scheduled.

Yours faithfully,


Allen Sprout,
First Vice President.

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

February 4, 1939



To: The Secretary

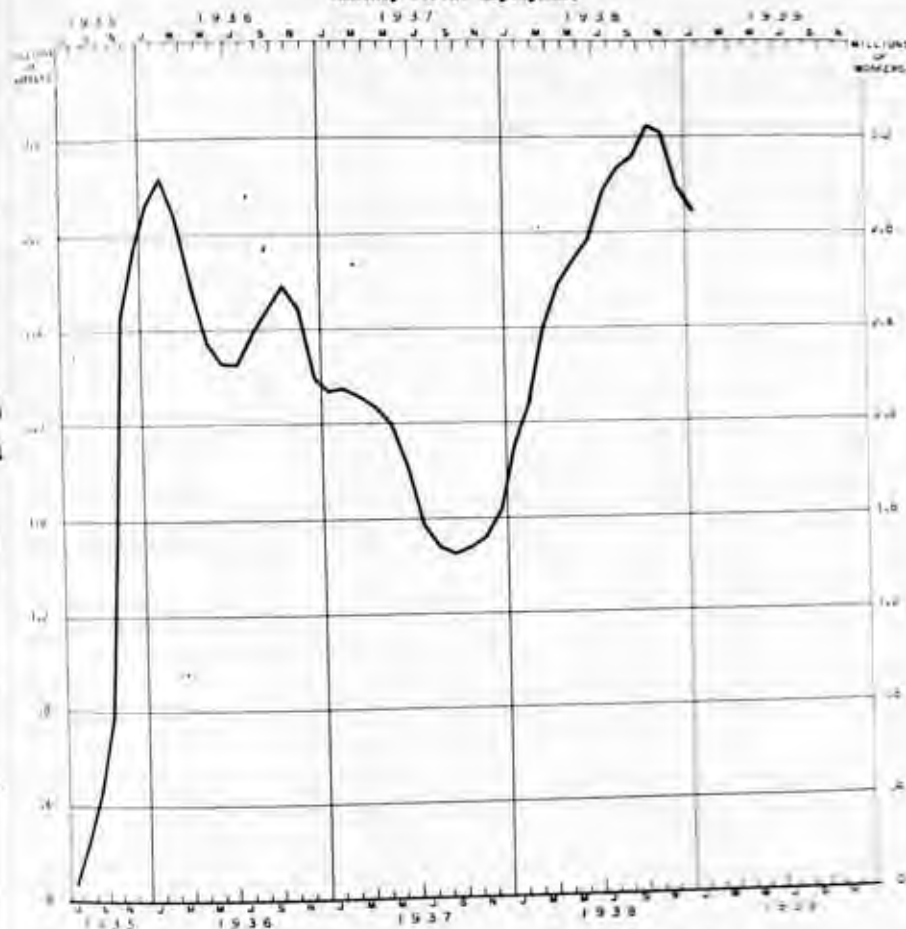
From: Miss Lonigan *el*

The total number of WPA workers
on January 28, 1939 is 2,882,686.

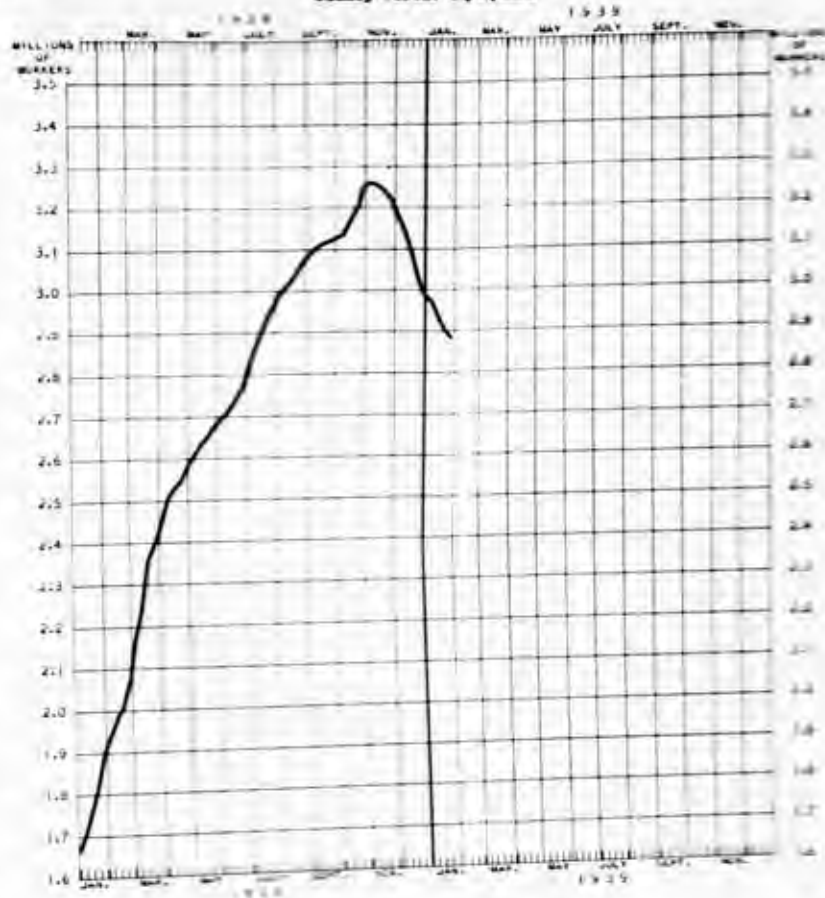
The decrease during the week from
January 21 to January 28 was 15,398
workers.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Monthly
United States

156

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

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

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Weekly
United States

157

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

Source: Works Progress Administration
a/ Confidential

Federal Surplus Commodities Corporation
Summary of Commodities Procured -
Fiscal Year 1938 and Fiscal Year 1939 to date

(Figures in thousands)

Commodity	Unit	Total fiscal year ended 6/30/38	Total 7/1/38 to 11/2/38	11/3/38 to 11/9/38	11/10/38 to 11/16/38	11/17/38 to 11/23/38	11/24/38 to 11/30/38	12/1/38 to 12/7/38	12/8/38 to 12/14/38	12/15/38 to 12/21/38	12/22/38 to 12/28/38	12/29/38 to 1/4/39	1/5/39 to 1/11/39	1/12/39 to 1/18/39	1/19/39 to 1/25/39	1/26/39 to 2/1/39	Total fiscal year 1939 to date	
Apples (Dried)	Pounds	14,557	-	-	-	-	-	-	-	-	-	-	-	-	-	-	548	(1)
Apples (Fresh)	Bushels	5,625	547	1	-	-	-	-	-	-	-	-	-	-	-	-	548	(2)
Apricots (Dried)	Pounds	2,290	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3)
Beans (Dried)	Pounds	56,800	-	-	-	-	3,430	6,360	2,670	4,380	3,750	1,330	2,280	5,060	950	2,270	32,480	(4)
Beans (Snap)	Bushels	33	38	-	-	-	-	-	-	-	-	-	-	-	-	-	38	(5)
Berries (Fresh)	Bushels	11	328	-	-	-	-	-	-	-	-	-	-	-	-	-	328	(6)
Blackberries (Canned)	Cases	-	80	-	-	-	-	-	-	-	-	-	-	-	-	-	80	(7)
Butter	Pounds	15,035	23,072	1,938	924	576	1,773	1,618	2,794	2,718	67	2,166	3,393	2,581	6,939	4,455	55,214	(8)
Cabbage	Bushels	990	2,274	124	89	100	47	43	14	-	-	-	-	-	-	-	2,694	(9)
Cane Syrup	Gallons	237	107	36	25	45	30	22	5	-	-	-	-	-	-	-	270	(10)
Carrots	Bushels	-	146	1	2	1	2	1	-	-	-	-	-	-	-	-	153	(11)
Cauliflower	Crates	-	21	-	-	-	-	-	-	-	-	-	-	-	-	-	21	(12)
Celery	Bunches	1,174	153	-	-	-	-	-	-	-	-	-	-	-	-	-	153	(13)
Cereal (Wheat)	Sacks	408	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(14)
Cheese	Pounds	5,446	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(15)
Corn	Sacks	-	8	-	-	-	-	-	-	-	-	-	-	-	-	-	8	(16)
Corn Meal	Barrels	-	-	-	-	449	-	-	-	-	-	-	-	-	-	-	449	(17)
Cotton	Bales	-	25	-	-	-	-	-	-	-	-	-	-	-	-	-	25	(18)
Cotton Fabric	Yards	1,133	203	22	15	18	-	250	-	20	1	58	238	-	677	22	1,490	(19)
Cotton Weave Bags	Bags	-	-	-	-	-	-	500	-	150	180	-	-	-	-	-	830	(20)
Cottonseed Oil	Pounds	9,780	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(21)
Eggs (Shell)	Cases	270	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(22)
Fish	Pounds	3,677	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(23)
Flour	Barrels	2,659	279	-	-	-	-	-	-	-	5	5	53	50	34	19	279	(24)
Freeze Fruit	Boxes	401	-	-	-	-	-	-	-	-	-	-	-	-	-	-	176	(25)
Freeze Fruit Juice	Cases	552	769	227	132	5	95	-	-	75	-	-	-	-	-	-	1,303	(26)
Peas	Tons	8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(27)
Peas (Dried)	Tons	-	15,560	-	-	-	-	-	-	-	-	-	-	-	-	-	15,560	(28)
Peas (Fresh)	Bushels	-	2,550	-	-	-	-	-	-	-	-	-	-	-	-	-	2,550	(29)
Peas (Canned)	Yards	-	2,550	-	-	-	-	-	-	-	-	-	-	-	-	-	2,550	(30)
Peas (Fresh)	Pounds	21,520	8,961	-	-	-	-	-	-	-	-	-	-	-	-	-	30,481	(31)
Wheat (Dry Skin)	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(32)
Wheat (Flour)	Quarts	12,497	9,620	2,947	4,523	3,042	4,559	4,107	5,185	6,170	6,845	542	731	607	435	402	50,016	(33)
Wheat (Seed)	Pounds	3,000	979	-	-	-	-	-	-	-	-	-	-	-	-	-	3,979	(34)
Oranges	Boxes	1,932	631	-	-	-	-	-	-	-	-	-	-	-	-	-	2,563	(35)
Peanut Bags	Bags	21,525	9,075	-	-	-	-	-	-	-	-	-	-	-	-	-	30,600	(36)
Peanut (Dried)	Pounds	2,534	11,100	-	-	-	-	-	-	-	-	-	-	-	-	-	13,634	(37)
Peanut (Fresh)	Bushels	8	8	-	-	-	-	-	-	-	-	-	-	-	-	-	16	(38)
Pears (Fresh)	Boxes	318	229	-	11	3	-	-	13	24	6	-	-	-	-	-	394	(39)
Pean (Canned)	Cases	862	-	-	-	-	-	-	-	-	-	-	-	-	-	-	862	(40)
Pean (Fresh)	Pounds	6,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,000	(41)
Pean (Fresh)	Bushels	-	3	-	-	-	-	-	-	-	-	-	-	-	-	-	3	(42)
Potatoes (Sweet)	Bushels	440	378	-	-	-	-	-	-	-	-	-	-	-	-	-	818	(43)
Potatoes (White)	Bushels	4,315	2,367	-	-	-	-	-	-	-	-	-	-	-	-	-	6,682	(44)
Potato Starch & Flour	Pounds	2,562	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,562	(45)
Prunes (Dried)	Tons	55	-	-	-	-	-	-	-	-	-	-	-	-	-	-	55	(46)
Prunes (Fresh)	Bushels	-	15	-	-	-	-	-	-	-	-	-	-	-	-	-	15	(47)
Raisins	Tons	15	11	-	-	-	-	-	-	-	-	-	-	-	-	-	26	(48)
Rice (Milled)	Pounds	73,190	-	-	-	-	-	-	267	411	333	-	122	657	345	310	74,535	(49)
Tomatoes	Pounds	3,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,500	(50)
Tomatoes (Canned)	Cases	50	145	-	-	-	-	-	-	-	-	-	-	-	-	-	195	(51)
Tomatoes (Fresh)	Bushels	282	114	-	-	-	-	-	-	-	-	-	-	-	-	-	396	(52)

February 4, 1939

Treasury Department, Division of Research and Statistics.

* Weekly figures reported by Federal Surplus Commodities Corporation are based on telegraphic reports and are uncorrected.

Fiscal year 1938 totals have been revised to include all contract cancellations and other adjustments.

Regraded Unclassified

NOTE FOR MEMBERS

Disorganized Panic Migration

File 5³ 1937

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Since the summer of 1938 practically all South American countries have been closed to immigration except under most stringent regulations which permitted the admission of very small numbers of persons. Only agriculturalists were welcome—a condition which few refugees could meet.

Colombia had admitted a few hundred refugees during the summer, but by Fall it increased the amount of shoe money required from \$500 to \$600. This acted as a deterrent to many refugees who did not have the foreign exchange. Nevertheless there have drifted and filtered through into Central and South American countries during the past six months possibly eight to ten thousand people of all ages—men and women determined at any cost to health or even life to leave Germany and settle elsewhere. How they did this can be gathered from the repercussions which the Joint Distribution Committee and the National Coordinating Committee felt here in the United States—a series of shocks which must be met if we are to help these unfortunates and those coming after them.

HAITI

As early as September 7th, 1938, a report was received by the National Coordinating Committee stating that eighteen Jewish refugees from former Austria had arrived at the Island of Haiti with what they considered were valid passports and visas, but who were being ordered deported. This group consisted of men, women, and children, who stated they were known to the Hicem Committee in Paris, and that they could not return to Germany.

Through the efforts of Congressman Hamilton Fish and Mr. Lawrence Berenson, the President of Haiti, very graciously, in deference to his friend's (Mr. Fish's) wishes, stayed deportation and advised that these refugees could remain as long as was necessary.

We communicated with the persons in Haiti, suggest they organize their small group, pool their resources, and advise us of any practical plan we might consider on their behalf to enable them to get settled either in Port-au-Prince or some neighboring country. One of them left for Cuba. The remainder wrote us that there was only one possible plan for them—that to move them to some other country, loans to establish them in small shops or business would be of no avail.

We are still in correspondence with them but do not know what plans can be made for them.

The Agencies in Paris were notified not to send any people to Haiti and to discourage emigres from going there.

MEXICO

The next incident relating to unorganized immigration came to our attention in connection with the refusal on the part of the Mexican Government to permit twenty-three refugees to land who had arrived on the SS Orizoco with what the emigres regarded as proper visas and passports. Considerable telegraphic communication was had in connection with these passengers when the steamer was still in Havana. We were advised then that their papers were in order; that they would land at Vera Cruz, and that they required railroad fare from Vera Cruz to Mexico City. This transportation was authorized by the Joint Distribution Committee at a cost of \$20.00 per person. However, despite these efforts to ease their admission into Mexico, the Mexican officials refused to permit the 23 refugees to land, although each one had paid a considerable sum of money to the Mexican Consul in Germany and had a receipt for the money. Pledges that they would not become public charges were given by interested Jewish organizations, but to no avail. The twenty-three were not allowed to land, but were taken off at Havana, Cuba, through the intervention of the Joint Relief Committee, which was organized and

operate under the supervision of the National Coordinating Committee, financed, however, by the Joint Distribution Committee.

Since that first episode, practically every steamer landing at Vera Cruz has carried passengers that were denied permission to land in Mexico, and these refugees have proceeded to Havana, there, after the requisite guarantees have been furnished by the local Committee in the name of the National Coordinating Committee, they were admitted for temporary sojourn.

In addition to these, there have arrived at the port of New York during the course of the last three months, a fair sprinkling of refugees en route to Mexico. Attempts have been made by us to have these people admitted by way of El Paso, Texas, and Juarez, Mexico. A few were successful, but the larger number are still in New York being supported by the National Coordinating Committee, with no status as residents here, having secured transit visas from the American Consul abroad which generally permits a few days' stay between trains or boat connections for other lands. In each case the National Coordinating Committee has made representations to the Immigration and Naturalization Service that these are political refugees; that they cannot go back to Germany; that through no fault of their own they were stopped from proceeding to the country for which they had procured a visa; and appealing for a further stay without of deportation being issued against them on the guarantee of the National Coordinating Committee that efforts are being made to transfer them and that this will be done with the utmost expediency on our part. At present there are 19 persons in the United States on transit visas en route to Mexico for whom we have appealed for further stays pending plans to remove them. One family of three, relatives of Judge Frankfurter, only arrived last week to find themselves in this serious situation. The man had been in a concentration camp and was released only upon condition that he leave Germany at once.

Since the first group of 25 on the SS Orinoco were refused admission to Mexico on the ground (1) that they are stateless and have no unexpired passports, or (2) that they have tourists visas, but because their passports are marked with a "J", they are in reality immigrants and not bona fide tourists, or (3) they do not have the prescribed landing money required, a few emigres arriving on the SS Iberia and others in the last three months have been taken off at Havana after attempting entry at Vera Cruz. For about twenty such passengers the National Coordinating Committee has given its guarantee to the Cuba Government that they would not become public charges and would not accept gainful employment.

SS COPIAPO - Agents, Gorein and Dias

On December 21, 1938 we received word through a German refugee that his aunt was ill on board the SS Copiapo which was expected to arrive in New York Harbor on the 25th, bound for Central and South American ports. He understood that there were about twelve refugees on board. He received permission from Ellis Island and the steamship line to board the steamer. When the dock workers of the National Council of Jewish Women came up on deck, they found not twelve but 110 passengers, all ages, even infants, - one bound for Panama, 16 for Paraguay, 62 for Chile, 31 for Peru and Bolivia. Their papers were apparently in order, but they had no money for transportation from the port of disembarkation to the inland city to which they were destined and arrangements were made with the stewards for better attention to be paid the passengers; some funds for incidental expenses were given them; cables were sent to several of the committees at ports which the steamer would touch, to see, that the emigres reached their final destination.

SS IMPERIAL

Having been successful in discharging the passengers on board the SS Copiapo, through the same agents, Garcia and Dias, the Hamburg American Line next

sent out passengers on the SS Imperial which arrived in the United States, touching port in Baltimore on January 10, 1939. On this steamer, carrying 143 refugees, 68 were men, 60 women, 15 children, - 8 had permanent visas for Bolivia, one girl had a permanent visa for Peru, 37 had two-months tourist visas for Peru (these consisted of 18 men, 14 women and 7 children), and the remainder had visas for Chile.

As it happened, a cable had been received by the National Coordinating Committee from Paris to the effect that 37 passengers to Peru were travelling on visas which were not valid and would not be accepted by the Peruvian government officials for landing purposes. This information had been given by the Peruvian Consul in Paris who stated that the Peruvian Consul in Antwerp, who had issued the visas, had no jurisdiction in the matter. The matter was taken up with the Commissioner of Immigration in Washington with the request that if upon the arrival of the steamer it was found that the documents of these 37 were not valid, permission be given to have these people held at the expense of the National Coordinating Committee at Ellis Island, pending plans to redirect them to Trinidad. At that time we were receiving landing permits from Trinidad without difficulty. The Commissioner kindly consented; the Ellis Island director 'phoned that all was in readiness to accept these people; then came the news from the State Department that Trinidad had closed its doors on January 15th. When the SS Imperial arrived, the documents of the 37 passengers were immediately and carefully scanned; the Peruvian Consul of New York stated they were in order; true, some were valid for only 48 hours, others for 60 days; only two would be permitted to land at Callao; the rest had to go on to Mollendo.

After further consultation with our Government officials it was agreed that these passengers should continue on their voyage, much to their grief, as they were very uncertain of their future. One woman was taken to the hospital for an emergency operation - her husband continuing on the trip.

The people were admitted at Mollendo for 60 days; the woman here is now ready to proceed to Peru, but her husband has cabled that he is not being permitted in Peru. We have notified the Sociedad Israelita of Lima that the man's wife must proceed to Peru and that they should regularize the husband's status in Peru along with all the others or send them into Bolivia, as the United States will not allow his wife to remain nor permit him to come here from Peru.

SS CARIBIA

Late in January, 1939, word was received from passengers on board the Caribia, a Hamburg American Liner, that 83 Jewish refugees bound for Trinidad, had been denied admission to Trinidad and were having difficulties in landing in any one of the Central and South American countries. The British Passport Control Office had been advised of this tragic situation and in consultation with the National Coordinating Committee it was agreed that Sir James F. Paget would cable to the Colonial Secretary of British Honduras, requesting the admission of these 83 refugees for a minimum period of 90 days on the guarantee of responsible American organizations that these people would not be permitted to become public charges and that plans would in the meantime be made to move them into some other country. The Colonial Secretary, to whom the National Coordinating Committee also sent a similar cable, replied that he could take no action unless we could specify the exact date when each of the refugees expected to receive a visa to enter the United States. Since this was not possible we could make no progress with British Honduras, although in the meantime a certain Mr. Isadore Gross, an importer, who has a brother in this city and who has lived in British Honduras for 15 years, also cabled us that if we would deposit a public charge and departure bond of \$20,000 and send one thousand dollars in cash at once, arrangements might be concluded to permit the refugees to land, provided further, that they were willing to settle on the

land at once and not remain in the urban centers.

While this feverish correspondence by cable was being carried on, cables were sent to various other Central American countries: Panama, Colombia, Guatemala, Barbados, Honduran Republic, Venezuela and lastly - Cuba. The Hamburg American agent in Guatemala had appealed to the Hamburg American agent in Havana to intercede with the Cuban government to permit these 87 to be landed in Havana. The Hamburg American agent in Cuba then appealed to the Committee in Havana, which is working under the auspices of the Joint Distribution Committee, to deposit the necessary guarantees with the Cuban government officials to admit these refugees. In this connection it is of interest to note the cable which had been sent by the main office of the Hamburg American line in Hamburg, Germany, to the Repag agent in Guatemala:

CARIBIA JANUARY SAILING WESTBOUND WE HAVE BOOKED 87 REFUGEES TO BE LANDED AT BELIZE BRITISH HONDURAS FULL STOP HOWEVER HAVE BEEN INFORMED TODAY LANDING GERMAN REFUGEES BELIZE NO LONGER ADMITTED FULL STOP UNDER THESE CIRCUMSTANCES INFORMED DIRECT CALL AT BELIZE WILL BE CANCELLED UNLESS YOU CAN ARRANGE REINDEBARKATION AS AN EXCEPTIONAL CASE HAVING NO INFORMATION TO THE CONTRARY PRIOR TO SAILING FROM DOWER FULL STOP IN THIS CASE COMMUNICATE WITH CAPTAIN DIRECT AND ALSO ARRANGE THAT ITINERARY HONOLULU ROUND CAN BE MAINTAINED TELEGRAPH RESULT

After many days of anxiety word was finally received that the 87 had been landed in Caracas, Venezuela on February 2nd for a period of 30 days on our guarantee that the people would not become public charges. Meantime, the passengers had called relatives and other organizations such as the RIAS, RICHM, etc. Americans on cruises, stopping off at the various ports where the captain of SS Caribia had attempted to land these "Flying Dutchmen", heard this story and sent cables to the Joint Distribution Committee, the National Coordinating Committee; and the Rias and here in the United States, relatives began appealing to the National Coordinating Committee to help their kinfolks who were on this ill-fated steamer. One woman had arrived here from Germany on permanent German quota visa with her two children, but her husband a physician from Berlin, belonging to the

Polish quota, had booked passage on the Caribia to exit, as he had hoped, in Trinidad, until his quota number which he expects in July, would be reached. He was landed in Caracas. We have written to Panama and Colombia for permission for temporary asylum in his particular case. Three persons, who had close friends and relatives in Trinidad were granted permission to land there to join their husbands and fathers, after a serious struggle on the part of our representative there. A full list of the people with data as to ages, occupation, quota numbers and dates when they expect United States visas (if eligible) addresses of relatives in the United States and other countries has not been received from the Committee in Caracas and attempts are being made to secure financial aid from these relatives for their maintenance. Probably two thirds have relatives in this country and daily come requests for information from people in the United States about their relatives in this group. We have also urged that the Jewish Community, which is well organized, secure a further extension from their government to allow these people to remain longer, until arrangements can be made to take them to some other land, if possible. Meantime, March the 2nd speeds closer and closer.

A cutting from one of the newspapers of Belize, British Honduras, significantly reads as follows:

"We understand that the Hamburg American Liner Caribia was expected to arrive in Belize with 85 German Jews on February 11th but that our Government has informed the shipping company that these refugees will not be allowed to land. In consequence the Caribia has altered her destination. We are pleased to note that Government is alive to the danger of allowing large bodies of refugees to land here, where already there is so much unemployment we have more than once advocated a complete ban on all immigrants except agriculturalists, irrespective of nationality, colour or creed".

COSTA RICA

Through Mr. Leo Sack, former American Minister to Costa Rica, the National Coordinating Committee was advised on January 10th that about forty-two persons, refugees from Germany, had arrived in two groups at two different ports in Costa Rica and had been admitted after considerable difficulties for

a period of thirty days. Mr. Luis Feigenblatt, from England, a Polish naturalized citizen of Costa Rica, and succeeded with the cooperation of Mr. J. A. Weston, former correspondent of the New York Times, in having these people landed after having communicated with the National Coordinating Committee here by telephone, and receiving our permission to guarantee their maintenance at the expense of the American agencies. He also deposited bonds of \$100. per person with money that he raised in Costa Rica. A check for \$500.00 was forwarded by the Joint Distribution Committee at once for maintenance.

He next wrote several air mail letters explaining the situation, listing the names, ages, occupations of the individuals, urging that we enlist the interest and cooperation of the agent of the Refugee Economic Corporation to take these people on their land and recommending that we send some one from the United States at once to see what can be done about keeping these people in Costa Rica permanently. Cables were later received from him advising that several refugees had been deported and that the passengers of the SS Caribia were denied admission; also that two additional groups of refugees had arrived, other groups were expected and that they were all to be deported to Germany unless immediate steps are taken by us to transfer them to other countries; for this transportation money would be needed. Furthermore, as a result of his intervention, Mr. Feigenblatt advises that he, himself, is threatened with loss of citizenship and deportation.

The situation in Costa Rica is most critical and demands immediate attention. The best advice given us is that we send an American Spanish speaking representative at once to Costa Rica to deal with the Government officials.

TRINIDAD

On January 9th, 1939 the following memorandum was prepared describing the conditions for admission into Trinidad, the possibilities of using Trinidad for a limited number of refugees who had to leave Germany:

About two months ago we received a letter from Mr. Edgar Pereira, who is a native Trinidad Jew in business in the firm of Edgar Pereira & Co., Commission Merchants, and Manufacturers' Agents, stating that refugees from Germany were beginning to arrive in Trinidad, that the Government officials were quite friendly, and that he had several other Jewish people in the community were attempting to help these people. He asked specifically if we could take to the United States two or three people (former butchers), whose occupation precluded them from finding work in Trinidad in their own field. This led to correspondence, and we learned from Mr. Pereira that it might be possible to secure the admission of larger numbers of people from Germany, provided the proper bond was deposited, amounting to \$250. and provided that a landing permit was secured from the Harbor Master.

As a result of the directions which were issued to our cooperating committees, a number of American citizens decided to send their relatives from Germany into Trinidad. In addition, the Jewish organizations in Germany and in France learned of the opportunities in Trinidad and began to send to Trinidad, people who had just been released from concentration camps and who had to leave Germany without delay.

According to Mr. Pereira's report and to Mr. Lev Girion, an American citizen from Newark, who is a general agent and spends most of his time in Trinidad, about fifty people had arrived a few weeks ago who were penniless and who had to be supported. When Mr. Girion was in New York he stated that the numbers of persons arriving were increasing so greatly and so many were without funds, that they were very much alarmed and required the assistance of the American committees here. Mr. Girion explained that there is a shortage of housing in Trinidad and that most of the people who have come and who need assistance, have been placed in the homes of kind people, Jews and Christians, who have been generous enough to take

in these people and give them shelter for the time being.

A new committee had been organized, known as the Jewish Association of Trinidad. The officers are: Dr. Pulver, Secretary; Dr. Schachter, a dentist from Vienna, President and Mr. Fux, Treasurer. Mr. Pereira had agreed to act as consultant and to cooperate with this Committee.

We cabled the American Consul to find out if the Committee was competent to administer funds, and the American Consul advised us that the Jewish Committee, according to Mr. Pereira, is competent. The Joint Distribution Committee thereupon sent \$1000. for temporary relief. However, there is no doubt that the matter of housing and health is serious and that every effort must be made to find quarters where these people can be put up. We understand they are permitted to work in Trinidad and the Committee is especially active in finding employment for the refugees.

Since it is important to settle the refugees so that they do not present any problem to the citizens of Trinidad, it is necessary to act promptly. There are at the present time about 400 refugees, and many must be assisted by the Committee. We understand that the steamers are booked solid until July with passengers who have been given permission to land in Trinidad. Most of these passengers will have funds which their relatives will provide for them, but some of them will undoubtedly need further assistance."

On January 15th Trinidad closed its doors to additional immigration, and only after appeals were made by the Council for German Jewry at our behest, did the Trinidad officials agree to admit the refugees who were on the high-seas at the time the new law was passed. They also agreed to review each application for admission on the part of those who had received landing permits prior to the passage of the law, claiming that these landing permits had been issued by a subordinate official without proper authorization. They have been adamant in their

determination to prevent any new comers and it was only with great difficulty that the landing of several wives and children and parents of persons already in Trinidad was effected recently.

The Trinidad situation also calls for immediate action on the part of American agencies. An American social worker must be sent at once to set up proper housing, look into the health situation and provide prevention health care for the refugees; plan projects for self-support on the basis of loans and organize a Committee which can carry on the necessary work of making the 400 refugees already there become an asset rather than a liability to Trinidad.

DOMINICAN REPUBLIC

During the past year (1938) there had been some slight infiltration on the part of refugees into the Dominican Republic. In October 1938 a report came to the National Coordinating Committee from one of the local Jewish merchants to the effect that he and his associates had been able to set up in small shops with small loans some half dozen refugees who had settled in San Domingo. The loans had been arranged through the Refugee Economic Corporation of New York. By October, this report continued, every steamer was bringing in increasing numbers of German Refugees who were being admitted temporarily. Having with them only \$50. as show money for entry, they were beginning to constitute a relief problem while waiting for documents to enter another country for permanent residence.

While the Joint Distribution Committee and the Refugee Economic Corporation were giving consideration to the needs of the people in the Dominican Republic, the Government of that country invited the officials of the United States Immigration Service to send an expert to them to help them frame a new immigration law. The law was passed in January and included a provision for a five hundred dollar head tax intended originally, we are told, to be applied to persons not belonging to the Caucasian Race (the purpose being to prevent the admission of their neighbors the Russians with whom there had been serious economic difficulties recently). However

when the numbers of refugees coming to San Domingo began to increase, the authorities in the Dominican Republic applied the requirement of a five hundred dollar head tax to all refugees who could not show unrelinquished domicile; and this ruling affected a number of persons on the high seas bound for San Domingo. Some of these (about 22) had transit visas for the United States; when this law was enforced, these were held up in New York. We could not send them on although in the case of six of them (a dentist and his wife, the dentist's brother, a former banker and his wife and child, their uncle, a viola player of some distinction) their equipment, tools, instruments, household effects were already on the way to San Domingo. After repeated appeals made on their behalf to the Minister in Washington by David Stern the newspaper publisher and others, who pleaded for their admission on the ground that these persons were on the high seas when the law was put into force, they were finally permitted to proceed to the Dominican Republic. There are, however, 16 refugees with visas for the Dominican Republic, at present a charge on the National Coordinating Committee for whom extensions of stay in this country have been requested from the Commissioner of Immigration here, who must leave the United States shortly and proceed to another land. It is very important that a definite understanding be reached with the Dominican Government officials regarding admission and requirements for admission of refugees in the future.

PERU, BOLIVIA, PARAGUAY

The situation in these South American countries requires immediate attention. Many refugees have entered Peru on temporary visas; they are stranded in the cities of Lima and Arica; in the latter they wait for the trains that twice a week depart for LaPaz in Bolivia. In many cases these persons have secured visas from agents in Paris or Amsterdam or Berlin which only permit a stay of 48 hours in Peru. They arrive without funds, and their presence in large numbers, aggravated by their illegal status, is bound to create an unfavorable reaction on

local government officials with whom the appropriate agencies desirous of negotiating for admission of refugees on an orderly well considered plan of settlement, will have to deal in the future.

In Uruguay hundreds were held up on their way into Paraguay when that country decided to accept no more refugees recently. Such action on the part of these government officials to protect themselves against this disorganized immigration must necessarily affect any favorable decisions on their part in the future and establishes very undesirable precedents.

CUBA

As a country of temporary asylum and even for permanent settlement, Cuba seems quite satisfactory. The Cuban Officials have expressed themselves as being in favor of admitting refugees. Until the decree issued recently by the President announcing the new immigration law, it had been possible for many refugees to enter Cuba upon deposit of a bond of \$500. for permanent entry, \$200.00 for temporary stay, on a further guarantee that they would not engage in any gainful occupation and that they would not become public charges. It is estimated that about three thousand refugees have not entered Cuba; among them are some who had just been released from concentration camps and who were obliged to leave Germany without delay. In order to have the immigration into Cuba proceed smoothly, the Joint Distribution Committee, using the facilities of the National Coordinating Committee staff and experience, opened an office in Havana, where the social services are being rendered to the refugees who are arriving in Havana on every steamer. Unfortunately, an opportunity presented itself in this connection for members of steamship companies, agents and their runners, American lawyers and so-called immigration Consultants to exploit many of these people and their American relatives so that at present they are in a position to make promises which we fear they will not be able to fulfill—

especially as to the right of the refugees to remain in Cuba permanently. The whole Cuban matter is now receiving the earnest consideration of the Joint Distribution Committee officials and other interested groups. At the same time every steamer from Europe is bringing in new groups each week; the steamers are booked full for Cuba until July. Relief needs are mounting and plans for settling these people in retraining projects are being carefully studied.

PANAMA

To a lesser degree, but along the same lines, we find a parallel situation in Panama where there are at this time about 500 refugees from Germany, 200 permanently settled, the rest to be legally established. Fortunately, there is a well organized Jewish Committee in Panama so it is hoped plans can be developed which will alleviate the relief situation and will satisfy the Panama Government that efforts are being made to work out a constructive program for the permanent settlement of the refugees already there. No immigrants are now being admitted into Panama. They will permit temporary asylum for persons who have an opportunity to secure quota visas at a later date, provided guarantees are given for the maintenance of these refugees during their stay in Panama.

REFUGEES IN THE UNITED STATES ON TRANSIT VISAS

At this writing there are 73 refugees—men, women, and children, who have arrived in the United States on transit visas enroute to other countries. The records show that of this number 6 had visas for Shanghai, 19 for Mexico, 18 for the Dominican Republic, 32 for other countries which will not now admit them. Representations have been made by the National Coordinating Committee to our Government Immigration Officials to permit these persons to extend their stay temporarily for a period of from 30 to 90 days, pending arrangements attempted by the National Coordinating Committee for their ultimate admission into Cuba or some other country. Most of these people are receiving relief from the National Coordinating Committee, and in not a few cases, the National Coordinating Committee has been obliged to deposit cash bonds of \$500. each to the Ellis Island

British Honduras, The Dominican Republic, Colombia etc. should be administered directly from New York and should be visited at once, to negotiate for the further stay, temporarily, if not permanently, of those emigres presently threatened with deportation. 174

Peru and Bolivia, Ecuador, Paraguay and Uruguay should be under the jurisdiction of the Argentine Committee. In these last named countries there are local residents both influential and responsible, who are in a position to negotiate with their Government Officials, if they have the cooperation of the Inter-American Bureau. In some of the countries that require immediate visitation, such as Costa Rica, Trinidad, Haiti, there are no local influential individuals upon whom we can rely for this work. Therefore the need for an American representative.

A qualified social worker who has had experience in housing and public health work as well as general community organizations, should be sent at once to Trinidad. The four hundred people there need health care or there will be serious after-effects of their present inadequate housing and lack of proper food, etc.

A qualified Executive who can plan for self support and retraining projects should be available for countries like Cuba, Panama, Trinidad, The Dominican Republic, etc. to settle the people so they may become self supporting and part of the community.

Committees must be organized or strengthened in each important center in these countries to carry on the work in cooperation with the Inter-American Bureau.

Respectfully submitted

Cecilia Razovsky

2/21/50

officials to prevent their deportation and guarantee their leaving the United States at the time specified.

SUMMARY

The tragic effort on the part of panic-stricken refugees from Germany to find a haven has led to a form of disorganized migration which is indeed unconstructive. From the practical point of view of their being obliged to purchase round trip passage (although they know they do not intend to use the return ticket), of securing funds from both North American and South American relatives, of obtaining visas that are not properly issued, of booking passage on steamers without any definite port of disembarkation in prospect—such migration is costly to the migrant and his relatives. It is costly to the agencies who are so frequently called upon to post bonds, provide guarantee for maintenance and to furnish large sums of money for unconstructive relief.

More costly, however, is the unwholesome effect of such panic migration upon the receiving countries, particularly where the President's Advisory Committee on Political Refugees and other important Refugee agencies are in the process of negotiating with those same countries for orderly settlement of groups. The lack of organized Committees in many of these Central and South American countries to cope with the housing, health, and other adjustment problems of these migrants is a matter of grave concern and one which calls for immediate solution.

It would be advisable therefore, to establish at once, as an adjunct of the American agencies interested in this overseas work, a Department which might be called The Inter-American Bureau on Political Refugees, with a Special Committee and an Executive in charge. The Bureau should as soon as practicable, invite representative Jewish Committee in the Argentine, Brazil and Chile to affiliate themselves with this Bureau and be represented on it. Simultaneously a proper Executive should proceed to Central and South America to perfect the Bureau organization. The Caribbean Republics, particularly Costa Rica, Venezuela,

BEB

GRAY

London

Dated February 6, 1939

Rec'd 4:35 p. m.

Secretary of State,
Washington.

172, February 6, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

Due mainly to the fact that Mussolini did not make the expected strident speech after Saturday's meeting of the Fascist Grand Council the dollar has been rather heavily offered today with both the French and British funds absorbing some of the selling.

Gold was fixed at 148 shillings 5-1/2 pence and of the 216 bars dealt in 127 were married and ten supplied by the British fund.

The London stock exchange has likewise shown a stronger tendency.

JOHNSON

EGB 111037

BPL

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 6, 1939, 4 p.m.

NO.: 218

FROM COCHRAN.

Today at the opening of business the French stabilization fund contained in gold 15,002,000,000 francs. When I called at the Bank of France at 11:00 o'clock this morning the fund had acquired \$4,400,000. Guaranty was operating for the fund at around 37.80-5/16. The Chase Bank is buying for the fund around 37.795 this afternoon. Large sellers of dollars are the Bank of Indo-China and Lazard.

There is a better feeling on the Paris markets due to international developments and trading has been active. Forward franc more bid and rentes gained. Other centers such as Amsterdam are now commenting favorably upon the recovery France has continued to achieve in spite of international happenings of the past month.

BULLITT.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 6, 1939

TO Secretary Morgenthau

FROM W. H. Hadley

A Review of the Government Security Market for Week ending February 4, 1939

For the week as a whole, the government security market was very strong and moderately active. Then on Monday tension in the foreign scene was greatly relieved by the comparatively subdued tone of Chancellor Hitler's speech, which the markets had been awaiting with considerable trepidation, prices of government obligations bounded strongly upward. By the close of trading Tuesday, longer Treasury bonds had recovered all their 1/2 point losses of the previous week, while the shorter and intermediate issues regained about 2/3 of the previous losses. For the balance of the week there was little net change in prices.

The advance in prices, which brought the longer issues to new all-time highs, was accompanied by fairly widespread demand. Commercial banks, savings banks and dealers to some extent were reported as buyers. During the latter half of the week trading was rather light.

Treasury bonds were 12/32nds higher on average, with the maturities over 10 years up 18/32nds. Treasury notes recovered about half their losses of the previous week and closed 2/32nds higher on average. Guaranteed bond issues were 7/32nds above the previous week, while outstanding guaranteed note issues were generally 1 and 2/32nds lower as a result of quotation adjustments following the preliminary announcement on Wednesday of a new \$300 million note issue by the E. F. C. The most recent guaranteed note

(U. S. H. A. 1-3/8%) however closed the week up 3/32nds, with a price of 100.27-29.

New R. F. C. Note Issue

The offering today (February 6) of \$300 million 7/8% 3-year 11-month notes of the R. F. C. was well received, as evidenced by preliminary figures on subscriptions in the New York Reserve District. By 4 o'clock, \$1,298,000,000 subscriptions had been received. This compares with \$1,221,000,000 received on the recent \$100 million U. S. Housing issue at 4 p. m. on the day of offering. Unofficial quotations during the day ranged from 100.14/32 to 100.17/32 bid, 100.16/32 to 100.20/32 offered. Whether official quotations continue at these figures or higher, or move down, is felt by the market to depend on the size of allotments. A large allotment may result in somewhat lower quotes. At the close of the market, it was estimated by the street that the issue would open tomorrow at 100.13/32 or 100.14/32 bid.

Dealers' Portfolios

Dealers have taken to the policy of carrying very light positions and practically none over week-ends in light of continuously appearing uncertainties in the foreign scene. This policy is reflected in the fact that dealers' holdings at the end of the week stood at the lowest figure since April, 1937. With the exception of 1 to 5 year notes, wherein a net short position was eliminated, holdings of all classes of securities were reduced. In fact, holdings of all securities except Treasury notes and Treasury bills were reduced to negligible amounts. The \$30 million short notes, apparently representing "rights", and the \$17 million bills were practically all held by one dealer (Discount Corporation).

(in millions of dollars)

	<u>Holdings</u> <u>Jan. 29</u>	<u>Holdings</u> <u>Feb. 4</u>	<u>Net Change</u>
Treasury bonds	7.7	0.1	- 7.6
Treasury notes (1 year)	33.3	30.3	- 3.0
Treasury notes (1-5 yrs.)	-8.6	0.5	+ 9.1
Treasury bills	17.6	17.0	- 0.6
E. O. L. C. bonds	12.2	0.7	-11.5
F. F. M. C. bonds	-0.3	-1.9	- 1.6
	61.9	46.7	-15.2

Daily average volume by dealers amounted to approximately \$140 million (excluding Saturday, which is normally a quiet day). Of this amount, \$80 million daily was in Treasury bonds and about \$25 million daily in Treasury notes.

New Security Issues

The only sizeable item of new corporate bond financing, and in fact the largest since last October, was the offering of \$70 million debentures of North American Company with coupons ranging from 3 1/2 to 4% and maturities from 1949 to 1959. On the opening day, the quotations moved substantially above the syndicate prices and the issue was readily and quickly sold in the market.

Corporate Bond Market

The corporate market also recovered most of its losses of the previous week as a result of easing of the foreign tension. Second grade rails and all utility issues showed the greatest gains, the former in view of the fact that losses in rails had been larger than in other types during the previous week, and the latter because of greatly improved sentiment in the utility picture during the latter part of the week. Moody's average of BAA bonds moved up about 1 1/4 points while AAA bonds rose approximately 1/4 point. Foreign bonds also showed continuous gains during the week, with the exception of Chilean issues, which were affected adversely by the earthquakes in that country.

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Treasury Investment Account

The only transaction in the market during the week ended February 4, 1939 for account of Treasury investment account was the purchase of \$74,000 2-3 1/4% Treasury bonds for account of D. C. Teachers Retirement Fund. However, an additional \$1,000,000 was invested in special 2% notes for Government Life Insurance Fund, bringing the total holdings of these special 2's by this account to \$9,700,000.

Federal Reserve System Account

The transactions for the System Account were limited to the replacement of \$42,830,000 Treasury bills maturing February 1 with a like par amount of other Treasury bills, including \$30,330,000 of the new issue maturing May 3. In anticipation of a \$59,855,000 bill maturity in the week now current, the New York Reserve Bank purchased an additional \$15,000,000 of the new May 3 bills.

February 6, 1932

H.M.Jr. sent for Chief Wilson at 4:15 to-day. He said, "The Presidents want you, if you can without getting caught at it, to check up from Wednesday, February 1 at one o'clock through to midnight on February 3d as to what telephone calls there were out of Washington to Germany and get copies of all cables. The purpose of it is - and here H.M.Jr. handed Wilson the following ticker tape:

--- AUGUST KALFELD, NEW YORK CORRESPONDENT OF THE HACKETT'S
DISPATCH TO HIS PAPER TODAY THAT A SENSATION
WAS CAUSED BY YESTERDAY'S SITTING OF THE SENATE FOREIGN AFFAIRS COMMITTEE
WHICH DISCOVERED THAT WHOLE PAGES OF THE TESTIMONY BEFORE THE
OF SECRETARY ROBERTSON AND SECRETARY WOODRING
WAS TAKEN FROM THE FILES AND DISAPPEARED.

I returned my testimony which I gave, before the Senate Military Affairs Committee, at one o'clock on Wednesday, February 1. Somebody knew that we had deleted some of the testimony and some time between then and midnight on February 3d either telephoned or cabled Germany.

The President said that he thinks we can get this information. "Have you ever tried to do anything like this?"

Wilson: No, but of course if we ask for their confidential records, they will give them to us. I feel sure that we can go to the telephone, cable and radio companies and state that this is a particularly confidential matter and that we would appreciate their cooperation and I am pretty sure that we will get it.

H.M.Jr: We think that we know who sent it. Of course, this person could go to the German Embassy and send it and then we would be up against a code question. Let's try and see if we can get this information anyway.

FROM: MR. GASTON'S OFFICE

TO: The Secretary

Friday, Jan. 27--Newspapers carried story headed (in Herald-Tribune) "Treasury Let French Agent Hide Bomber," This being based presumably on testimony by Gen. Arnold previous day. You appeared before the Committee the same day.

Sunday, Jan. 30--Sheppard wrote to you asking copy of President's letter. We must have received it the same day, since I talked to you on phone and afterward went to see McIntyre, who later phoned the President would see you at 10:15 following day and the Committee at 10:30.

Tuesday, Jan. 31--President saw you and the committee.

Wednesday, Feb. 1--Herald-Tribune says President told the Committee U. S. frontier in case of war would be "in France;" also that he wrote no letter of instructions but only "chits." It must have been this same day that I returned transcript to committee. I saw Smalley, the clerk, at just 16'clock. P.S.--I know this was the day, because I had lunch that day with Carl Allen and Grant Mason of Civil Aeronautics, having made the appointment as we returned from the President's press conference on Tuesday.

Friday, Feb. 3--President makes "deliberate lie" report as to frontier in France at his press conference.

Sat., Feb. 4--Sheppard asked me to call on him at 10 this morning, which I did.
(Monday)

February 6, 1939

This morning I had Hanes in for about an hour. One of the things he told me was that some mutual friends asked Senator Bob Reynolds why he was going after Morgenthau and his answer was, "That is perfectly plain. I want to get Morgenthau out of the Treasury so that Johnny Hanes can become Secretary". Hanes said, "That is what Reynolds is telling the people of North Carolina. I want you to give me permission to go after Reynolds and get this thing straightened out. This thing is just preposterous and in North Carolina the people are saying that Reynolds is in bad shape financially and that he is taking retainers from the Germans and Italians and is on their payroll."

GROUP MEETING

February 6, 1939.
9:30 a.m.

Present: Mr. Hanes
Mr. Taylor
Mr. Gaston
Mr. Foley
Mr. Gibbons
Mr. Haas
Mr. Lockwood
Mr. White
Mr. McReynolds
Mrs. Kiota
Mr. Duffield

S.S. Jr: This is what I'm going to say. It may be entirely unnecessary. Maybe it's because I feel the thing more deeply than some of the other people; but on account of all the criticism of one kind and another and also on account of Father Coughlin's attack on me yesterday, I just want to say this for the benefit of this group: that what I have done for China, what I have done buying silver from Spain, what I have done to assist the French get planes - I am delighted I was able to do it; if I had to do it, I would do it all over again.

And if there's anybody that doesn't agree with what I'm doing, I hope that they'll be man enough to say so, because what I have done for these different countries I believe in; other people in the Administration may or may not change, but I - might use even the word "am proud" of the part that I was able to play. Everything that I did was with the knowledge and the approval of the President of the United States.

And as I say, if there's anybody who is connected with me as closely as the people around here who are out of sympathy and don't believe in what I'm doing and aren't ready to see me through the very difficult time that I'm facing now, I wish and hope that they'd be man enough to come up and tell me so; because I don't want anybody connected with me who doesn't believe in Henry Morgenthau, Jr., and doesn't believe in what he's doing. And as I say, if anybody has any doubts or any feelings, they can ask for an appointment to see me; and as I say, I hope they'll be man enough to come up and tell me

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that they're out of sympathy with what I'm doing.

But I think I have the right to ask that, and if I don't hear from anybody I'm taking it for granted that they're in sympathy, but if they're not I want them to come up and tell me so, and as I say - just the way I would if I were out of sympathy with something that the President were doing.

But I see extremely difficult times ahead of us, and I don't want to have any doubts about anybody who is as closely associated as these people are here with me. But as I say, if I had to do it over again, I'd do it just the same way, and I'm not going to change one iota, because I believe in what I'm doing as far as these countries are concerned. Everything I've done is legal, all aboveboard, the records are available. As I said, anybody is entitled to see them.

But I want to be sure one hundred percent of the people who are associated with me.

Is that a fair statement? I mean I'm not asking - I mean that's perfectly fair, isn't it, to ask that, Johnny?

James: Certainly.

E.W.Jr: I'm not directing it

James: I'd just say for the benefit of yourself and the benefit of everybody else that I'm a thousand percent with you in it. I think you're absolutely right. I'll go down with you, if it means going down, we'll all go down.

E.W.Jr: The reason I asked you is you're number two in the Treasury. I have no doubts about you.

James: I agree with you a hundred percent. You're entitled to know that, to know where everybody stands. I'm telling you here where I stand.

E.W.Jr: I didn't have any doubts. I looked around who to turn to - I mean I just wanted to ...

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WAGNER: I know you hadn't any doubts, but I think it's well for everybody else to know just

W.C. Jr: Because this is, from now on - they've advanced the presidential year by a year, and it's going to be plenty dirty. And as I've told the people around, so far I've been able to take care of myself.

But I've always felt that we have a group here - they'll see me through thick and thin, and on that basis I can go along and not worry. I mean as long as the Treasury gang sticks by me, I'm all right, but if there is any disbelief inside of the Treasury family, why, I can go down very easily.

WAGNER: I wanted to talk to you about some of these appointments just along that line, didn't get a chance. Nothing pressing, but it's - you know, there's a cleavage now, lines have been drawn. As you expressed it the other day on the delegates, I've got to be either with you or against you.

W.C. Jr: Well, I'm not - you people here - there's nothing that I'm doing that the people in this room don't know about. I mean there's a record - I mean everybody - there's nothing that I've done that at least some of you aren't familiar with. I mean certainly everything that I do - at least there's some of you that are consulted.

But it's going to get dirtier and dirtier, and I just want to know that I've got a team that are with me through thick and thin; and it's going to be pretty damn thick. And besides everything else - there's just plenty; I mean I've never seen the weather so thick or so difficult as I see it. And I'm not worried, I can take care of myself if my own crowd will see me through this thing, that's all.

But as I say, I want to know, and I want - as I say, I think it's fair to ask at this particular stage if anybody has any doubts that they should be man enough to come up and say so. Because this isn't just Treasury business, this is everything. I mean

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the last two weeks, instead of having done what I hoped to do, put my mind on recovery and those sorts of things, I've just kept fighting trying to keep my lines straight with the White House.

I mean, to show you, for instance, the kind of things, the dispatch comes out of Berlin that an important part of Woodring's and my testimony has been destroyed. See? I mean, now how does Berlin know a thing like that? And Gaston's been sent for to come up on the Hill.

Gaston: I heard something else in that connection this morning: that Bennett Clark and Nye had hinted to some of the boys that you had got the stenographer of the Committee down here and had bribed him to omit portions of your testimony from the record.

(Hearty laughter)

Wash: Getting dirty, all right.

H.M.Jr: Well, old cautious Henry, for your information - I had every single page of that testimony, in its original virginal status, photostated. It's in the safe. Got it, Mac?

Klots: Yes, sir.

H.M.Jr: So - I don't know why I did it; it was my own idea. But I just had a hunch, so as this thing came down in the original state - there's one photostat, it's in the safe. I don't know why, but - I mean I just had it done.

Wash: Well, of course, the original testimony as it went back to the Committee had everything in it, had the scratch-outs and all that sort of thing, the revisions, which is common; but there were no pages deleted, and

H.M.Jr: Well, I mean it's just that kind of thing. Now, as I say, if a man knows that your own crowd is back of you, you've got nothing to worry about.

Yesterday Coughlin attacks poor Bernstein: he's running the Stabilization Fund. Our Scotch friend

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doesn't exist.

Gueston: By the way, that transcript is going to come along.

E.W.Jr: Just for fun, I asked Archie, "Is Bernstein on the Stabilization Fund payroll?" and he's not.

Loonhead: Here's the payroll.

E.W.Jr: I mean it just seems that you don't think about it normally; he was selected by Mr. Oliphant because he was the best man to succeed what's-his-name that went to the Board of Tax Appeals.

Boley: Clarence Upper.

E.W.Jr: And now Bernstein's an international figure. Wonder if he knows it.

Taylor: Probably does by now.

Loonhead: I called Bernstein to find out if he had any of that; he was surprised very much to know.

E.W.Jr: Well, I've sent for a - I know an organization that takes down stenographic notes of the Coughlin speech, and we'll get it tomorrow morning.

"While they say he was terrible on me, they say that what he said about the President makes what he said about me look beautiful. They said he's never been so vicious about the President. And I met with Litvinoff last summer in France and hatched all this out.

Gueston: I don't know whether you noticed this or not, but this is interesting: "Two famous Red-maters ought to get together." Wall says you're favoring the Nazis.

E.W.Jr: I can't get Steve Gibbons to do anything about that either.

Gibbons: No, he's very mild. I was told he's going to ask the President for your resignation, you know. And of course now he says that the Dubinsky crowd in New

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York is urging him on.

A man here in Washington has been to see me several times about this. I discussed it with Harman when he was here. I'd like to see a Gallup poll on this French thing. From the information I've got asking my friends, everybody's with the Administration on these planes. I haven't had anybody who was against the thing yet.

A.A.Jr: Well, I want the first Senator to get up and say publicly that he's opposed to the sale of the planes.

Boley: Here's a letter that poor Bernie just got from Senator Reynolds. He understands he runs the Stabilization Fund; he would like to have him tell him the status of it.

A.A.Jr: Well, Reynolds was over in Germany this summer, wasn't he?

Klots: Yes, he's the fellow.

Boley: Germany. I think he was. He was everywhere.

Weston: Is that letter dated yesterday or Saturday?

A.A.Jr: Ought to get the envelope; it's dated February 4.

Boley: Here's the envelope - February 4, 8:30 p.m.

A.A.Jr: What?

Boley: 8:30 p.m.

Weston: He got that idea before Father Coughlin's speech, which would indicate somebody is passing that story around here in Washington.

Klots: He may have gotten advance information from Coughlin.

A.A.Jr: Well, we're sending that letter up.

I got a letter from Lodge asking me where Barkley got the information from about the \$12,000,000 profit.

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So I called up Barkley and said, "Where did you get it from?"

So he says, "I can't remember."

I said, "My God! Can't remember?"

He said, "No, I can't remember."

I said, "You didn't get it from me."

"No." He says, "Well, am I wrong?"

I said, "No, you weren't wrong, but where did you get it?"

"Well, some fellow told me and I can't remember."

So I said, "Well, now do you want me to answer this letter?"

He said, "You better send me up a copy and I'll take a look at it."

Gaston: Have to be up there 10 o'clock.

H.M.Jr: O.K. Why not show him this?

Gaston: This Reynolds thing?

H.M.Jr: Yes. And don't forget to tell him about the dispatch out of Germany that we destroyed

Gaston: I'll take it with me. (Leaves)

H.M.Jr: I think that's where the stuff is coming from. What state does Reynolds come from?

Klots: North Carolina.

Hanes: North Carolina.

(Hearty laughter)

H.M.Jr: In cabrus.

McR: Johnny's the only one that didn't answer.

Hanes: Don't blame everything from North Carolina on me.

Floetz: That's mean.

Waite: That still leaves the average pretty high.

E.M.Jr: I feel better now, Johnny. You don't mind, do you? O.K.

Mac?

McR: Here's a letter from Senator Gillette transmitting copy of some stuff he got from one of the people over there. Very interesting, and I think you ought to put it in the hands of whoever this foreign group is. There's an American down there who's been head of customs for that country.

E.M.Jr: What does it do?

McR: It's just a discussion of what needs to be done.

E.M.Jr: You think I ought to read it?

McR: I think you ought to.

E.M.Jr: O.K. Anything else?

McR: Nothing.

Duffield: Nothing.

E.M.Jr: Got everybody lined up for tonight?

Duffield: I think so.

E.M.Jr: Now, who gets copies in advance of that thing?

Duffield: Mr. Delano didn't want one, and Mr. Eccles did want one, and he's the only one who has received a copy.

E.M.Jr: He's the only one?

Duffield: You said not to give it to Mr. Hopkins or Mr. Henderson, so I didn't even offer it to them.

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H.M.Jr: Did they ask what the meeting is about?

Duffield: No, I think I told everyone that it was a meeting of the Fiscal and Monetary Advisory Committee, and these people who are not members of it I told you had something that would interest them.

H.M.Jr: Now, the Treasury - 8:30 - you'll be there, and Gaston.

Duffield: Mr. White and Mr. Haas.

H.M.Jr: White and Haas. And did Mr. Eccles say he wanted to bring

Duffield: I think he'll bring Mr. Currie, and I'm not sure whether Mr. Delano will bring - yes, Mr. Ruml will be in town and he'll come.

H.M.Jr: And how about - is Hopkins bringing Thorp?

Duffield: Hopkins is bringing one of his men - I think Thorp.

White: Do you want Lubin?

H.M.Jr: What? Oh yes, ask Lubin.

Duffield: He might not be able to come.

H.M.Jr: Did you invite Nester?

Duffield: No.

H.M.Jr: 8:30, Nester.

Lochhead: There's the copy of the roll, and of course it does not have Bernstein on it.

Gibbons: Nothing except my friend Woll and the floods. I don't know - they haven't gotten anywhere yet, but I asked Waesche this morning.

White: A report on the sales of American securities according to brokers for the period of January, received here Saturday.

H.M.Jr: I'd like to have it. Mr. Lochhead and I have been

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waiting for it.

White: We just received it Saturday.

H.M.Jr: Mr. Lochhead was very much disturbed that he hadn't received it.

White: Well, he passed on the request immediately.

I have here a transcript of the silver hearings for today, and we also have a brief statement and tables ready.

H.M.Jr: Just hold them. I mean I won't do any advance work. I don't want to - what do you call it - use a crib. Is that what you call it?

White: That's what it would be.

H.M.Jr: Yes.

White: I'm calling attention to this because it's a little more significant than most of the cases we have: a new series of dumping cases that apply to Italy and will strike about 20 percent of their imports to us, in which they're granting subsidies. It's gone to the State Department, or as soon as it clears the legal department and Mr. Taylor it will go to the State Department. There's a brief statement of it here. Something new.

H.M.Jr: All right.

Ed, I wish that - if the President has me for lunch today, I'd like a one-page memo so I could bring him up to date on the history of the German dumping thing since we first sent it down. I mean it's going to be terribly hard for me to explain why nothing has happened. I mean that goes back to November, I think; it's hard for me to explain and hard for him to explain. And I just don't - I mean after all we've got a law to carry out and if we don't carry it out I don't know how to explain it.

White: Merely for passing interest, there is a statement in one of the cables that they're contemplating

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price differentials to expedite exports in England. If that should take place, it will make it subject to our duties; be a pretty serious matter. They're merely talking about it; I thought you might be interested.

I notice that the reports on cotton exports - that for December they were the lowest in sixty years.

B.A.Jr: Are you familiar with the German-English coal deal?

Writer: Only superficially, but we can get something up on it.

B.A.Jr: Would you ask the State Department? Say I'd like to have the details on that.

White: (Nods yes)

B.A.Jr: Anything else?

Writer: Here is something else of passing interest. Venezuela has passed a decree enforcing a system of profit-sharing among all her employees. Rather interesting. First Latin American country; first country of any kind.

I have here a balance sheet which was devised by the League of Nations for all governments; like you to look at this some time, because I think if it could be included in the Bulletin it would be very interesting.

B.A.Jr: O.K.

Writer: And it bears on some of the matters that you are thinking about now.

And then I have here a digest and brief comments which one of my men did on a book called "Toward Full Employment." Has a brief summary, then some important digests. Calling it to your attention now only because it likewise deals with matters which you are presently interested in, and also because the authors are four supposedly very successful business men. But lest you think I'm

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giving you just one side, there's some other material which will be forthcoming from other writers, and we're digging that. Presents the other side.

I've got here a memorandum of the analysis of the Johnson Act that we prepared with the legal department some time ago, and there's a good deal of misunderstanding about the powers therein in the light of possible lending now. You might want to glance through it.

S.S.Jr: See where you and I are going to spend an afternoon together.

White: Well, some of this - none of it is very immediately important.

The net capital flow last week was very small: an inflow of a million dollars, as compared with the - for the whole period so far this year, it's about 34 million inflow.

S.S.Jr: What's all?

White: For this year.

S.S.Jr: I see.

White: Then I have here a brief summary of one of - an article that one of the men dug up. It gives a comparison of the British and American revenue and the sources in a very brief and interesting form.

You probably saw a notice of the bill introduced by Lodge requesting you to give complete information on the Stabilization Fund.

Then there's a couple of tables here that give ...

S.S.Jr: Well, Harry, there's no use telling me The thing to do is, first time I have a chance we'll sit down and go over this stuff. How's that?

White: Yes, there's nothing here that has to be

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H.M.Jr: Unless there's something for today.... You're ready for three o'clock this afternoon?

White: On silver?

H.M.Jr: On silver.

White: There's a couple of the chapters of the book by Rogers

H.M.Jr: You're (Duffield) going to take care of those.

Duffield: Yes, I have them.

H.M.Jr: You keep a record of everybody that gets a copy.

Duffield: Yes, sir. If anybody in the Treasury wants them in advance, I've got them. Do you want them, Johnny?

Hanes: What's that?

Duffield: This agenda for tonight.

Hanes: That's that long thing you showed me.

H.M.Jr: It's been approved.

Hanes: I got a copy. George Haas gave me a copy.

H.M.Jr: Keep track of who gets copies.

Foley: I have a statement for Senator Wagner on the Stabilization Fund and the devaluation powers. I think that Archie and Harry ought to look it over. Is there anyone else you'd like to have look it over?

H.M.Jr: Taylor.

Foley: And Wayne.

You (White) haven't initialled this draft.

H.M.Jr: Incidentally, while we're on that, you might have ready for me just what Bernstein's duties are, in case I should need that, you see?

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Foley: Yes.

H.M.Jr: Just what his duties are.

Foley: And then when Herbert comes back I think we'd better decide what we want to do about that letter, the kind of reply that Bernie should make, and so on.

H.M.Jr: Yes.

Foley: He's probably worried about it.

You asked for a copy of the Comptroller General's letter on that Stamford Post Office. Here it is.

H.M.Jr: (Reads letter) That's very good.

Foley: The voucher's cleared, the check's been sent down.

You said you wanted to talk to me about that memorandum at some other time.

H.M.Jr: Yes, I'll send for you this morning.

Foley: All right.

H.M.Jr: O.K.?

Foley: Yes.

H.M.Jr: I'll see you this morning.

Wayne?

Taylor: On Brazil, I think before we have the meeting with Welles it would be well for us to have a discussion here in the Treasury on it.

H.M.Jr: Well, here's the trouble. I agree with you. Here's the trouble. I've got this morning miscellaneous stuff; silver this afternoon; fiscal and monetary this evening. I go on the Hill to testify on silver tomorrow morning and that brings us back.... So what I think I'll have to do is to listen and get what they've got, then simply say, "All right, gentlemen, you've told us what you've agreed on. Now we'll take it, and you give us a couple days, and then we'll answer."

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Taylor: In effect they've done that; they've given us this memorandum, which is not too long.

E.H.Jr: Well, I - it's just physically impossible, and they'll have to come over.... I agree with you I should, but I just can't do it. Now, if you think we ought to postpone the meeting - but I don't like to do that.

Taylor: No, I think you better have the meeting anyhow.

E.H.Jr: Why not let them come over and explain it? I can simply say I haven't had a chance to study this thing; we'll listen, take a couple days and go over it. I mean I just can't - that's my schedule. I'm sorry. You're right, I ought to do it.

Got anything else?

Taylor: (Nods no)

E.H.Jr: There's no reason why you and the people in the Treasury shouldn't be studying it.

Taylor: Well, we've been having a preliminary run on that and we're going to have another one today.

E.H.Jr: Well, I'll have to do my homework publicly.

Foley: Transamerica hearing is resuming this afternoon at two o'clock.

Hass: We went over this program on Social Security, those points which are raised by Altmeyer, with Dr. Brown, and now we're making some revisions in reporting the results of those conversations.

But he asked me to give you this message. He'd like to hear from you as to what two days this week he can come down. He can come down Tuesday, he thought.

E.H.Jr: Tuesday would be terrible. Thursday and Friday would be best, if he could do it.

Hass: Altmeyer thinks that the hearings are moving along much more rapidly than they were, and he felt that you should be prepared by the 13th of February, which is a week from today.

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H.W.Jr: Well, we'll see.

McB: I told Altmeyer - called him about that, told him he'd have to tell the Committee that you'd have to have plenty of notice before you could come down.

H.W.Jr: Plenty of notice. Well, tell Douglas Brown Thursday and Friday.

Reas: Thursday and Friday.

H.W.Jr: And you'll be interested that when I mentioned at Cabinet that Princeton had loaned Douglas Brown and he was coming down, Perkins perked up and said, "Well, I just want to tell you, Mr. President, I signed that report, but lots of things that I don't believe in: financial aspects, and so forth and so on. I signed it, but lots of things in it I don't believe in." Just passing

McB: In other words, the signature doesn't mean anything.

H.W.Jr: Not a darn thing.

All right, George.

Reas: Herbert gave me this Fortune article on that round table on spending. It's the same subject which you're considering tonight, and I read it over the week-end; it's very interesting. Takes up both sides of the question.

H.W.Jr: O.K.

Reas: And here is just your regular staff.

H.W.Jr: Thanks. Anything else?

Reas: That's all.

Banes: I haven't anything. By the way, do you want to take up - want any details on taxes? You don't want to go into tax details, do you?

H.W.Jr: Well, we've got five or six things. Put the thing down. Didn't Tarleau write that part, or Blough?

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White: Blough's staff.

H.M.Jr: I mean whether he should - we ought to have Blough there, you mean?

Hanes: I just wondered if you were going to take up in detail - I don't think

H.M.Jr: No, no.

Hanes: I think it's the wrong time to do it.

H.M.Jr: If you'll stay, I want to talk to you a minute.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE February 6, 1939

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending February 4, 1939.

Conclusions

(1)

While business sentiment remains under the cloud of last week's disturbing developments, somewhat greater optimism has appeared this week after the removal of the more immediate fears regarding European political developments. Stock prices here and abroad have rallied substantially; investment securities have been in strong demand; and several encouraging items of business news have appeared during the week.

(2)

New orders in January showed a rising trend, as was seasonally to be expected. New orders for steel products received during the month, as reported confidentially this week by the U. S. Steel Corporation, proved to have been at an appreciably higher level than that suggested by the Bethlehem Steel Company figures published last week, and apparently justify this week's upturn in steel operations. Textile orders have also been improving.

(3)

A study of payroll and employment trends during the recent recovery seems to indicate that in this period a shift toward a more limited use of labor occurred, thereby reducing both employment and total factory payrolls for a given volume of factory output.

(4)

The trend in business will depend in considerable degree upon the effect of foreign developments on business confidence. No more than a moderate setback seems likely unless the foreign situation should become so critical as to seriously upset confidence here, adversely affecting stock prices and the volume of new orders.

The current situation

Stock market upturns in this country and abroad, following a less warlike Hitler address on Monday than had been feared, together with a strong demand for high grade investment securities, have turned business sentiment somewhat more optimistic. Nevertheless, confidence has undoubtedly been disturbed somewhat by the stock market decline and by the intrusion of European war prospects, which have brought a greater degree of uncertainty into the business outlook.

The January index of industrial production will probably be around 101, in comparison with 104 in December, according to Federal Reserve Board statisticians. Whether or not a further setback will occur in succeeding months will depend upon the trend of new orders, which must show a seasonal increase during February, March, and April to maintain production (seasonally adjusted) at the current level.

The trend of new orders during January, according to data which have just become available, has been more satisfactory than previous data had indicated. The U. S. Steel Corporation reported this week the volume of new orders received so far in January, which show an average level substantially above that previously reported by the Bethlehem Steel Company, and above the current level of operations in the steel industry. (See Chart 1.)

Steel orders received during the past week reached a high for the month at 61 per cent of capacity, which compares with a current operating rate of 52.8 per cent for the industry as a whole. As shown on the chart, the operating rate this week is 1.6 points higher than last week's figure. Last year, a sharp rise in steel orders during January was not sustained, and the rate of steel operations fell off gradually during February. Unless the volume of steel orders should be affected by recent unsettlement in the stock market, the present rising trend of orders would suggest a seasonal increase in steel operations this month.

Secretary Morgenthau - 3

New orders index rises

New orders for textiles also showed an improving tendency during January, and, combined with the increased steel orders, brought a marked upturn in our new orders index. (See Chart 2.) The New York Cotton Exchange Service, in its report of January 23, mentions a definite improvement in the domestic mill situation, resulting from a broadening in the demand for goods and a strengthening in prices. Sales by mills were estimated to be well above current production for the industry as a whole. Print cloths sold in large volume, while unfinished industrial fabrics and finished consumer goods moved more actively.

In Great Britain, on the other hand, mill reports continue unfavorable. Despite heavy curtailment of production, Lancashire mills are having great difficulty in selling their output. Nervousness over the political situation in Europe and uncertainty over the cotton policy of the United States are reported to be discouraging buying of yarn and cloth at Manchester. In France, mill sales of goods are equalling production, manufacturing margins are holding firm, and mills are well sold into April, according to current reports.

Inventories remain low at year end

Our estimate of total inventories of all corporations as of the end of December showed a reduction of 16.6 per cent from those at the end of the previous year. This large reduction was accounted for in part, of course, by a decline in prices. The inventory trend, according to our estimates, has flattened out during the past quarter, and has followed fairly closely the trend of commercial loans. (See Chart 3.)

Tending to confirm our estimate of inventories, the National City Bank of New York reports that published inventories of 100 leading corporations reported during the last quarter of 1938 were 10 per cent smaller than the previous year. Excluding four tobacco companies, whose 1938 stocks were swollen by large crops, the reduction was 15 per cent.

A study made by the Reconstruction Finance Corporation, cited by the National City Bank, indicates that the inventory peak was reached in September 1937. Our estimates, as will be noted on the chart, show a peak in October 1937, slightly above the September figure.

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Factory employment relatively low

Rather definite evidence of a recent shift toward a more limited use of labor in industrial production appears in a tentative study we have made of the trend of payrolls and employment during the 1938 recovery. The complaint heard in recent months that employment has been lagging behind production apparently understates the situation. Actually, factory employment has shown but little increase since September, while production has made rapid gains. Normally there is a lag of about one month between production and employment.

In Chart 4 we compare the trend of factory employment with the production index of the previous month, to allow for the usual lag. It will be noted that the close correspondence in earlier years between the two indexes was replaced last fall by a rather wide divergence, with employment showing but a small increase in comparison with the increase in factory output. The same divergence is shown if comparison is made with factory payrolls rather than employment, which seems to indicate both that fewer men are being employed and that less total wages are being paid for a given volume of industrial production.

The idea has been advanced that the "lag" in employment may have been due to relatively small labor requirements in the industries accounting for the bulk of the fall recovery. Extending the study further, however, shows that this is not the real explanation, since the same tendency toward a more limited use of labor is shown in individual industries. Data for the steel and textile industries, which lead in the volume of employment, are shown in the lower section of Chart 4. The divergence between production and employment in recent months is especially pronounced in the textile industry, which is the largest single source of industrial employment. In the steel industry, it will be noted that a somewhat similar situation developed temporarily in early 1935 and in the summer of 1936, perhaps due to smaller labor requirements in producing the type of steel products that accounted for the bulk of steel activity at that time.

The business outlook

Since industrial production in December reached an approximate balance with demand, some setback or sidewise movement in business is quite possible, pending a further

Secretary Morgenthau - 5

improvement in basic conditions that would justify increased production. When the business curve will again turn up will depend in large degree upon the trend of business confidence, which will influence the volume of new orders. Confidence seems likely to be strongly affected by European developments and by the action of the security markets.

In affecting business sentiment, the recent weakness in stock prices has been counteracted in some degree by a strong demand for high grade securities. Many preferred stocks and high grade industrials moved this week into new high ground for the recovery.

No more than a moderate business setback seems likely unless the situation abroad becomes so disturbing as to lead to a curtailment of new orders, since domestic conditions remain generally favorable for further recovery.

Current business news

The New York Times business index for the week ended January 28 rose .7 point to 92.3. Automobile production showed a substantially more than seasonal gain, electric power production and both carloadings figures were somewhat higher than the previous week, and all other series were slightly lower or unchanged.

For the week ending February 4, preliminary data indicate no appreciable change in the adjusted indexes of steel and automobile production. While automobile output for the week declined 11 per cent to 79,410 units, partly because of storms and delivery difficulties, this was in line with the usual decline in early February. A moderate rise in steel output was also in line with the seasonal trend.

Residential construction awards in 37 States reported by the F. W. Dodge Corporation for the first three weeks of January were highest for that period since 1929. The aggregate of \$50,095,000 exceeded last year's comparable figure by 112 per cent, and was 12 per cent above the relatively high level of January 1937.

Engineering construction awards for the month of January also exceeded those of any other January since 1929, owing to increased awards for public construction projects. On the

Secretary Morgenthau - 6

basis of weekly averages, the January awards were 15 per cent higher than in December, and 64 per cent above those of January 1938. Private awards included in the total were 7.5 per cent above December, but 35.5 per cent below last January.

Exports in December, though smaller than in December 1937, showed a contraseasonal gain of 7 per cent over the November figure due to increased exports of a wide range of manufactured products. The seasonally adjusted index increased to a higher figure than in any of the four preceding months. The adjusted index of imports, on the other hand, declined slightly.

TOTAL STEEL INGOT PRODUCTION AND U.S. STEEL CORPORATION ORDERS
Expressed in Percent of Capacity

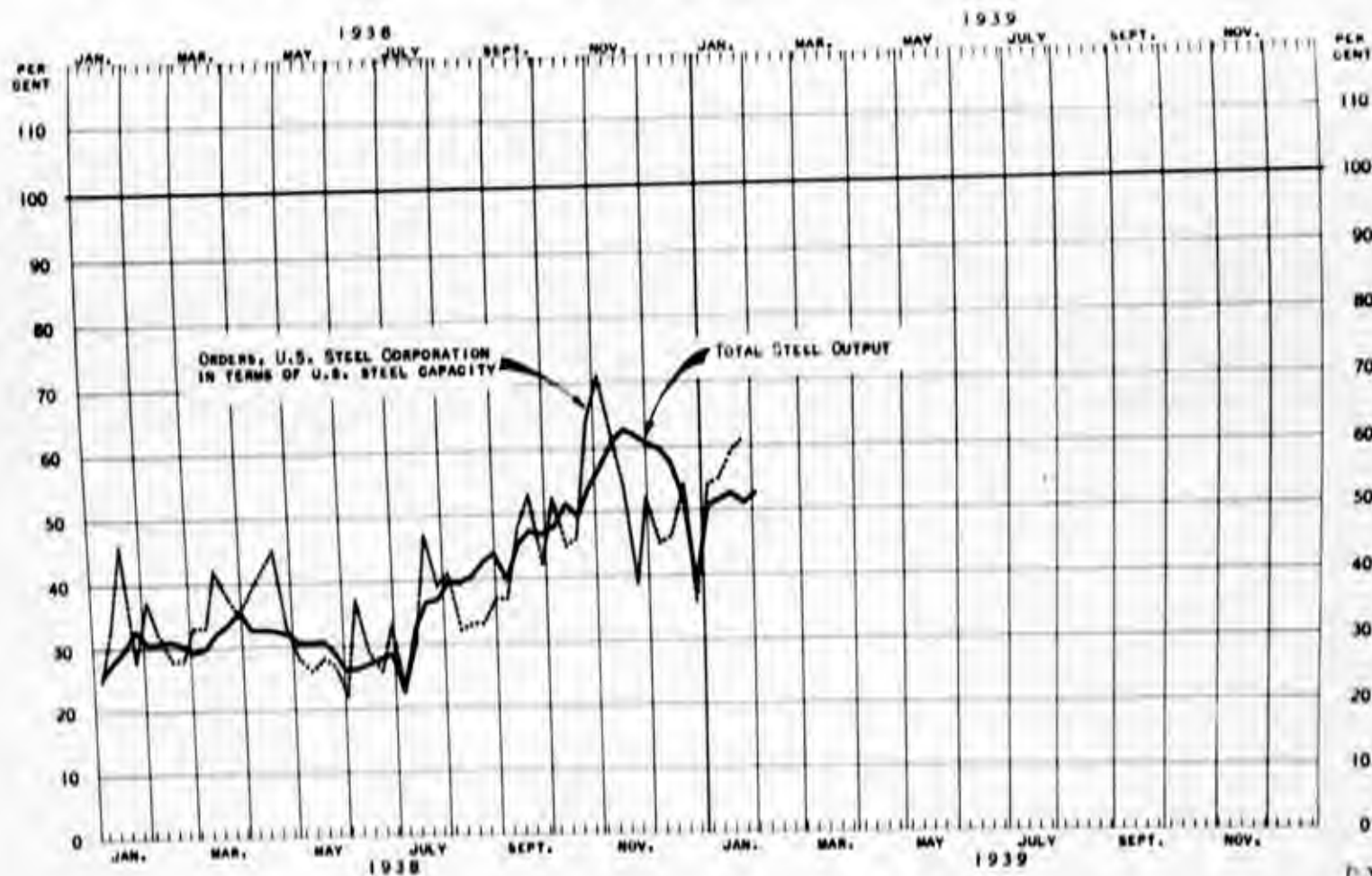
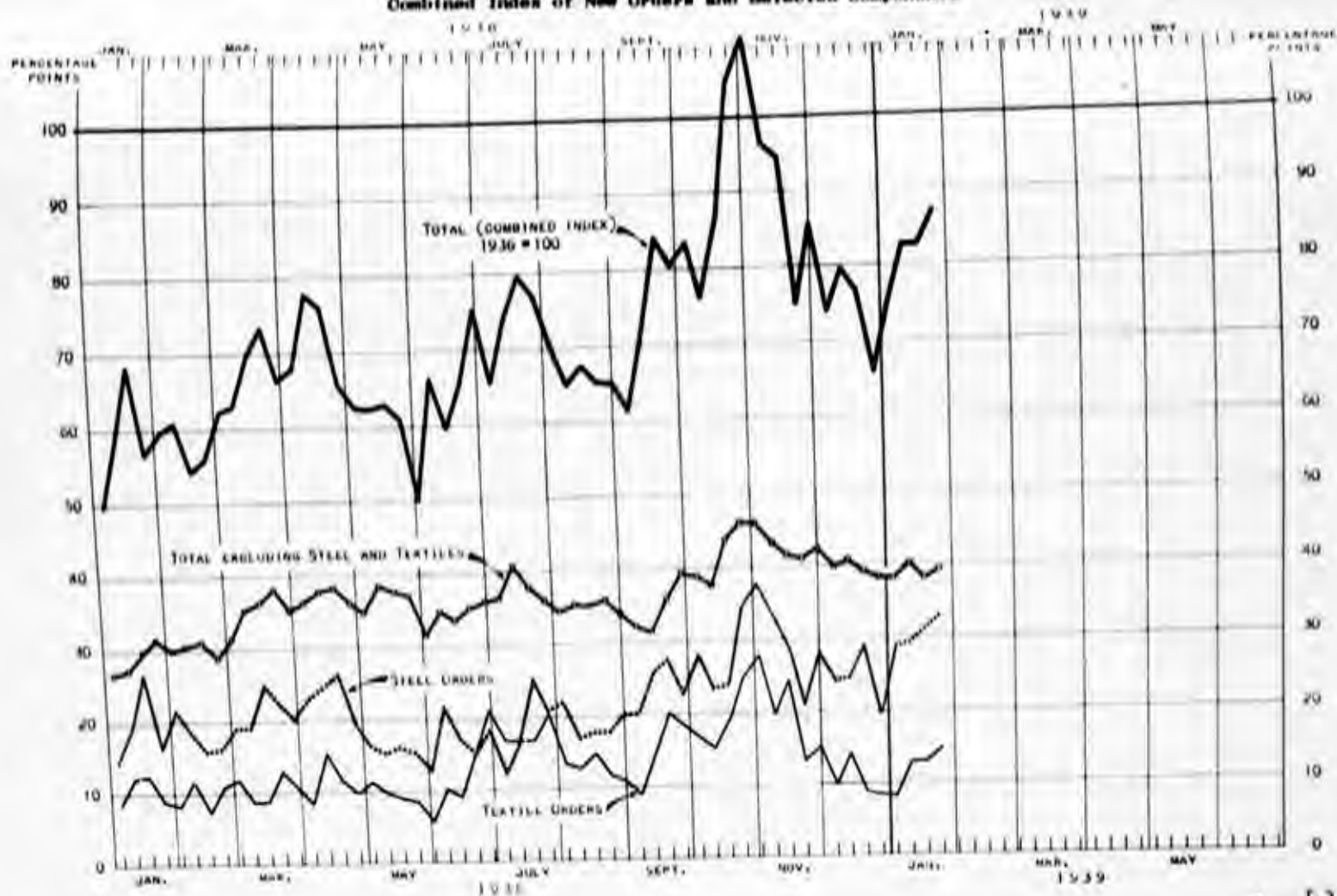
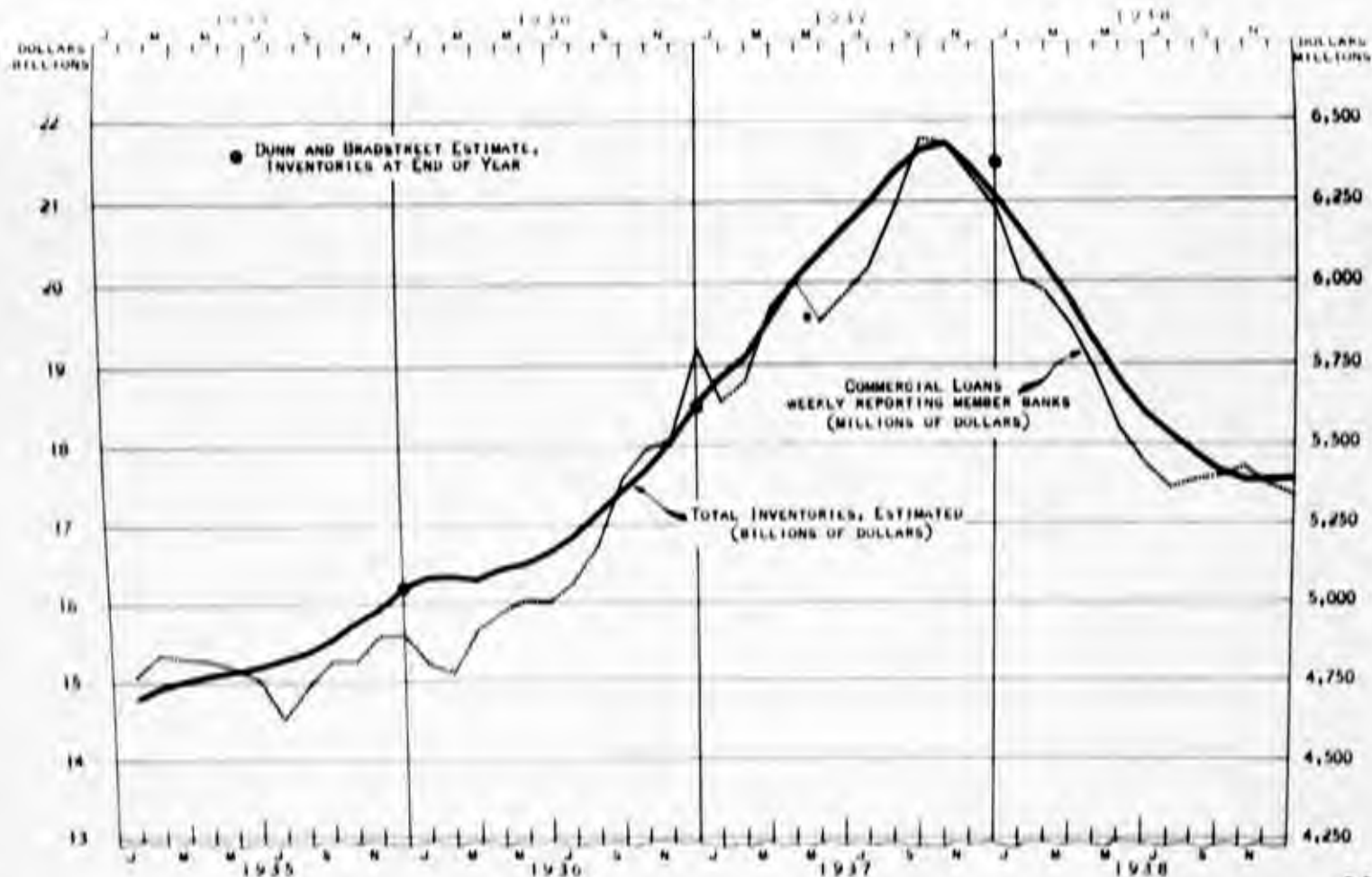


Chart 1
CONFIDENTIAL

INDICUM OF NEW ORDERS Combined Index of New Orders and Selected Components



ESTIMATED CORPORATION INVENTORIES AND COMMERCIAL LOANS At End of Month

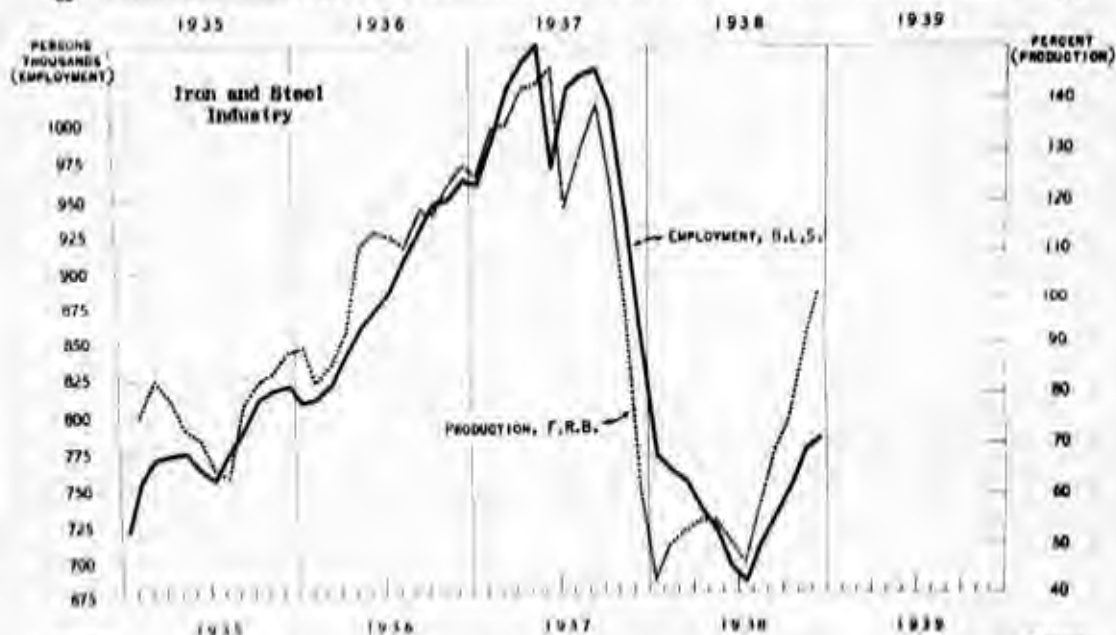
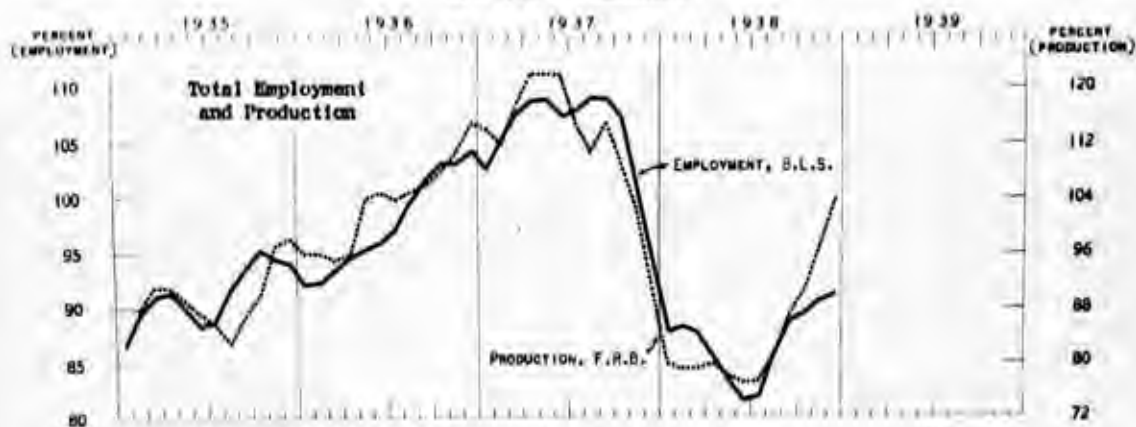


* Contin. in composition of series on commercial loans beginning May 1937

COMPARISON OF EMPLOYMENT AND PRODUCTION

Employment Current Month, Production Previous Month

1923=100 * 100, UNADJUSTED*



*IRON AND STEEL, AND TEXTILES, ACTUAL NUMBER EMPLOYED

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 6, 1939

TO Secretary Morgenthau

FROM W. H. Hadley

Total Interest Cost of \$300 Million R. F. C. NoteIssue during Life of Notes (2 yrs. 11 mos.)

<u>Coupon</u>	<u>Offered Price</u>	<u>Total Interest Cost</u>	<u>Total Saving over 7/8% at 100</u>	<u>Total Saving over 7/8% at 100 1/4</u>
7/8%	100	\$ 7,656,250	-	-
7/8%	100 1/4	6,906,250	\$ 750,000	-
3/4%	100	6,662,500	1,093,750	\$ 343,750

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February 8, 1939.
9:00 a.m.

Mr: Hello.

Operator: Mrs. Klotz just came in. I have Senator Barkley.

Mr: Thank you.

Op: Go ahead.

Mr: Hello.

Alben
Barkley: Hello.

Mr: Alben--

Op: Yeah.

Mr: Henry.

Op: Hello, Henry.

Mr: Are you at your office?

Op: No, I'm at home.

Mr: Well, I hope you don't mind my calling.

Op: No, that's all right.

Mr: Well, this is a letter I got from Senator Lodge. Can I read it to you?

Op: Yeah.

Mr: I want some advice. On page fourteen ten of Congressional Record of February 1, Senator Barkley is quoted as saying, 'I understand the Stabilization Fund is to be used in such a way as to take it profit the American Treasury some twelve million dollars.' End of quote. Would you be so kind as to tell me whether Senator Barkley's understanding is correct, and if so how this profit was realized? Signed, H. C. Lodge, Jr.'

Op: Yeah.

Mr: Now, how would you suggest--

Op: Well, I -- I don't -- of course, I was not guaranteeing the accuracy of my own statement, but I had gotten that impression from somebody.

Mr: Yeah.

- Q: I don't know whether it is correct or not. Is it -- is it approximately true?
- WJR: As far as the truth is concerned, up to January first, it is accurate.
- Q: Yeah.
- WJR: But I don't know -- I don't know who told it to you.
- Q: Well, I don't know either.
- WJR: I imagine you must have gotten it from the President.
- Q: Well, I -- I couldn't say. I don't recall who told me but I -- I got it from somebody who claimed to know.
- WJR: Well your statement is all right.
- Q: Yeah.
- WJR: Now -- how would I answer Lodge?
- Q: Well, --
- WJR: He said, "Would you be so kind as to trouble whether Senator Barkley's understanding is correct?" Well, I can answer--
- Q: You can answer, of course, that -- that part of it.
- WJR: I can simply say, "Yes, Senator Barkley's understanding is correct. Yours truly."
- Q: Yeah.
- WJR: And let it go at that.
- Q: He goes ahead and wants you to explain how it -- how it happened, don't he?
- WJR: Yeah.
- Q: Well, of course, if you do that; if you undertake to do that, why, you -- you'll probably establish a precedent that would make it necessary to explain every operation of the Fund, and I suppose, as I indicated in my little colloquy--
- WJR: Yeah.
- Q: It's a sort of a -- a day-to-day and week-to-week and month-to-month proposition.

WJr: You were good on the Hill. I appreciated what you said.

B: Let me think that over today, and I'll call you later.

WJr: Do you want me to send you up a copy of his letter?

B: Yes, if you would.

WJr: Supposing I sent you a copy of his letter, and then you advise me, because certainly I don't want to do anything which would give him any happiness.

B: No. Well, of course, I recall that you have an executive session with the Banking Committee, heretofore explained, and I think satisfied the Committee that you couldn't make all the operations of this Fund public. That it would defeat the whole object of it, and yet it's rather difficult to say that in a letter that will not be used as -- as an argument against secrecy. Inasmuch as secrecy is the "theme-song" over on the Hill now, I think you have to be a little careful. But you send me a copy of the letter and let me think it over.

WJr: I'll send you a copy of the letter -- to your office?

B: Yeah.

WJr: And you advise me, will you? In the meantime I'll sit still.

B: All right.

WJr: Thank you so much.

B: All right.

WJr: Thank you, Alben.

B: Good bye.

February 6, 1939.
10:35 a.m.

WMJr: Hello.

Operator: Mr. Sproul. Go ahead.

WMJr: Hello.

Allen
Sproul: Good morning, Mr. Secretary.

WMJr: Are you talking to me today?

S: I certainly am.

WMJr: All right.

S: I think you're going to have a good response.

WMJr: Good!

S: You've got a good market to do it in. The people we've talked to this morning think it's all right. Fine.

WMJr: No kick?

S: No.

WMJr: No kick.

S: I think there's going to be a good market and it will go over well.

WMJr: Well, I -- with the international situation the way it is, to only have five or six thirty-seconds above par is too narrow.

S: Well, I think this is better.

WMJr: And, I haven't figured it out in dollars and cents, but I'm having it figured how much difference it makes, adding the quarter.

S: Well, I -- I don't think it makes enough difference to warrant your taking the risk, myself.

WMJr: Well, you do -- you -- you approve what I did?

S: I think it's fine.

WMJr: Oh, you do?

S: Yeah.

WJR: Because on Saturday, the last time I talked to you, you -- I gathered that you didn't like the quarter.

S: No, I -- I like this. I said Saturday that I thought three-quarters would go and I would do it, but I like this and I think it's fine.

WJR: Well, that's good. Well, we'll see. You ought to know by when -- twelve o'clock?

S: Well, we'll have a pretty good idea by then, ~~unless~~ they're slower than usual in coming in.

WJR: Will you call me at twelve?

S: Yeah.

WJR: And give me an indication how it's going.

S: All right, I'll do that.

WJR: I think this is all right, and this -- we can have a drop between now and the fifteenth half a point, and it would still be above par.

S: Absolutely.

WJR: Yeah. Can't afford to let a new issue go below par.

S: Well I think this will go very well.

WJR: All right.

S: I'll call you at twelve.

WJR: I'm glad you're pleased.

S: All right.

WJR: Thank you.

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February 6, 1933.
11:03 a.m.

Operator: Go ahead.

HJr: Hello.

Key
Pittman: Hello, Henry.

HJr: Hello, Key.

P: Say, have you got a mimeographed copy of a release that Senator Townsend let out to the newspapers on the morning of January 23rd entitled "Reply To Inquiries of Correspondents"?

HJr: No.

P: Regarding silver purchase repeal S-765?

HJr: No.

P: Well, I better send it down to you then.

HJr: Better send it down.

P: Because he -- he interviews himself.

HJr: (Laughter)

P: And he's got all kinds of questions and his own answers to them. Of course, I know they're all made up by that fellow Brainer that used to be with the Commerce Department.

HJr: No, I'd like to see them.

P: Yes, because he'll probably ask you himself when you come in and you can have them. Well, I'll send them down to you.

HJr: Thank you, Key.

P: All right.

February 8, 1939.
12:03 p.m.

Operator: Operator.

HWJr: Ah --

S: Sproul.

HWJr: Who?

S: Sproul.

HWJr: Thank you.

S: Go ahead.

HWJr: Hello.

Allen
Sproul: Hello, Mr. Secretary.

HWJr: Talking.

S: We have a hundred and eighty million now.

HWJr: Yeah.

S: With thirty-three; seven of the city banks are in but only one of the big ones. They've all come in for their limit, including the big one, which is in.

HWJr: Which big one is that?

S: That's the City -- National City.

HWJr: I see.

S: They came in for sixty-two million.

HWJr: Yeah.

S: Ah -- he -- has sent to his out-of-town banks a wire suggesting that they go in for the limit.

HWJr: Um-hm.

S: Compared with previous issues at this time on the housing authority issue, we had a hundred and twenty-five million.

HWJr: I see.

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S: And on the July R.F.C. we had two hundred million.

WJr: I see.

S: So we're right about in line with previous issues at this time.

WJr: I see.

S: The market is guessing about a ten percent allotment at the moment.

WJr: I see.

S: Everything is going quietly but well, I should say.

WJr: You'd say it was a success.

S: Yeah.

WJr: You're sure it's a success?

S: I think so.

WJr: What?

S: I think so, without a doubt.

WJr: O. K.

S: All right, I'll let you know later this afternoon.

WJr: Well, I -- I'm going to the White House for lunch. When I come back I'll call you.

S: All right, fine.

WJr: If anything should turn up and soon, let me know right away.

S: Yes, I will.

WJr: Thank you.

February 6, 1959.
12:25 p.m.

Operator: Go ahead.

WMr: Hello.

Jesse
Jones: Hello.

WMr: Jesse?

J: Yeah.

WMr: Henry talking.

J: Yeah.

WMr: The issue seems to be going very nicely.

J: It is!

WMr: Yeah.

J: That's fine.

WMr: And, so far all the bands have taken the limit.

J: Um-hm.

WMr: It's bid a hundred -- a hundred and seventeen thirty-seconds.

J: It's bid a hundred and seventeen?

WMr: Yeah.

J: Well, I think you made a good guess.

WMr: I think for an amateur I did pretty well.

J: What? For an amateur?

WMr: Yeah.

J: What did -- how long before Mac graduates?

WMr: Never, in this job.

J: Or becomes a veteran?

WMr: In this job, never.

J: I think you're a veteran.

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WMJr: Well, I thought you'd like to know it's going --
J: Thank you for calling me.
WMJr: All right.
J: All right, good bye.

February 8, 1932.
3:26 p.m.

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WMJr: Hello.

Operator: Mr. Sproul.

WMJr: Hello.

Allen
Sproul: Hello, Mr. Secretary.

WMJr: How does it look?

S: It looks better all the time.

WMJr: Uh-huh.

S: We have eight hundred million here now.

WMJr: Well, I'd say it was a success.

S: What?

WMJr: I would say it was a success.

S: I think so. There are still some of the banks out which ought to come in for about their limit. Most of them have come in to their limit so far.

WMJr: Uh-huh, and no kicks?

S: No kicks, no.

WMJr: Fine. Even -- I was over there with Jesse Jones to the President and he was kind enough to say that -- that he wanted to give them a few thirty-seconds more than I did, and the President said, "What!"

S: (Laughter)

WMJr: He said, "Yeah." So--

S: Never heard of such a thing.

WMJr: Now Jones is happy.

S: Well, that's fine.

WMJr: All right. Well, thanks for the good work. I'll talk to you about four fifteen or four-thirty.

S: All right.

WMJr: Thank you.

S: Good bye.

February 8, 1939.
8:38 p.m.

HMJr: Hello.

Operator: Mr. Jones. Go ahead.

Jesse
Jones: Hello.

HMJr: Hello, Jesse--

J: Yeah.

HMJr: At three o'clock we had in a billion and sixty-two.

J: A billion sixty-two?

HMJr: Which is the same at the same time as we had for United States Housing.

J: Huh?

HMJr: It's the same amount at the same time, it so happens, as we had at three o'clock two weeks ago for Housing, you know?

J: Is that so?

HMJr: So with your permission I'd like to announce that we're going to close the issue tonight.

J: Will you?

HMJr: Yeah.

J: Fine, thanks.

HMJr: Thank you.

J: I congratulate you again.

HMJr: Well, thanks for the help.

J: Good bye.

February 7, 1939

Dear Mr. President:

Reports obtained on Bernhard Knollenberg at your request indicate that he is a sound and capable lawyer of unquestioned integrity with training of a most unusual kind.

He was educated at Earlham College, Indiana (A.B.) and Harvard University (A.M. 1914, LL.B. 1916). For a period of ten years prior to July 1, 1938, he practiced law in New York City with Lord, Day & Lord, a very reputable firm, and lectured at New York University on tax law. He has done some writing and engaged in extensive research on American history at Yale University, where he has been Librarian since September, last.

Although he is primarily a tax lawyer and is regarded as an able technician in that field, his experience has been diversified, and he is highly regarded by his associates in New York and New Haven as a very likable gentleman and a man of force and vigor. He is about forty-eight years old.

In my opinion Mr. Knollenberg is fully qualified and highly desirable for the position you have in mind.

Sincerely,

Attorney General

The President

The White House

C: Mr. Henry Morgenthau, Jr.,
Secretary of the Treasury
Washington, D.C.

225A

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

FEB 6 - 1939

TO Secretary Morgenthau
FROM Mr. Foley, Acting General Counsel

Re: Senator Reynolds' Request for Information About
the Stabilization Fund.

In the event that Senator Reynolds follows up his last request by asking you for information about the stabilization fund, you may wish to consider an answering letter somewhat along the lines of the annexed draft.

E.N.-71.

Long Case File at 12:15 (2/7/39)

(DRAFT)

My dear Senator:

I wish to acknowledge your letter of February , 1939, asking certain questions about the stabilization fund. The Gold Reserve Act of 1934 provides that the fund should be under the exclusive control of the Secretary of the Treasury, with the approval of the President. It was contemplated, in order that the fund might operate effectively, that its operations should not be made public. However, an annual audit of the fund, as required by the Act, is made and submitted to the President.

In view of the circumstances, I regret that I am unable to supply you with the information which you have requested.

Very truly yours,

Secretary of the Treasury.

February 7, 1939.

Dear Mr. President:

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

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

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

Faithfully yours,

The President,

The White House.

FOR THE PRESS

IMMEDIATE RELEASE

February 16, 1939.

The President, today, accepted "with real regret" the resignation of Wayne C. Taylor as Assistant Secretary of the Treasury. The resignation was accepted to take effect at the close of business on February twenty-eighth. Mr. Taylor's letter of resignation follows:

"Dear Mr. President:

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

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

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

"Faithfully yours,

"WAYNE C. TAYLOR"

In reply, the President said:

"Dear Wayne:

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

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

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

"Very sincerely yours,

"FRANKLIN D. ROOSEVELT"

February 7, 1939

12:05 pm

Present:

Mr. Hanes
Mr. Taylor
Mr. Gaston
Mr. Lochhead
Mr. Foley
Dr. White
Mr. McReynolds
Mrs. Klotz

HM, Jr.: Well, gentlemen, you all missed a good show. Beforehand I said to Senator Pittman, I said, "Of course, you are going to help me out," and he said, "I am very sorry, Henry. I am Chairman. I have to be very judicial. I have to be very judicial." I was not in as much of a cold sweat and my Acting Attorney General (Foley), who had not even read the Silver Purchase Act! (Much laughter among the group in the Secretary's office.) First time he has looked pink today!

Well, we go in there and Pittman introduces evidence after evidence after evidence, which takes 45 minutes. He said, "This will only appear afterward, but I want it in the record."

Then he brings in questions which are the release of Townsend's. He reads the questions, but not the answers and then lets me read them, and the most part was devoted to what he sent down last night, but I didn't know what he wanted me to read. Every time I hesitated somebody would say, "Take your time, Mr. Secretary. Go home and write an answer. Be very careful, Mr. Secretary." They treated me like an old piece of glass 5,000 years old -- afraid I would break. "Take your time, Mr. Secretary. Don't be worried, Mr. Secretary. That's a very good answer, Mr. Secretary." It was the darndest thing. Every time I would stumble, Key Pittman would quickly snap right in. And my God! King said, "As far as the Japanese are concerned, all they did was to

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rob China -- not that I mean it in a derogatory manner."

They had seven bills and Townsend wasn't there. Key told me afterward he decided he would be sick; he could not stand up under the questions that Senator Thomas would give him, "so we had agreement that I would read his questions and Townsend would not show up." So when it came to his bill -- he went through seven bills -- "Now here's Senator Townsend's bill. Number one. But," he said, "Now that he's a member of our Committee, of course we will just table this bill. Of course he is part of the group now." There went Townsend's bill! It's not number one.

I am not exaggerating. I can't make it as funny as it was. It's impossible to make it as funny as it was. I have never been treated so carefully or guarded so or so fearful I would trip! I swear!

And when they took Townsend's bill and said, "Now that he belongs to our group, we will just put it aside. Of course it won't be considered!" And McNary, when I made the statement -- they asked had this been helpful to anybody besides China and Mexico -- I said, Peru, Canada and a few other countries, McNary said, "Do you mean it was harmful to India and China?" I said, "No." He said, "The way you left your answer, the implication was the silver policy was harmful to those countries."

Mrs. Klotz: They only touched on silver?

HM, Jr: Not another thing. They were so afraid -- afterwards I asked Pittman about this Military Committee; why they did not make it public. I am telling them to make it public. He said, "It's a damned good thing we did not buy that plane. When they demonstrated it, it cracked up. It's a good thing the French got it. It was defective. Let them have 100 planes and if it cracks up, it's good for us. I say it's defective. Lucky thing for us the French were in it."

Honestly, I have never been through a morning like this. Now that my Acting Attorney General is an expert on silver, I suppose he's going out and make speeches.

I thought it was such a pleasure to come back and

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laugh, I thought you might like to see me come back in a laughing mood. Has the White House called up?

Mrs. Klotz: No.

HM, Jr: Then I can still laugh! That was quite a show. It's unbelievable!

They did give us eight questions in writing which are kind of tough. He said, "Now the Secretary is a very busy man and members of the Committee are busy. We will try to meet in a few days, but it will be hard to get them together." Pittman said, "I don't think we will ever meet again."

Well, I wanted to tell you some good news. I have been kind of low around here; I thought you would enjoy it.

cOo-cOo

Note: This meeting was called to discuss the agenda for the Brazilian meeting. The first part of the meeting, as below, pertains entirely to conferences between Treasuries. The second part, relating to Brazil, is transcribed separately. February 7, 1939

3 p. m.

Present:

Mr. Welles |
Mr. Collado | State Department
Mr. Briggs |
Dr. Feis |

Mr. Pierson | E. F. C. (Export-Import Bank)

Mr. Taylor
Dr. White
Mr. Lockhead
Mr. Edwards

Dr. Feis: Welles will be late. Do you want to start on the agenda or would you want me to bring up another matter before Brazil?

HM, Jr: Any way you want.

Dr. Feis: It is the resolution we put in down at Lima. Meeting of the Treasuries. Informal meetings. The Pan American communication requested us to ascertain from the various Governments when they want to meet and also to assist, as might be desired in drawing up any preliminary documents or circulars. Have now been asking us for weeks as to whether we can inform as to what we would like to see done at that meeting and suggest date for that meeting, etc.

We have sent them no reply. Last request was a rather urgent one as their Executive Committee is holding a meeting tomorrow. Whether we could give indications before tomorrow. I have been in touch with Wayne on the thing, but we have made no reply.

HM, Jr: Well, I have no suggestions to make.

Dr. Feis: By virtue of our initiative in presenting that resolution, I think there is a very definite responsibility on us to go forward in this thing.

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and the least they are asking of us is an expression that we will attend, of a date that would be acceptable to us. That's the least. Beyond that I guess they would welcome from us any suggestions as to how the thing should be organized -- whether it should have an agenda or not have an agenda; should limit itself to just completely informal meetings of technical representatives with view toward seeing what's in each other's mind, or whether we would want to suggest anything beyond that.

HM, Jr.: The only one I have discussed it with was last Thursday night, at the Army and Navy reception, Mr. A. A. Berle brought it up. Seemed very much interested. I said I have no ideas for any meetings and if he had I would be delighted to receive them. Mr. Hull joined us and overheard the conversation. I have heard nothing from Mr. Berle since last Thursday. He said he could do it in 24 hours.

Dr. Feis: It seems the Department has had a letter over here for several weeks.

(At this point Mr. Welles came in.)

HM, Jr.: Dr. Feis has brought up the question of conference of Treasuries and I said the only thing I knew about it was last Thursday night A. A. Berle mentioned it to me at the White House and I said my mind was entirely dispelled on it and I had no suggestions and, if he did, I would be very glad to receive them. Mr. Hull joined us and Mr. Berle said he could do it in 24 hours, but up to today I have received nothing and I am very sincere about it. I frankly don't know what I, as Secretary of the Treasury of the United States, should discuss. I also said to Mr. Berle that possibly after this meeting with the Brazilian Government we might see our way clearer.

Mr. Welles: Yes.

HM, Jr.: But I appreciate the situation and if it was possible to make it financial experts of the various countries rather than Secretaries of the Treasury, why I would be willing to go along on that, but I think for the United States Government to send its

Secretary of the Treasury down there without a program, I think it's unwise. I frankly have no program.

Mr. Welles: We discussed it. You remember. My feeling has always been that there was never anything in mind except a meeting after an agenda had been agreed upon satisfactory to you and, as I remember the wording of the resolution, it says "Secretaries of Treasury or their representatives".

Dr. Feis: "Representatives of the Treasuries." And there is a fairly clear understanding that this first meeting, at any rate, it will not be Secretaries of the Treasuries. It will be technical. The whole anticipation was it will be that.

HM,Jr: That puts an entirely different light on it. I understood just the opposite. Somebody ...

Dr. Feis: We are on record to that effect.

HM,Jr: Somebody gave me the impression it specifically said "Secretaries of the Treasury".

Dr. Feis: As for the agenda, as far as we said anything, it was to suggest that, at any rate for this first meeting, there should only be very little effort at having an agenda of business. That it should be regarded as merely an opportunity for the interchange of information and discussion of what might be usefully undertaken either in the way of study or future action. That was the whole anticipation.

Mr. Welles: But the suggestion of the Secretary of the Treasury seems to be singularly wise -- that it might be very wise to find out what subjects might be properly taken up after he has had the meeting with Dr. Aranha. Dr. Rowe did speak to me and said he was preparing such a memorandum.

HM,Jr: The way I feel, certainly from my standpoint, what I hope to come out of the meeting with the Brazilian Government is possibly a pattern, at least a pattern which would be a Government policy as relates to financial matters in South and Central America. If we can work out a pattern it will be much easier to go to a place and say, "This is the policy."

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Mr. Welles: I fully agree.

HM, Jr.: But if Mr. Feis says we have to have it tomorrow, if that is so and I have no doubt

Mr. Welles: An answer tomorrow?

Dr. Feis: I did not mean to leave that impression. I meant to indicate the Pan-American Union had been trying to get, for approximately four weeks, to get any kind of answer and we have been trying to get it for weeks, any kind of response from the Treasury as to whether we had any interest in this conference, whether we would attend; when, and any other ideas. They have for the third time said rather urgently, "Our Committee meets tomorrow. Could you give us any indication of what's in your head?"

HM, Jr.: As far as "urgently inquired", I have one communication. I think you sent me a copy of the resolution. I think that's all I got. Is that the right one?

Mr. Taylor: Herbert has spoken to me several times about it and I have not had a good chance to talk to you about it. The delay if any, the whole part of it, is my fault.

HM, Jr.: As far as I know, we have had one communication. We are two Departments. Same Government. Same President. What would you like to do in order to

Mr. Welles: I suggest very earnestly that the matter be left in abeyance until after the Brazilian visit is over and then we can all see more clearly. I don't think that will handicap the Pan-American Union meeting at all.

HM, Jr.: In the meantime, if Dr. Berle or anybody else in the State Department has any constructive suggestions or the Export-Import Bank, I will be more than pleased to see them, because I have no ideas.

Dr. Feis: The resolution reads that this meeting shall be held no later than June 1. Aranha will certainly not be out of the country until March 1. They

ask the Government Departments who plan to attend the meeting. Time left will be short. Personally, I don't anticipate the conversations with Aranha will clarify our policy in the general monetary field and bring us to a point of actual substance of an agenda. Our approach will be to avoid agenda for the first meeting which will accentuate its importance, will give the world the idea that we are going to undertake something in the nature of agreements. I just want to suggest it might be easier, more relaxed, if we definitely gave up the idea of using the June meeting, let us say, for agreement purposes, from the very beginning, keeping it as a meeting for discussion purposes, completely informal, and let that idea begin to arise now. But having said all that, I then agree that to let it go until March is quite possible.

Mr. Welles: If by what you say the Pan-American Union might be informed that this Government has no thought that any formal agreement should be reached at this meeting.

Dr. Feis: Could we give to them that our disposition would still be to attend; that we don't propose to put forward any formal agenda -- something of that sort?

Mr. Welles: I don't see why we have to go that far. Simply indicate that we have not conceived of this first meeting as a meeting more than to negotiate plans for later meetings. Then by March 1 certainly my views and the views of the Secretary of the Treasury will be far more clarified as to what might be taken up for purposes of discussion.

HM, Jr.: Could you add one thing, because you could always change it, but leave them with the impression that as the matter now stands that we will be sending Treasury experts and not the Secretary of the Treasury. Just don't mention me at all. "The United States Government will be ready to send financial experts."

Dr. Feis: That's all anyone could expect.

HM, Jr.: I would not say Treasury, because certainly there will be representatives from the State Department.

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Mr. Welles: I don't anticipate anybody from the State Department would be going.

Mr. Taylor: You can say to your Pan-American Union Committee tomorrow that "As I understand it, we are perfectly agreeable to attending and indicating preferment as to date -- let's say not before such and such a date."

HM, Jr: But the main thing I want to be very, very sure you get over: that there is no thought of sending the Secretary of the Treasury at this time.

Dr. Feis: You are clearly protected on that, Mr. Secretary.

HM, Jr: But you know the resolution specifically mentions Secretary of the Treasury. I would like to look at it. If I am wrong, it's grand.

Dr. Feis: May I say one other word: could it be drafted in the Treasury and sent to us -- the reply to the Pan American Union?

HM, Jr: You people are equipped. If you will do the drafting and get it over here, you will have an answer by 9:30. You have people equipped to do it.

Dr. Feis: If that's the way you want it.

HM, Jr: Or send it to the house tonight for me, but if I get it by 9 tomorrow you will have an answer by 9:30.

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Note: The balance of this meeting is transcribed separately as it had no bearing on the above. It related entirely to discussion of the agenda for the Brazilian visit.

February 7, 1938

HM, Jr called the Attorney General and said, "I want to ask your advice about the radio speech which Father Coughlin made on Sunday. Have you seen it? It was particularly vicious and directed to the President and me. He said that I met Litvinoff and Bullitt when I was in Europe this summer. I saw Bullitt. I have not met Litvinoff since he was here in 1933 and I feel that if I did not make a denial at this time he will refer to it again in his speech this coming Sunday.

"I want to ask your advice because I know that you know him. Do you think that I should say anything and, if so, how would you do it? I would be glad to be guided by you."

The Attorney General said that he would advise that the Secretary make a factual denial. He said that Father Coughlin is an irresponsible person and there is no need saying to him 'if you are interested in the truth', because he is not.

HM, Jr then said, "The interesting thing, as far as I can find out, is that not a single newspaper has printed it. You suggest that I send a copy to Cardinal Mundelein and Archbishop Mooney? My instinct was that I should just make a factual statement. I appreciate the offer, but there are lots of things that I need your help on, but this would be just a factual statement and I do not wish to trouble you."

The Secretary then asked the Attorney General, "Have you had time to look over the proposed release on the special committee to audit all Federal incomes of over \$10,000? The President wants your reaction because that affects judges." The Attorney General said he did look it over and approves it and that he would call Mr. Hanes, but HM, Jr said, "I will save you the trouble. I will tell Johnnie Hanes."

Telephoning Hanes, the Secretary said to him, "I was talking with Frank Murphy about our giving out a statement in answer to Father Coughlin's attack and at the same time I asked him about the release and he said he had looked it over and approved it and likes it."

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44-338

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin
DATE: February 7, 10 a.m., 1933 (received in Dept.
February 8)
NO.: 102

No. 7 FOR TREASURY FROM REATH.

STRICTLY CONFIDENTIAL.

At Brinkmann's invitation I talked with him yesterday at his home but we were interrupted by the arrival of members of the Reichsbank directorium and I was therefore not able to ask him certain questions.

He told me that Schacht's departure was due to the fact that Schacht refused to go along with the government's program, obstructing it instead. The practical consolidation of the Reichsbank with the Economics Ministry was defended by Brinkmann who insisted that under modern conditions it is necessary that the Central Bank be more closely connected with industry and with business. He said he was planning to introduce simplifying improvements in the organization of the Reichsbank and that he was effecting a 40 percent saving in its personnel.

He informed me that he had the complete backing of Hitler and the party for his projects; that he had spent a whole day with the Chancellor at Berchtesgaden, and that

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the Propaganda Ministry was going to work in closest contact with himself and Dr. Funk with respect to economic articles or articles capable of affecting German external economic relations which appear in German publications. Brinkmann said that he personally would write all of the economic articles appearing in the SCHWARTZKORPS, the organ of the S. S., of which he is a member. He does not belong to the S. A. (storm troopers - strictly a party organization/).

As Brinkmann expected in the next few months to obtain 400,000,000 marks in foreign exchange, but was not at liberty to indicate to me where it will come from, he asserted that the foreign exchange position would shortly be fully adequate. As to the source from which any such addition of foreign exchange might be forthcoming to the Reich, I have no good clues. Since trade negotiations are apparently still continuing with Russia, perhaps that country is the source or one of the sources. I may say that I have been informed that last August the Government had 210 million marks in foreign exchange, including the 75 million gold and foreign exchange which is shown in statements of the Reichsbank.

He insisted that Germany would conclude arrangements shortly which would assure her a sufficient petroleum supply

supply from the southern part of Europe. I told Brinkmann that it was my understanding that Rumanian availabilities were insufficient to cover German requirements, whereupon he finally said that oil fields had been discovered in Yugoslavia which would shortly be brought into production and that Germany accordingly would rapidly greatly increase the copper production of Yugoslavia. I am also informed that in Hungary a new field is being brought in.

Brinkmann said he was determined to do his best to restore and develop trade with the United States, although Germany shortly would be able to obtain its minimum essential requirements of certain important raw materials from southern Europe, and that he believed it essential from the standpoint of sound political development, as well as of economic advantage, that there be flourishing commercial relationships across the North Atlantic.

He told me that if a "real" stabilization agreement were concluded among the leading commercial nations and that if Germany at that time had a sufficient gold reserve of foreign exchange, it would devalue the mark to "80 pfennigs" immediately. Without exchange reserves and without a secure monetary agreement, Germany, in devaluing, would only reap disadvantages. He said that Schacht and he both agreed on this point.

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-4-

He was interrupted by the arrival of Reichsbank officials at this point.

Blessing's resignation was practically forced by party opposition, although he insists that Brinkmann inclines to let him stay.

GILBERT

EA:DJW

REB

GRAY

London

Dated February 7, 1939

Rec'd 3:38 p. m.

Secretary of State,
Washington.

178, February 7, 6 p. m.

FOR TREASURY FROM BUTTERNORTH.

One. Unemployment returns published today reveal a sharp increase of 209,000 between December 12 and January 10 bringing the total unemployed above 2,000,000 for the first time since February 1936. The increase was more than seasonal and though affected by severe weather was spread over indoor industries as well as outdoor trades. Unemployment in engineering and the metal goods trades showed increases in spite of accelerated armament activity. A slight improvement on the month in iron and steel left the total unemployment still 17,000 above the figure for a year ago while the weather's stimulus to demand for coal which also reduced the total unemployed on the month still left the figure for that industry over 12,500 above the level of a year ago.

Two.

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Two. The currency and bank notes bill which passed its second reading unopposed in the House of Commons last night is today being discussed in committee stage and will reach the statute book in the very near future, the third reading being pro forma. In introducing the bill the Chancellor of the Exchequer reviewed the purposes and results of the bill much as indicated in my No. 152, February 2, 6 p. m. Two points arising from the speech and the subsequent debate are, however, worth reiterating. (A) With regard to the £95,000,000 profit arising from the revaluation of the Bank of England's gold, Sir John Simon said: "In any ordinary sense that is not a profit. It is rather in the nature of an unrealized capital appreciation which has been there for a long time past but has not received statutory recognition or appeared in the accounts. An unrealized capital appreciation of that character is not appropriate for use as if it were revenue and I am not proposing so to use it". Whether this statement excludes the possibility of any intention to use the "capital appreciation" for capital rearmament purposes at some future date only time will tell. The

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The whole £95,000,000 will not be transferred to the exchange equalization account since the revaluation of the Bank's gold is to be accompanied by a revaluation of the securities in the Issue Department involving a loss of some £9,000,000 and leaving the net profit of the revaluation of the assets in the Issue Department at £86,000,000 which amount will be transferred to the exchange equalization account. The loss resulting from the revaluation of the securities arises out of the fall in prices of government securities. (B) The following quotation from Simon's speech confirms the statements in the second paragraph of my cable referred to above: "to obviate all possibility of misconception let me say that this proposal for weekly revaluations of the assets of the Issue Department at the current price is a change of machinery and has no bearing whatever upon the question of the time or the manner of our ultimate stabilization on gold. We are working an archaic rule in the Issue Department which has led to valuations which were misleading and we are substituting for that valuation a calculation which is right because it meets the actual facts of the situation". When questioned as

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to the intention of the government implied in his phrase "our ultimate stabilization of gold" Simon referred to the monetary policy laid down at the Ottawa Conference and reaffirmed at the World Economic Conference of 1933 and stated that "those declarations continue to stand".

The Financial Secretary to the Treasury in replying to the debate reiterated that "the problem (with regard to the note issue) will be precisely the same as before and the note issue will be exactly equal to the gold held in the Issue Department of the Bank of England at its current value plus the fiduciary note issue. The bill certainly does not give any greater or less elasticity to the Bank in this respect".

Three. Sterling was again strong today and inasmuch as the dollar was kept cheap in Paris the British fund obtained a considerable amount of dollars. There is a good deal of closing out of positions and the general view among exchange dealers is that barring specific adverse developments in the international situation sterling will tend to be strong in the

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immediate future. Gold was fixed at 148 shillings 4 pence and of the 150 bars sold 63 were given by the British fund and 112 were married.

JOHNSON

NPL