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Eccles - memo to
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HM 3

In the statement I presented to you last October I took the position that we could have a really serious depression and that the chances of a "natural" upturn were remote. Events since then have only served to confirm this feeling. There are many deflationary forces at work and it is difficult to find any place apart from Governmental action where an impetus of sufficient magnitude will arise to turn the tide. This view is based on the following line of reasoning:

1. A sustained upturn cannot get under way unless consumer demand stops declining and turns upward.
2. Increased consumer demands can come only (a) through increased consumer borrowing, or (b) through increased capital expenditures, or (c) increased Governmental expenditures.
3. Consumer debt is being liquidated rather than increased on balance. The prospects for automobile sales are black and the payments out of current income for last year's cars will be a deflationary factor operating throughout the year. Housing costs have declined very little in comparison with the shrinkage of consumer incomes.
4. With excess capacity increasing daily and profits dwindling capital expenditures will continue to decline and will not increase until after a considerable expansion of consumer demand has taken place.
5. The situation abroad is worsening and a decline in our exports is to be anticipated.

6. Stock market prices are discounting a spring rise in business.
If it does not materialize stock prices can go much lower
and this will have bad psychological repercussions.
7. Inventories are still generally high in relation to current
sales trends. The process of reducing inventories is defla-
tionary.
8. As inventories decline bank loans will be paid off, and this will
result in a continued decline of deposits.
9. The proposed virtual repeal of the undistributed profits tax
will be conducive to a deflationary hoarding of funds by
corporations.
10. The Federal Government is making a negligible contribution to
community buying power in comparison with 1934-1935.

In short, we appear to be launched on a severe depression of consider-
able duration. If this is allowed to happen the New Deal and all it
stands for is in danger of being discredited. Alibis will not be accepted.
The only final test of success is success. Big business is utilizing
the opportunity to drive for repeal and inaction. Actually it will not go
ahead until orders materialize from consumers. The lessons of 1929-32
in this respect must not be forgotten.

The conciliatory attitude adopted by the Administration has borne
no fruits either in dollar terms or in goodwill. By the nature of the

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case leadership can come neither from business nor from Congress. It is the responsibility of the Administration.

The greatest threat to democracy today lies in the growing conviction that it cannot work. The growing strength of Fascism lies in its strong leadership. Democracy must likewise have strong leadership if it is to meet the challenge of Fascism. I urge that you provide the democratic leadership that will make our system function. Only in that way can the growing threat of Fascism be overcome.

Congress should be provided with a reflation program now. To permit it to adjourn without adopting vigorous remedial measures is to waste precious time and to court the dangers of a 1931-32 winter. The stresses and strains, frictions and conflicts that would result from another year of deepening depression would make our system even more difficult to work in the future.

There is, in my opinion, nothing to lose and much to gain politically by your sponsorship of such a program. If rejected by Congress your supporters will have a fighting program to go to the country on. If passed, the resulting upswing can be credited to your aggressive leadership. You have always been stronger on the offensive than on the defensive. The recent policy of comparative inaction has, to be frank, been harmful to the morale of your adherents, both within and outside the Administration. It has given a new lease of life to the reactionaries. They see both you and the New Deal discredited.

Douglas memo to FDR
1/29

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

OFFICE OF THE CHAIRMAN

January 29, 1938

MEMORANDUM TO: THE PRESIDENT

FROM: WILLIAM O. DOUGLAS, CHAIRMAN

RE: Financial Problems of Small Business

The memorandum of January 5, 1938, from Lyle T. Alverson, a copy of which I attach, raises some points on which I should like to make some comments of my own.

In the first place, I am not in complete accord with his analysis of the causes for the closure of the capital markets, although I do agree that there are real difficulties standing in the way of their automatic reopening. I do not think, however, that the Securities and Exchange Commission or the registration requirements of the Securities Act of 1933 are any more than minor secondary factors in impeding the flow of capital to industry. The real causes are more basic, and as far as the difficulties of small companies are concerned, they existed even before 1929. The growth of such enterprises has, in general, been due either to the reinvestment of earnings or to funds obtained from a limited circle of personal acquaintances or from local investors, rather than from funds obtained through the normal investment banking machinery. Furthermore, quite a considerable number of issues of small or new enterprises have been registered under the Securities Act and attempts have been made by underwriters, distributors and issuers to sell them. Such attempts have, in general, met with poor response. But this is certainly not a result of the Securities Act. Whatever may or may not be the contributing influence of the Securities Act, it is my confident belief that even though that entire Act were scrapped, we would have the same (and even a worse) situation in the capital markets as we have today.

In the second place, I do not agree with the specific remedies proposed by Mr. Alverson. But I do think that some steps supplementing the existent mechanism and the archaic investment banking machinery are necessary.

2.

These conclusions of mine are based on the study and observation which we have been making of the problems of small industries during the last six months. There is lack of unanimity as to causes and remedies. As you know, we have at the present time some such facilities. Section 5d of the Reconstruction Finance Corporation Act authorizes the Corporation to make loans to any industrial or commercial business "when credit at prevailing bank rates for the character of loans applied for is not otherwise available at banks". And Section 13b of the Federal Reserve Act, as amended, authorizes the Federal Reserve banks to make working capital loans to established industrial and commercial business which are "unable to obtain requisite financial assistance on a reasonable basis from the usual sources", and to discount for or purchase from other financial institutions up to 80% of loans of that type made by such financial institutions. I do not believe that the loans so made have been extensive nor of major significance.

I feel that a broader base for federal government activity in this field is necessary. It is necessary from the viewpoint of the health and vitality of small business--the backbone of the country. It is desirable as perhaps the cheapest way to alleviate the problems of unemployment and relief.

Accordingly, I recommend that consideration be given to setting up, preferably under the Reconstruction Finance Corporation, a system of industrial banks to service the capital requirements of legitimate small business. I have not endeavored to work out refinements or detail. Such industrial banks might be wholly financed by the government through purchase by the Reconstruction Finance Corporation of their stock; or they might be partially financed by such method, additional capital being furnished the banks by sale of their debentures to the public.

To be sure, this introduces a venturesome element not heretofore present in the government's lending and financing policies. But in my judgment the exigencies of the situation justify it.

un o sample

Edgar Allan Poe
9 7

C O P Y

A principal reason why business is not good, why unemployment continues and why monopoly persists, is that new capital is substantially unavailable. Men desire to do business, opportunities abound, ambition is powerful, and any present "fear" is more the effect than the cause of slow business.

Short-term credit is readily available for any business that deserves it. Mortgage or long-term money is available for well-established businesses. But substantially no where is capital money available for new or small or medium-sized businesses. Entrepreneurs cannot begin new businesses, and growth of small and medium-sized businesses cannot be financed except from earnings. Thus, enterprise is defeated. Thus, established businesses are no longer subject to newcomers' competition; they compete, if at all, only with themselves, and monopoly thrives.

In large part, the farm problem is the obverse of these facts.

A prime cause for this situation in all probability is the S. E. C. In ending stock selling evils, we have substantially ended all stock selling. To protect investors in new stocks and new bonds from thievery, we have made it almost impossible to buy new stocks and new bonds. Thus, the amount of capital money available for new or small or medium-sized businesses is relatively a very small sum. Whereas formerly a great sum was stolen annually from innocent persons by rascals engaged in "investment banking" and in stock and bond selling, nevertheless a great sum also formerly went to new, and to small and medium-sized businesses as a result of such activities, bad as they were. Though the price of progress was high; progress was made.

The problem now is, how to retain the benefits of the S. E. C. and overcome these difficulties. I submit that so long as the present laws and rules obtain, practically no capital money will be available to small businesses or new businesses. One need only examine, even superficially, one registration statement and one

(2)

C O P Y

prospectus on file with the S. E. C. to know why that is true. The cost, the skill, the labor, the risk, the entire atmosphere of "err at your peril" - these things are enormous in the average S. E. C. registration statement. Dry logic, as to what in reason should be the effect of these things, is not germane. The fact is that men are deterred from the business of raising new capital. Proof of that fact is that few, indeed, hardly any, campaigns to sell new and untried securities are begun. Yet there are thousands of honest men who wish capital for legitimate business attempts, there are thousands of honest men who could sell their securities ethically, and there are millions of dollars available for such investment.

Either the rules of the S. E. C. (and perhaps the statute under which it operates) must be revised so as to achieve real simplicity, or new mediums of procuring business capital must be provided. In all probability both should be done. The first job must be done by the S. E. C. itself, under Administration direction to accomplish the end sought. The second job requires new policies under appropriate statutory authority.

How to provide new mediums for raising capital? Two methods are suggested: (a) provide for formation of private finance corporations to operate under S. E. C. license, and according to rules designed to avoid all unethical practices, with limited salaries and profits, whose issues would be exempt from S. E. C. registration; operating capital to be supplied in part by R. F. C.; (b) the R. F. C. to extend its activities through a subsidiary corporation, to include the public sale of securities, the proceeds of which are to be loaned or invested in American business. Such securities would be exempt from S. E. C. registration.

As to (a): Such finance corporations would resemble the corporations provided for under the National Housing Act. Perhaps they would be subject to the same inhibitions that have prevented the organization of such corporations.

(3)

C O P Y

But at least the business of recovery would be no less advanced for the attempt so to proceed.

As to (b): Undoubtedly securities could be sold, without Government guarantee by an organization affiliated with the R. F. C., wherewith to provide capital funds for American business. Undoubtedly so to do would have an immediate reviving effect on business. Undoubtedly so to do would be a complex job, fraught with tremendous responsibility, and would represent a new venture for American government. It could, however, be done, satisfactorily and successfully, by the use of R. F. C. machinery and personnel now available. The times call for dramatic and novel effort, guided by honest and able intellects. Having asserted the authority to restrict and regulate private finance, we should not shrink from the responsibility to provide it when it is not otherwise available.

The objections to such procedure would be two-fold. First, the claim that government agencies would be morally responsible for the safety of the securities offered, though they were not guaranteed. Second, that the venture would be unfair competition with private business entitled to the field by precedent and tradition. As to the first objection, proper public relations would bring out the fact, and make it unmistakable, that no guarantee obtained except against dishonesty, waste and inordinate underwriting fees. Each issue would be negotiated and sold separately and would stand according to its own merits. Some would succeed and some would fail. That is the history of American business. Investors deserve no better fate than the business in which they invest; investors, generally, know that and expect no more. But they do expect, and they should have the opportunity, to share in and bring about production of more and better goods, and thus to improve the economic condition of American society.

(4)

C O P Y

I would further propose that this effort be made self-supporting, and that investment losses be minimized, by the levy of a special excise tax of, say 1% on the gross receipts of activities financed by such loans or investments. Such funds would be allocated (a) to the operating cost of the R. F. C. organization engaged in this business and (b) to an insurance fund for the protection of unfortunate investments.

The final objection would be from entrenched monopolistic interests who naturally find the present situation, i.e., no competition from newcomers, perfectly desirable. These objections should receive little weight.

Douglas memo to FDR
2/28

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H M

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

VICE OF THE CHAIRMAN

February 28, 1938

MEMORANDUM

To : The President
From : William O. Douglas
Re : Financial Problems of Small Business

In my memorandum to you dated January 29, 1938, I suggested the desirability of setting up a system of industrial banks to service the capital requirements of legitimate small business.

Recently I have had occasion to discuss the general idea with John H. Fahey of Home Owners Loan Corporation. I found that his mind had been working along substantially the same lines as mine, on the basis of his experience under Home Owners Loan Corporation and of his knowledge of the needs of small business in New England.

I wanted you to know of Mr. Fahey's interest and my feeling that he would be of value in working out the details of the idea should you want to explore it further.

Wm O Douglas

Douglas memo to FDR
3/1

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

March 1, 1938

VICE OF THE CHAIRMAN

MEMORANDUM TO: THE PRESIDENT
FROM: WILLIAM O. DOUGLAS, CHAIRMAN

Re: Capital Markets

In my memorandum to you of January 29, 1938, I suggested the desirability of setting up a system of industrial banks to service the capital requirements of legitimate small business.

There are other important functions which such industrial banks might serve. They are of great importance, in my judgment, to the whole problem of the capital markets and to the welfare of our economy.

1. These industrial banks would be designed to service all business, not just small business. They could not only make loans but, more important, they could buy preferred and even common stocks. In addition, they could underwrite securities of issuers.
2. Though empowered to engage in underwriting, they should not become distributors. Normal investment banking machinery could be employed for that purpose. The industrial banks would be restricted to pure underwriting, in the English sense.
3. These banks would be permanent agencies, not mere emergency ones.
4. The stock of these banks would be subscribed for by the Federal Government (e.g. by the RFC); their debentures would be sold to the public, to Federal Reserve Banks, etc. The government would always retain control of them; those who had invested in them might be given representation on the board.

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5. These industrial banks could perform the following important functions:

(a) There has been an inadequate supply of capital in the underwriting business. They would furnish an adequate amount of capital necessary for the task which lies ahead.

(b) Industrial banks operating in the various regions of the country could work cooperatively with investment bankers in those regions in underwriting offerings of issuers whose principal place of business is in those respective regions or in otherwise servicing issuers.

(c) These industrial banks could displace the Morgan influence in the various regions and supply a new and enlightened leadership in the business.

(d) These banks could decentralize financial and industrial control. They could move that control from New York City back home where it belongs.

(e) These banks could do more than anything else to develop the United States regionally. Thus the bank in the middle west, the one in the south, the one on the west coast, etc. would be restricted in their operations to development of their respective regions.

6. Such a program would have enormous public support, outside of New York City. It should be popular with each region as it would point the way towards the development of each section of the country. It should therefore receive great sectional support.

Wm O Wampler

GROUP MEETING

March 1, 1938.
9:30 a.m.

Present: Mr. Magill
Mr. Oliphant
Mr. Gaston
Mr. Bell
Mr. Haas
Mr. McReynolds
Mr. Upham
Mr. Lochhead
Mr. Gibbons
Mr. Viner

H.M.Jr: Yes sir!

Magill: Mr. Doughton called up at home last night feeling very much bothered, wished me to go into a huddle with himself and Mr. Vinson. It seems when they went to the Speaker, who arranged the time for the debate on the tax bill, the Speaker and the majority leader advised them that the President wasn't at all happy about this tax bill, on the ground that it wouldn't yield within 40 or 50 million dollars of the present law.

H.M.Jr: where does the President get that?

Magill: I don't know, but Mr. Doughton was well up in the air, thinking that you or I or somebody had been shooting behind his back and this, that and the other thing.

H.M.Jr: As a matter of fact

Magill: I said I didn't know anything about it.

H.M.Jr: ... for your information, I had lunch with the President, and with the exception of that one little good story which I told him, we never discussed the tax bill, and he never told me what he said to them.

Magill: That's what I told him.

H.M.Jr: I haven't discussed it with him. In fact, I never discussed the thing with him at all. He never asked me - didn't ask me whether we get more or less revenue; hasn't for some time.

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Magill: I told him I hadn't seen the President since the last time we were there all together.

H.M.Jr: I wish you'd tell that to Doughton.

Magill: I will. I don't know where he got his figures, but he didn't get them from us.

H.M.Jr: What?

Magill: I told him that myself, assumed that you

H.M.Jr: What's going to happen?

Magill: I don't know.

H.M.Jr: I think if you ask him - I don't even know whether the bill is going to produce more or less.

Magill: I think the chances are it's one of those rumors that gets switched around as it moves along.

H.M.Jr: What are they going to do about the tax bill?

Magill: Well, the Democrats are going to meet again this morning, or some assortment of them. They have three baskets of Democrats, or some such a matter, and I don't know just the - I think it's the third basket that's meeting today to consider the report. The theory is the bill will be reported tomorrow. Everybody gets a chance to read the report all day long, and they're going to start debating on Thursday.

H.M.Jr: I see.

Magill: Pass it this week, is the plan.

H.M.Jr: According to the paper - are they changing the inter-corporate dividend tax?

Magill: No, except as the framework of it - the different framework of this bill requires them to change the framework of the credit; but the allowance, as I get it, is as nearly the same as they can make it under the revised plan for taxing corporations.

(Gaston hands Secretary newspaper clipping)

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Magill: What's that, something by Duffield? Haven't seen that.

H.M.Jr: Yes.

Gaston: He got it from Parker.

Magill: He's been very much disturbed. He went off the deep end a few weeks ago and got himself completely twisted on the subject. Now he's trying to get back to shore. I don't know whether he's succeeded or not. I haven't read that article.

H.M.Jr: Well, anything else?

Magill: No.

H.M.Jr: I don't know whether this has anything to do with what you two gentlemen are studying - "Court Upholds Income Tax on Quasi State Workers."

Magill: It's a help.

H.M.Jr: What?

Magill: It's a help. I haven't seen the opinion yet, which may be

I notice another tax-exempt amendment has been introduced, which seems to indicate the boys are getting a little more interested.

H.M.Jr: Anything else?

Magill: That's all.

Oliphant: I had a caller, a distinguished caller, in the person of Governor McNutt, who was in on a problem connected with income tax in the Philippine Islands. Came down, introduced him to the Under Secretary.

Magill: He introduced himself to the ticker, I see, afterwards.

Oliphant: Did he?

Magill: Yes. Former classmate of yours, isn't he?

Oliphant: No, he graduated a year after I did at Indiana. He's a trustee of the University, may be President of the

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University if he's not President of the United States. They're holding that job open for him.

Gibbons: You know what they say about him out in Indiana: "The teacher who never taught, the soldier who never fought, the lawyer who never tried a case."

Oliphant: Didn't even make a speech, Steve. Grand orator.

Magill: Got a fine figure, Steve. That's all you need.

Bell: Get the ladies' votes.

Magill: Huh?

Bell: Get the ladies' votes.

Magill: Oh, sure.

H.M.Jr: Anything else?

Oliphant: (Nods nothing)

H.M.Jr: Herbert?

Gaston: Comptroller came in.

H.M.Jr: Who?

Gaston: Mr. O'Connor came in to see me yesterday along with Mr. Diggs and one of his men named Robertson, and presented me 29 galley-proofs of a book they propose to issue under the title "Banks Under Roosevelt." And I find that at this dinner the other night they announced the forthcoming publication of the book under that title.

It seems to me that if it is published as an official document by the office of the Comptroller, it is in very bad taste indeed, and I don't know just what responsibility I ought to assume in connection with it. It undertakes to tell the story of the banking crisis, but from the standpoint of the office of the Comptroller of the Currency. And I don't know what plan of distribution they have or whether they intend to publish it on Comptroller's funds.

McR: They couldn't.

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H.M.Jr: Well, you better go into it, Herbert, because if it's not right it will only rebound on this office.

Gaston: Yes.

H.M.Jr: You better go into it, Herbert. I mean you can't duck it.

Gaston: All right.

H.M.Jr: Huh? You can't duck it.

Gaston: Of course, if anybody's going to undertake to tell the whole story of the banking crisis in an official publication, it ought not to be left just to the Comptroller's office to do it.

H.M.Jr: Well, I don't think you can duck it. I mean you better go into it further.

Gaston: Yes, yes.

McR: They have no authority to publish that sort of a thing as an official publication.

H.M.Jr: Well, isn't this part of the program to glorify O'Connor?

Gaston: Why, sure, it's campaign propaganda for O'Connor's candidacy for Governor.

H.M.Jr: Well, you better go into it further.

Gaston: If it's a purely private venture, why, of course, there's nothing that we need to say about it, I suppose.

H.M.Jr: Well, will you find out more about it?

Gaston: Yes.

H.M.Jr: Anything else?

Gaston: No, I don't think so.

H.M.Jr: George?

Heas: I haven't got anything particularly. We had that meeting, as you know.

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H.M.Jr: Talk a little louder.

Haas: I haven't got anything particularly new. We had that meeting, as you know, yesterday, and I think we're making some progress; but it's in the early stages of a very difficult situation. Walker is getting us some interesting material. He's taking three different types of houses and he's working up the materials that go into the house, so we can select those particular prices - to limit or confine our study somewhat.

H.M.Jr: You giving him plenty of help? He can't do it alone, can he?

Haas: Oh, he's called his own men. They're doing it.

H.M.Jr: In Chicago?

Haas: No, there's some - New Jersey is one spot he called.

H.M.Jr: I see.

Haas: They're doing it up for him.

H.M.Jr: I see.

Haas: We'll give him any help that he needs.

And you know there were three committees that you designated at this last meeting.

H.M.Jr: Yes.

Haas: Hinrichs doesn't want to serve as chairman of that price committee. That's the committee that brings in State Department, Federal Trade Commission, and Tariff. So I asked Harry if he wouldn't assume the chairmanship of that.

H.M.Jr: Wouldn't Lubin take that?

Haas: Lubin wasn't there. But I think not. If Hinrichs wouldn't take it, certainly Lubin wouldn't take it. But it would be desirable if he would.

H.M.Jr: You might ask him.

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Haas: Anyway, Harry is pinch-hitting in the thing. That's one of the - it's a little more easy for somebody here to handle it, because they're dealing with State, Tariff - Harry's over in State anyway.

H.M.Jr: He's on that committee.

Haas: Yes, he works with those people all the time. So I think that's a good solution.

H.M.Jr: What else?

Haas: That's all. They're coming in at three o'clock.

H.M.Jr: Developing any of these rackets?

Haas: Yes. I asked Blaisdell, who is chairman of that committee, if by three o'clock he could class any of these different rackets so he could give you more of a concrete picture with regard to them. He said he could do that by three o'clock. Yes, they've got rackets galore; that's the trouble.

H.M.Jr: What?

Haas: They've got the Federal Trade - he had a file that high of complaints that have been filed in the building racket. Reynolds is also compiling another whole set of them. So they've got - they seem to have plenty of rackets. But how to get at them or how to improve the situation

H.M.Jr: Is Foley sitting with you?

Haas: Yes, sir.

H.M.Jr: What else, George?

Haas: That's all.

H.M.Jr: I called up Secretary Wallace today and asked him whether he wouldn't release those figures on benefit payments from now until the first of July. I thought it would be helpful. He's going to pay out 350 million dollars from now until the first of July. Why not let the public know it? He said he'd look into it.

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Gibbons: Nothing except that

H.M.Jr: I can't hear.

Gibbons: Jim Farley called me and said this fellow from Jersey, the Collector of Internal Revenue, is still in Florida and he'd be back here on Thursday; and asked if I could hold - wanted to talk to the President before he suggested any other name.

H.M.Jr: Who does?

Gibbons: Jim. So I said that four or five days more wouldn't make - ~~about~~ about two weeks.

H.M.Jr: Well, he isn't trying to oppose ...

Gibbons: No, no. But he has something in mind, said he'd like to talk to you and to the President. I said "O.K."

H.M.Jr: What else?

Gibbons: That's all.

McR: That's about a successor to Kelly?

Gibbons: Yes, and it's just about two weeks - I went up there on the 12th, so that four or five days wouldn't make any difference.

H.M.Jr: Dan - I don't think I've got it here; I think at home I left it - this letter from the President that Straus - exchange of letters between the President and Straus, and for us to go over it - for you and me to go over it.

Bell: I don't think so. I don't recall it.

H.M.Jr: He said in a foot-note "Copy of this correspondence to Bell."

Bell: It may be - when did you get it, yesterday?

H.M.Jr: Yes.

Bell: It may be on my desk in Budget. I'll look this morning.

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H.M.Jr: Look, because I imagine the President will be calling us. I didn't have a chance to read it, but I - if you haven't got it, I'll send home for mine.

Bell: All right, I'll look it up this morning.

H.M.Jr: I'd like to go over it with you. Would you come back this morning later and talk to me?

Bell: Surely.

H.M.Jr: 11 o'clock?

Bell: I think so.

H.M.Jr: Or is that in the middle of a hearing?

Bell: I don't think so. Tentatively.

H.M.Jr: What?

Bell: I'll check it when I get around there. I don't think I have any appointments this morning.

H.M.Jr: When you come back - something to do with Straus's housing, spending his money, and the President doesn't want to sign the letter until you and I have read it.

Bell: I'll look into it this morning.

H.M.Jr: Straus didn't say anything to me about it.

You got anything else?

Bell: I'd like to

H.M.Jr: I don't know whether I don't hear well, or

Bell: I'd like to know if the Treasury took definite action on sending the Coast Guard to those islands down there.

H.M.Jr: We did.

Bell: Pacific.

H.M.Jr: Yes.

Bell: You have?

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H.M.Jr: I did.

Bell: I see.

H.M.Jr: Why?

Bell: I have an Executive Order on my desk. It is to be released about the time they arrive. And I just wondered if that order had been given, because the other day in the hearing here - in the staff meeting, you raised the question.

H.M.Jr: I didn't until I got a direct order from the White House. Then I talked with Mr. Hull and Mr. Ickes. They all concurred.

Bell: I see. All right, I'll let the Executive Order go along.

H.M.Jr: But it came direct from the White House 24 hours later. I called Waesche myself.

Gibbons: Right after you called Waesche, Dr. Gruening called me and said his man was on the long-distance phone. I said, "I don't know anything about it." Then I called you. You had gone. I called Waesche.

H.M.Jr: I didn't have time - I mean I was going - but I waited until I got the order.

Gibbons: Yes.

Bell: That's all I have.

H.M.Jr: Now, that gold we put through Saturday - when does that show up, Dan?

Bell: Show up in tomorrow's - see, Saturday's statement will come out today.

H.M.Jr: This afternoon?

Bell: No, this morning.

H.M.Jr: Probably isn't out yet.

Bell: I don't know. No, I haven't got it.

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H.M.Jr: (On phone) Find out where Mr. Wayne Taylor is, please. Let me know.

Huh?

Bell: Daily of the 26th will show it.

H.M.Jr: When is that out?

Bell: Out this morning.

H.M.Jr: You mean the boys have it now?

Bell: Well, there may be a reprint on it. It will be out now if there isn't a reprint.

H.M.Jr: Well, supposing we put through some more today. When will that come out?

Bell: Show up in Thursday's.

H.M.Jr: (On phone) Hello. - Thanks.

What?

Bell: Show up in Thursday's statement.

H.M.Jr: Thursday. What do you think, Jake?

Viner: You mean about that ten million?

H.M.Jr: Yes.

Viner: I'd let it go through, show up now.

H.M.Jr: Go through today?

Viner: Oh-huh.

H.M.Jr: All right.

Bell: (Nods yes)

H.M.Jr: What?

Lochhead: O.K., I'll take care of it.

The bid on the - the rate on the 100-day bills was

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brought down by bids from Chicago - \$35,000,000. There wasn't any - it wasn't any one bid; scattered among the banks. So it must be something to do with taxes.

Viner: No, there's a tax due on April first.

Lochhead: But it must be some other tax on June 15.

Viner: No.

Lochhead: We're looking up to find out why - not one Chicago bank, several Chicago banks - 35 million.

Viner: I don't know - only one tax date, that's April first.

H.M.Jr: Must be some reason.

Lochhead: Must be a June 15, because these bills mature on June 16.

Viner: Maybe they want to - let's see, April first is pretty soon - maybe they want to cover themselves.

Lochhead: They couldn't cover - buy the 90-day bills, wouldn't buy the - must be something about June 16.

Gibbons: Tax installment - March 15, June 15.

H.M.Jr: Something out in Chicago. The law is different out there. Well, anyway, we got some cheap money. Paid less for the 106-day bills than for the 91.

McR: One bid par.

H.M.Jr: I never saw - decimal - on the 106

Bell: 058.

H.M.Jr: Well, anything else, Archie?

Lochhead: Nothing else.

Upham: (Nods nothing)

H.M.Jr: Huh?

Upham: I have nothing.

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H.M.Jr: Mac?

McR: No, I have nothing.

H.M.Jr: What?

McR: I have nothing. I've just been over the Record this morning on handling of the Treasury-Post Office bill, and I was glad to see that no attempt was made apparently to put on the Presidential appointment rider that they stuck on the Independent Offices bill. They put on a rider requiring

H.M.Jr: Five thousand.

McR: ... the Senate confirmation of anybody getting five thousand or more.

Bell: Those experts, you mean. Not everybody.

McR: I know, not everybody.

H.M.Jr: If your (Oliphant) fellow Hester, when he's up on the Hill - a bill like the Treasury-Post Office bill is coming up - isn't there some way he could let you know so I know?

Oliphant: (Nods yes)

H.M.Jr: I sat here in touch with the clerk of the Senate, telephoned him two or three times, just in case anything - but I think when our own bill is up like that, Hester should come in and tell you and you let me know. Because, now, yesterday, it just so happened, was the day I signed that alcohol thing, and both Barkley and Guffey were sore. They talked to me at half past three. Within an hour the bill was up on the floor, and they might just as well have taken it out on us in some very little way. And if I had known that bill was coming up, I'd have waited, not signed the regulations until the next day. But as it worked out, it was all right. I had Mac sweating.

Oliphant: Ought to have at least 24 hours' notice.

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H.M.Jr: I think so. Don't you?

Olipnant: Yes.

H.M.Jr: I mean those boys must know when these important ...

McR: Nobody knew when that Senate bill - when that thing was coming up on the floor of the Senate. I don't think anybody could have told you.

H.M.Jr: Now listen, Mac - listen, don't tell me that that calendar wasn't fixed at least a day in advance. They must fix up the Senate calendar.

Bell: They laid aside the reorganization bill to take up the Post Office-Treasury bill.

H.M.Jr: Well, it wasn't done on the spur of the moment, was it?

Bell: May have been done in a cloakroom but not publicly.

H.M.Jr: If a fellow is going around and has a man up there - says to the clerk, "Will you please let me know when the Post Office bill comes up. I'm here, just give me a ring." That isn't asking What?

Olipnant: We'll see what can be done in having on your desk every morning 24-hour notice of anything in which you are particularly interested.

H.M.Jr: Give it to Mac. Give it to Mac, and it's up to Mac to see that I know. But I don't want to be bothered; I tell Mac to do this and do that, it's up to him. I mean he has these important documents to sign and I think he ought to watch it. Will you (McR) accept that responsibility?

McR: Yes.

H.M.Jr: Hum?

McR: Sure. We got the information quickly. I'm not sure that anybody could have known, the way they've been running that stuff on the floor of the Senate. But certainly it is a good idea to try.

Olipnant: I wonder if the clerk of the majority would know.

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- McR: Well, usually you'll find that true. But of the present situation, with unfinished business there - and Jimmy Byrnes is going ahead with it, and somebody comes up, asks him to step aside in order to handle appropriation bills.
- H.M.Jr: That may have been so. But I still say it would be very useful if Oliphant's legislative section would let you know when any important bill is coming up and let him know as well. Let you know because you could bring it up in the morning and say, "Wait a minute, don't let Steve appoint the wrong man today. If he's going to do that, wait until tomorrow." See? I mean if we all knew something really important was coming up ...
- Gibbons: Well, the Senator from Minnesota, the Progressive - his secretary called me on Friday; and, to show you that they must have known something, he wants us to change a port of entry up along the border, wants Customs to agree to it; and this Senator is interested in it and he said, "We're going to take care of your Treasury appropriation bill up here, coming up the early part of the week." Now, here was the secretary to a Senator, and he just simply said that to try to get something out of me.
- H.M.Jr: Incidentally, Steve, I went through that whole file of William Jennings Bryan, Jr., and I couldn't see where he stood on silver.
- Gibbons: He looks like a clam.
- H.M.Jr: God, you know, the newspaper boys around town - the first thing I'd do, I'd interview this fellow and see where he stood on silver, if I was a newspaperman. Wouldn't you (Gaston)?
- Gaston: Yes. LaVerne Francis, of the Los Angeles Times
- H.M.Jr: The way I'm responsible for having Mark Sullivan's secretary interviewed on Social Security. Found out that she was for it. Did you know that?
- Oliphant: Was that printed?
- H.M.Jr: Oh sure, the whole ...

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Oliphant: That's funny.

H.M.Jr: Yes, and she was a New Dealer and she thought it was good, and tickled to death to pay it.

Gibbons: I think I'll send Al a telegram and ask him to find out where his successor stands on silver. I'll send it to his house, you know.

McR: Let him work it in in his column of the newspaper.

Gibbons: Yes.

H.M.Jr: If you (Bell) haven't got that correspondence between the President and Straus, let me know.

Bell: I'll let you know.

Magill: Senator Pope is getting quite interested in the processing tax. I gave warning of that. He's after me about every day.

RE HOUSING COSTS

March 1, 1938.
3:00 p.m.

Present: Mr. Taylor
Mr. Oliphant
Mrs Klotz
Mr. Foley
Mr. Haas
Mr. White
Mr. Daggit
Mr. Lindow
Mr. Fox (Tariff)
Mr. Piquet "
Mr. Stewart McDonald
Dr. Fisher
Mr. Reynolds
Mr. Barton
Mr. Currie
Mr. Chawner (Commerce)
Mr. Stinebower (State)
Dr. Viner
Dr. Lubin
Mr. Hinrichs
Mr. Blaisdell
Mr. Ezekiel
Mr. Bean
Mr. Edwards (FTC)
Mr. Loomis (Federal Home Loan Bank Board)
Mr. Walker (Sears-Roebuck)

H.M.Jr: Put these fellows to work, might build a couple houses.

Well, George, where are we at?

Haas: I think the - we have these three committees; why not let the chairman of each of the committees report the progress. Most of the work certainly wasn't done in the conference we had yesterday.

Harry is chairman of the price committee, Mr. Blaisdell is chairman of the - we called it the "shady practices" committee, and Dr. Fisher is chairman of the committee on other organizational practices. I don't see Mr. Blaisdell.

White: He's on his way.

H.M.Jr: Do you know Stewart McDonald - Dr. Viner.

Haas: Might start with Harry.

H.M.Jr: Before you get started, I'd just like to read a cable here. I sent word over to Mr. Butterworth to find out about this - whatever they call this committee.

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Fisher: Interdepartmental Committee on Prices.

H.M.Jr: Yes. And I thought you might be interested in what they're doing, and especially the end.

It says:

"With reference to your inquiry regarding inter-departmental committee on prices of building materials a 1934 report which is similar to that of 1933 is the latest published. No further reports have appeared due to a change in procedure by which publicity is now used as a method of pressure.

"The committee, which is appointed jointly by the Minister of Health and President of the Board of Trade, has representatives from the following groups: two of the builders, two of the building trade unionists, two of local governments, two of building material manufacturers, one each of building loan societies and the cooperative movement, with three government experts representing the Board of Trade, Ministry of Health and Department of Health for Scotland. The independent chairman is Sir Isador Salmon ..." - guess that's the way you pronounce it - is the head of Lyons and Company.

"The committee's terms of reference may be found on page one of the 1933 and previous reports.

"By means of monthly returns from local government surveyors prices are watched. In cases of increases or complaints a representative of the committee approaches the manufacturers association concerned informally. Nearly all building material manufacturing lines are organized in manufacturers associations, these being effective price rings. If the explanation of the price increase is not satisfactory the manufacturers association is asked to meet the committee. The committee has no powers except of persuasion and publicity. By using the threat of publicity only since 1934 instead of reporting all cases studied, the committee's influence has proved more effective.

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"The secretary of the committee informs me in strictest confidence...." - this is the reason I'm reading this, I think it's so interesting - "The secretary of the committee informs me in strictest confidence that an experiment is now being tried of suggesting to the import duties advisory committee an investigation with a view to the lowering of protective duty, that committee being vested..." - I think that's - I mean they're just coming around to that now - "that committee being vested with full powers of scrutiny of accounts, et cetera..."

"A full report of the work of the committee together with wages agreements entered into in conjunction with the building materials agreement follows as soon as possible by mail."

That brings it right up to date. But I thought it was interesting that they're just getting around now to looking into tariffs and looking into fellows' accounts.

All right, now, where are some of these chairmen?

Haas: I think

H.M.Jr: Harry? Dr. White.

White: The progress that we are making is in the direction of obtaining the picture of the whole price situation, such as will enable you to know where to move and possibly how to move and what to expect if you are a hundred percent successful in the way of final reduction in the total cost. It is being attacked on several fronts, and with the aid of several groups.

(Blaisdell and Edwards come in)

The first problem, as was indicated last time, is to ascertain what prices are out of line. Second problem is to make certain that those prices that we select are actually the prices which represent the typical situation, so that we will not be calling attention to prices which are either nominal or which apply only to a very small part of the industry, and that involves very considerable work in checking up, and that's where several of the departments are very helpful.

(Bean and Ezekiel come in)

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H.M.Jr: If some of you men could come forward, and let these two farmers in.

All right.

White: The third task, which is an especially difficult one, is to seek an explanation in the case of each commodity as to the price position. If a price is out of line, then, in other words, we'd like to know why is it out of line. We'd like to know that for two reasons. In the first place, to know whether there is any hope of getting a reduction; and, in the second place, to provide yourself with such background material, or such explanatory material, with respect to each commodity as will enable you to discuss the matter intelligently with whoever you're going to take it up with.

The next step is to examine what are the possible ways of reducing those prices, whether the approach shall be through tariff, through monopoly, through threat or a promise of trade agreements, or through merely a conference based around the expectation that if the volume is increased the cost price will drop so much, etc., and for that the Federal Trade Commission, the Tariff Commission, and Mr. Walker and our Procurement Division are all cooperating and should produce results.

The final question with respect to prices, how much will the cost of housing be reduced if you are successful in achieving a reduction in the costs of commodities. A portion of that whole problem overlaps with the matters which are taken up in the other committee, relating to malpractices or shady practices, because clearly in many instances the price of the commodity which the builder or the consumer pays is high by virtue of one of these shady practices. So there is a good deal of fitting in and overlapping, with the end result not being visible until we are much further along than we are now.

That's what we hope to get. If there are any further details about the methods we are pursuing

H.M.Jr: Well, I'd like to know - I mean have you narrowed this down further? Last time you were here, you were talking about 30 different commodities.

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White: We are now in the process of examining those 30 commodities to make certain that the prices that we used were the correct prices, and at the same time - there are many things going on at the same time - at the same time examining the explanation of the prices and the role that foreign trade and duties and trade agreements, etc., play in that explanation. There are certain other aspects of the problem that sort of fit in, yet they are minor. We are considering what the cost of a standardized house is, and attempting to see how the cost of that house, including labor and material, has moved in various areas. The problem is not the same in - the geographical area makes a difference and the size of the community in which the transaction is being conducted makes a difference. So that that's a separate problem to throw light on what is the most important point of attack.

H.M.Jr: Is Hinrichs going to report on prices as such?

White: If you want to go into further detail.

H.M.Jr: I don't get anything - if you don't mind, I haven't got anything yet.

White: You won't get very much until it's through. But I'd be very glad to let Mr. Hinrichs tell you what he's done in the way of comparison of prices, which is only one part of the comparison. This thing will be more or less of a picture puzzle until we approach the end, try to fit the pieces together. But most of the reporting in connection with prices would be just a series of mass - of detailed explanation.

H.M.Jr: Let's hear what Hinrichs has to say.

Hinrichs: Mr. Secretary, the last time I said that as far as the Bureau's figures were concerned

H.M.Jr: Does everybody know Hinrichs? I mean can I take it that they do?

Hinrichs: I think so.

H.M.Jr: Bureau of Labor Statistics.

Hinrichs: There were 30 commodities in which the movement of our index indicated reason for suspicion either that

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the price level was extraordinarily high, or that there were seriously frozen prices, and that the prices at no time since 1929 had been in line with other commodities. The first job was to check those commodities against the experience of the Procurement Division and against the other records of the trade - realized prices as reported in the census of the Bureau of Mines. That job is finished. It's going to take about three days to write the thing up in such fashion that it can be tied in pink ribbons and put away. But that is the report in pieces at its present stage.

Of those Bureau prices, I would be prepared to recommend on the score of price behavior alone that certainly 30 of the commodities are seriously suspect. I would kick two of them out quite definitely, and ...

H.M.Jr: Do you mind, just so I can get the - mention about two - I mean I want to get

Hinrichs: Yes. In the case of cement, for example, the figures based on 1929 - the Bureau of Labor Statistics index in 1936 stands at 104; the Bureau of Mines realized value per barrel stands at 102. Any time we're as close as that, we think it's a good job. In the case of brick we've got figures from the Bureau of Mines census; apparently our prices went out of line with the census in the period 1933 to 1934. They have since moved consistently with it, and the census indicates a worse price level than that which was indicated by the Bureau of Labor Statistics.

H.M.Jr: You mean those are the two you're putting aside?

Hinrichs: No. I'm sorry - that I'm putting aside?

H.M.Jr: Are those the ones?

Hinrichs: The only two that I'm throwing out are outside white paint and white pine doors, and if white pine doors go out on Procurement Division evidence, I'd throw out the other mill work items as well. They got in with a question mark on them before.

The other items, on the score of price behavior, all warrant study. It remains to decide whether some of the items are so unimportant that they are not worthy

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of study. I should - my own feeling is that we have finished with the analysis of price merely as price and that we have gotten to the point where the only thing that is worth while is an intensive study of the particular commodities as to their functional setting, the way in which their prices come to be set, the conditions under which they are produced and marketed, whether they are important enough to warrant study.

In addition to this list of - the remaining list of 30 items, then, there is a job for the committee in the selection of certain other items that may call for study on one of two grounds: first, that the items themselves are not included within the Bureau of Labor Statistics index, and that would be true of electrical equipment and wiring; second, that the item is of such extraordinary importance that even though its price behavior is perfectly regular, as in the case of almost all of the lumber items, there may be cost elements in the picture which are so important and operating at so high a level that you want further study. But that carries you over, not into the competitive practices of the industry, but essentially in that particular case into labor costs within the group.

On the score of price behavior alone, the only things that we can lay our hands on are these 30 items, and I would recommend that no other items, except items not covered by the Bureau of Labor Statistics, as in the case of wiring, be included for institutional study of business practices.

H.M.Jr: Well, I think the fact that you've got that far in this short time is good. And then I take it that as soon as the thing is typed, it will be made available to everybody who is working on this. Is that right?

Hinrichs: Oh, of course.

H.M.Jr: Is that where you want help?

Lubin: Well, Hinrichs says it's all done now, we don't need the help.

Hinrichs: Provided we don't have to study commodities for which we are not set up.

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H.M.Jr: Well, if you want help we'll give it to you.

Now, who else, before we go off prices - I mean has something to contribute?

White: well, there are about - at least half a dozen persons who are working at various aspects of it. His conclusions are preliminary in the sense that we don't know what commodities outside of the B.L.S. index are important that we ought to include, and in the further sense that total comparisons have not yet been made.

Mr. Walker is getting some prices of typical buildings and breaking down those prices into costs to him, costs to the builder, and possible costs to the warehousing. There are spreads between the various types of prices which are significant for our purposes in some cases. In other words, those prices might be satisfactory and yet the price to the consumer may be unsatisfactory, and vice versa. So we really have to start with much of the material that there is there, but we're not waiting for that. They're all going forward at the same time.

For example, Tariff Commission has been making a study and has presented a great deal of material. They worked right through the week, and nights. and they have really got a mass of very excellent analyses of very many of the price costs, as to why they are, and they have also had some analyses and description of the prices as used by the Bureau of Labor Statistics, in some cases feeling that they ought to be replaced by others and in some cases - and so on. Now, that's a lot of material. They'd be glad

H.M.Jr: I'd like to get - if Commissioner Fox would take a little while just to give me - I mean sort of the feel of what you've been doing and what you might expect. Would you take a few minutes?

Fox: Yes. We started out last summer to find out what correlation there might be between the tariffs and prices of building materials. We took about a hundred building materials and made a detailed study of each one, studying the production, the

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imports, what the tariff rates are, what the trends have been, what effect the tariff might have had upon price. And finally, within the last week, we have segregated these items into four groups. One group contains the items where they are probably a tariff problem, not limited to geographic location, and there are about 17 items in that list. Another group includes those on which the duty might be a factor of importance along the border only, transportation costs rather than duty preventing inland competition from imports. Third, imports limited by the nature of the product - the tariff - a very minor competitive product, the imports being some particular specialty. Fourth, the free list items, of course, where tariff cannot possibly be considered to have been the problem.

H.M.Jr: Well now, Mr. Fox, those 17 items, are they by any chance the same as the 30 that Mr. Hinrichs has? Or haven't you had a chance to see his 30?

Fox: Yes, we have had a chance to see them. Some are - not very many.

H.M.Jr: Well, I just wondered whether they were.

White: That list was made available for them to work on to begin with, and then ...

Fox: (After conferring with Piquet) All of them are.

H.M.Jr: Fine. Well ...

Fox: Now, I want to carry that one step further. In connection with some of these items, the items have - the duty has already been reduced through trade agreements. It has been the policy ... Of course, this is in the family.

H.M.Jr: Well, everything is.

Fox: It's been the policy of the trade agreement program to make certain that whenever a building material appeared, to try to go as far as we can in reducing that duty. Now, with respect to others, the question has been raised, and we have canvassed it for what can be done with the 336, and it is our conviction that it is a

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very dangerous procedure to attempt, because 336 is a wonderful process for flexing, but usually flexes this way - very hard to get it to flex the other way. In other words, we would be very much concerned if you undertook a 336 investigation under the limitations that exist, and even with the most sympathetic attitude that might be assumed by those in control you may get results and probably would get results that would embarrass the Administration without getting the objective you are seeking.

H.M.Jr: Well, do you feel, from the very short time we have been on this, that we are approaching this from the proper angle?

Fox: Well, I'd rather not say.

H.M.Jr: All right. Everybody's - it's all right. That's all right, I'd much rather have you be cautious.

Fox: I don't know enough about it.

H.M.Jr: You don't know enough about it.

Fox: Yes.

H.M.Jr: O.K.

Fox: I've only attended - this is the second meeting.

H.M.Jr: All right. Is there anybody here from Federal Trade?

White: Mr. Edwards.

H.M.Jr: Who?

Edwards: Edwards.

H.M.Jr: Well now, Mr. Edwards, what have you people got so far that would fit in this picture?

Edwards: Mr. Blaisdell is the chairman of the practices committee and has the material which I have supplied to him.

H.M.Jr: Well, you're on the practices?

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Edwards: I've been working with Mr. Blaisdell. I think he has a report for you which is in better form than I can give it verbally.

H.M.Jr: Now, before we go to Mr. Blaisdell, is there anything else?

White: Possibly Mr. Walker, who has been working pretty steadily since he's been here, examining the problem, might have something to say.

H.M.Jr: Want to talk at this time?

Walker: I don't believe so.

H.M.Jr: Wait until you hear? What?

Walker: I'd rather wait until I see more.

H.M.Jr: All right. Now we are ready for Mr. Blaisdell.

Blaisdell: This is a very short statement, Mr. Secretary. Most of it is material which Mr. Edwards has made available to me and on which we have worked previously. It is an attempt to set down certain types of trade practices with which we are acquainted that make difficulty in this situation.

The first heading was: Associations of Manufacturers; the second: Associations of Distributors; the third: The Problems of Local Sub-contractors; the fourth: The Use of Local Building Codes and Regulations to establish the use of certain particular materials; and fifth: what might be considered wage rates, or places where wage rates, per se, are out of line.

And there we have listed - and in each case we have listed only things for which we have specific illustrations - the cases of basing-point price systems, which tend toward monopoly prices, and particularly in the cement and steel practices and in cast iron and soil pipe, all of which are important materials in construction; the zone pricing systems; the selling through a single sales agency, or rather the agreement to sell through a single sales agency, thus securing control of material; fourth, a combination to maintain

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uniform delivered prices and, combined with that, the coercion of competitors to abide by the prices fixed; fifth, combinations to maintain regular trade channels; sixth, the advance clearance of bids; seventh, the allocation of markets; eighth, agreeing on discounts and other charges. Those are all practices with which we are acquainted in connection with manufacturers.

Then, in connection with distributors: associations of distributors which require sale only through association members; boycott of manufacturers who refuse to sell through those distributors, and coercive action against non-members such as refusal to deal with builders who will not buy through members of a particular association, those practices being particularly prevalent in lumber and other associated building materials.

Then, with the local sub-contractors, we find particularly the advance clearance of bids, the existence of bid estimating agencies which take the place of advance clearance, and then local agreements with unions in connection with the sub-contractor to coerce either the use of a favorite contractor or the maintenance of prices on particular materials or the use of particular manufacturers' materials.

Fourth, there are certain local building codes where the associations of contractors, particularly in cooperation with building trades unions, have required the use of particular materials. We know of these practices in Chicago and in Cleveland, dealing particularly with plumbing fixtures and various electrical equipment - also Chicago requirements of brick as against hollow tile, practically eliminating the use of hollow tile. Also, agreements under these building codes for certain types of skilled workers where unskilled workers would be adequate.

Fifth, the location of certain of the larger cities where wage rates might be said to be either out of line with comparable skills or with non-union labor in nearby markets for comparable skills.

H.M.Jr:

May I interrupt you there?

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Blaisdell: Yes, sir.

H.M.Jr: When you get into that question of hourly rate and unions and all that, who are you consulting?

Blaisdell: This statement here is based on - almost entirely - in fact, entirely on consultation with Dr. Lubin.

H.M.Jr: Oh. All right, I just wanted to make sure.

Blaisdell: And the list as follows is Dr. Lubin's list.

Hinrichs: On your authority.

H.M.Jr: What?

Hinrichs: On your authority, on your responsibility.

Blaisdell: New York, Philadelphia, Chicago, Cleveland, Kansas City, St. Louis, San Francisco, Minneapolis, and, on Mr. - chief of Procurement Division's authority, Washington, D. C.

That is what we have up to the minute, Mr. Secretary. It has not yet been cleared as far as checking for additional spots or particular associations with several people with whom we shall need to clear before we complete it.

H.M.Jr: Well, just - it leaves me dizzy; but there certainly is enough material there.

Now, may I ask you this. Dr. Lubin called up and he said he might need some help. Do you need any help, clerical or any other kind of help?

Blaisdell: I think, Mr. Secretary, that with the assistance that I can get from the other men, there will be nothing special that we need at the minute.

H.M.Jr: Well, if you need some, let me know, and we'll provide it from some place, I don't know where. But if you need any help, let me know, will you?

Blaisdell: Thank you very much.

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Edwards: May I interject a word there.

H.M.Jr: Please.

Edwards: If the problem is to assemble what we have available, I think we can probably do it. The need for help would probably arise if we want to go out and make a spot check on the gaps, in which we don't know just what the situation is.

H.M.Jr: Well, the thing - what I want to do in this case is this. The more I go into it, the more I am convinced that we are on the right track. Before we do anything or bring anything to the President's attention, we've got to be 99 percent right. So if you need spot checks or anything else, don't leave anything open, see? I mean because on this thing, before I can bring it to the President's attention it's got to be just as near right as the human brain can make it. So if you need spot checks, let us know, and - but I want, if I may, to take the liberty of impressing on you: don't leave anything open if you can help it. So on anything along those lines, let's make just as near sure as we can. As I say, I think if you people need some money or some help, or - I don't know, say between us, why - between Mr. McDonald and myself we'll be glad to furnish you. Is that right?

McDonald: You know where I get my money.

H.M.Jr: I'm always very generous with Mr. McDonald's money. You (Reynolds), as a Government contractor - has he got enough to work on?

Reynolds: I think so. We have quite a lot of information we're going to give him within the next couple days on various trade practices that we have found that are not so good.

H.M.Jr: Now, you see, when it comes to spot checks, through Procurement we have a resident engineer in - seven districts?

Reynolds: Well, we have eight districts, have about five hundred men in the field all through the United States.

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H.M.Jr: So there's a lot of engineers who can just go in and - they're there, and - so we have a pretty good organization already in Procurement without hiring extra people.

Do I understand, Mr. Walker, you are setting up three typical houses? Is that the idea?

Walker: Yes, sir, that we have built in several parts of the country.

H.M.Jr: And then they are going to use those to decide which are the important materials. Is that the idea?

Walker: As a check against it, but not a final

H.M.Jr: As a check. Now, will you price those houses on a regional basis?

Walker: Yes.

H.M.Jr: You will. And is that the thing that you're working on immediately now?

Walker: Yes.

H.M.Jr: Well, as you've heard this, and this is what, the second day you've been here, do you want to make some suggestions as to

Walker: Well, Mr. Secretary, I'd like, wherever I could, to see any of this material and see if I could correlate it with information that I have.

H.M.Jr: Yes.

Walker: And we're also in a position to furnish costs or selling prices in most any part of the country through our shoppers; so if any checking was to be done, I'd be very glad to use any of our facilities to do it.

H.M.Jr: Did you gentlemen get it? I don't know if you know who Mr. Walker is. He's in charge of buying for Sears-Roebuck. He's been detached and loaned to me. And he buys \$30,000,000 worth of building materials. I mean he's the biggest buyer in America. Sears-

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Roebuck was kind enough to detach him and loan him to us as the biggest buyer of building materials. He's here to offer his services to the Government. But his time is limited, so - and he hasn't got enough to do, so don't hesitate to call on him, see? But I mean we've got him only for two weeks, so let's make the most of his services.

Walker: We also both buy and sell it. I mean - so we're in - we have contact with these labor practices that you're discussing pretty generally over the country.

H.M.Jr: You have? Well - so I mean, make the most of Mr. Walker's services while he's here. And through their organization you can get both the buying and selling prices.

Walker: Yes.

H.M.Jr: Do you want something else - to say something else?

Walker: No, that's all.

Viner: Is anyone studying the freight rate element in building costs - transportation cost element?

White: That will be part of the explanation with respect to those prices that are out of line. In some cases they may be due to the fact that the freight rates constitute so large a proportion of the total costs that that is the explanation. But freight rates are being studied only in so far as they are a significant element in the out-of-line costs.

H.M.Jr: Mr. McDonald, I don't know whether you've had time enough to get the feel of it.

McDonald: Yes, I have.

H.M.Jr: Maybe you'd like to make some comment.

McDonald: Well, my only suggestion that I would make would be this, that I think this is most necessary work to do, but I hope that it is done very cautiously, because if the public in general gets the feeling that they may expect cheaper material costs at an early date, it will simply stop all construction and hold it up. And

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therefore, while we must do this, we must do it in a gum-shoe kind of way.

H.M.Jr: That's why I had you come in the back door, because up to now they haven't been able to identify what this collection of economists are trying to do, so - and I've been very careful to guard it, because we don't want what is happening in the automobile business; everybody is sitting back and waiting.

McDonald: Waiting for better prices.

H.M.Jr: But up to now we've been able to fool the newspaper men who pace up and down in front of my front door.

But as to the way we're getting started, sound all right?

McDonald: Yes, I think so. And I think the comments made on the practices, the local practices - I attended the very important meeting of the Association of Real Estate Boards down in Miami, and they're bringing to my attention information about this, and I may be able to pass it on to the proper source here. Some cities where these practices are simply notorious. The combination of the labor unions and the jobbers is such that it just puts a vice right on the price of materials. And I'll have that for you in a very few days.

Walker: Mr. Secretary, in one of these investigations, to show you how serious that is, on a \$6,000 house, where the labor is \$3,000 in New Jersey, it is \$4,000 in Connecticut.

H.M.Jr: Say that again.

Walker: On a \$6,000 house, which sells for \$6,000 in New Jersey, where the labor is \$3,000 in New Jersey, it's \$4,000 in Connecticut.

H.M.Jr: You mean a thousand dollars difference on the same house?

Walker: Yes, sir. Same labor.

Fox: Labor rates different?

Walker: No, figure the same union labor rates.

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H.M.Jr: Same hourly wage.

McDonald: Just different practices.

Walker: Different practices. For instance, in Connecticut if you want to paint a room, you must have a painter, a carpenter, and some other kind of work. They're just now chartering an insulation union to put rock wool in the wall, where a carpenter used to do it.

Reynolds: We found on a series of bids, Mr. Secretary, where union and non-union contractors were building on exactly the same wage rate, that the non-union man would get about a third less than the union man.

H.M.Jr: Well, that's interesting, but I'm not - I mean we've got to work with union labor. I mean on this thing the practices is one thing, but the union labor is another thing, and I'm not one to - I mean I'm more than willing to recognize any regular labor unions within the building trades. I don't expect to get into that.

Reynolds: It's the conditions under which they work.

H.M.Jr: That's something else, but the question of hourly wages and union or non-union

Reynolds: Well, the wage rates are the same in both cases, because it's predetermined by the Department of Labor, but the condition under which that labor is applied to the job ...

H.M.Jr: Well, you people are here, but - I mean I want to make it perfectly plain that - we might as well call a spade a spade. I mean I'm not going to be put in the position of fighting any legitimate regular union that's in the building trades, so - I mean you've got that, and - I mean I don't want to get into that. But everything else has been mentioned, and the only way to find out what we're trying to do is bring up those kinds of things. Certainly you will work through labor unions.

Now let's just go around. Dr. Fisher, how are you coming on this?

Fisher: Well, our committee is not very active at the moment because we felt that the primary interest was in practices and prices. As soon as the material begins to come through from the other committees, we're going to

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try to make some suggestions on organization of the building industry as such that will be helpful in the long run. But at the moment the committee is not very active.

H.M.Jr: Department of Commerce? Are they keeping you busy?

Chawners: No, I'm afraid I've escaped service on these committees. What I may have to contribute to the discussion may be more in the nature of general background. We've been making some long-time studies in the fluctuations going back to 1900, and have considerable information on that nature which may be useful as background, but which isn't particularly pertinent to this subject of prices.

H.M.Jr: Dr. Lubin, you watching this closely?

Lubin: Yes. I'd like to raise a question, if I might. Perhaps Mr. Walker could help us on it, and I'd like to get your opinion as to whether it's worth while doing. I have a suspicion that we're going to find on housing something like we find in automobiles, namely, that you've got a change in the quality of housing today as compared to ten years ago. In other words, you're buying a different product, perhaps for the same price. And I wonder whether it is possible for Mr. Walker or someone else who knows something about the building game to give us some picture of what a \$6,000 house means today as compared with a \$6,000 house ten years ago. In other words, is it the same house, are we talking about the same thing, or is it entirely a different product? At least, if one reads the ads, he thinks the \$6,000 house he's getting is something altogether different. And I think it is rather significant that we know what we are getting for our money today in terms of past experience.

Walker: There has been very little development in utility for a home from 1923 to date. In the \$6,000 house of today, we generally speak of a house with two bedrooms - two to three bedrooms - and for a five or six room house, there's been very little change in that house since 1923.

Lubin: One speaks about insulation and a thousand and one little

Walker: But those things are not included in a \$6,000 house. You have to scale a house down to almost its necessities to build a house for \$6,000.

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H.M.Jr: Anything else, Dr. Lubin?

Lubin: (Nods no)

H.M.Jr: Federal Reserve?

Currie: I don't think we can contribute anything specifically to the material, Mr. Secretary, on either prices or practices. There is one suggestion I'd like to put forward, and that is on the loaning practices of F.H.A. I'd like to ask Mr. McDonald if he's found that any more banks have taken up F.H.A. lending. I think I understood there were only a thousand banks in the country that would handle it at all, and that in some rather important cities in this country you can not get an F.H.A.-insured loan. Is that still true?

McDonald: I think there are altogether about six thousand lending institutions that are approved under the Federal Housing Administration. What percentage of those are active banks, I don't remember offhand. I think it is more than a thousand. I think it is nearer two or three thousand - about three thousand.

However, as you say, in a great many large cities, the large banks themselves don't make Federal Housing loans, not because they've been so adverse to it, but because they haven't the machinery. For instance, you take in the New York City banks, the big banks like the Chase and the National City Banks - they have no way or no facilities for a man coming in there to make a loan; and they have not participated either, as far as that is concerned.

However, with the advent of the national mortgage association as we have it now, we don't anticipate that there will be any hold-up in building due to the lack of financing facilities. I think that has been clearly taken care of at this moment.

Currie: You don't think there is any problem in certain towns and cities of individuals not being able to borrow at 5-1/4 % with a 10% down payment, in other words?

McDonald: Yes, I do. I think that the 10% down payment is to some extent an educational process - and with the 90% loan. But we have found less resistance on that right

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now than we did have on the 80 percent two years ago. In other words, they've gone from a 10% down payment more readily than they went to 20, because that was breaking a very marked former precedent. Now, we have right now a little bit of a lenders' strike through the South and Southwest, where the building and loan societies have had heretofore - been the only people who have had facilities for making construction loans, and they don't like the five percent money at all. Now, however, with the assurance from the national mortgage association that they will take those loans off their hands as soon as completed, why, we feel that that will come along too.

In the meantime, the volume in the last two or three weeks has come up, and everywhere we are meeting what I should say is a rather favorable response, considering the times. You take the banks on the Pacific Coast - they're particularly keen on making loans at this time. On the other hand, the Loop banks in Chicago aren't, Boston banks are not. So it is to some extent a matter of geography too.

But even in those instances we find that the outlying banks in turn can be relieved by sending their mortgages to the life insurance companies, who - you take some of the life insurance companies have been very heavy buyers of these mortgages. Little National Life of Vermont, I think, has bought something like \$30,000,000 worth of mortgages. Lincoln Life of Fort Wayne has bought way over 20 millions. And it's been a godsend to these little life insurance companies who didn't have lending facilities, and with that the big ones are beginning to break. I had a letter from the Prudential Life requesting permission to be now an approved mortgagee for small mortgages, which they never were before. Before they pecked away and bought an occasional large mortgage. For instance, this mortgage out here at Buckingham is a Prudential Life mortgage. But yesterday they came along and wanted little mortgages, so - and likewise, the New York Life put a very large figure on what they would take. So I think that that situation will work out. I don't anticipate any trouble in that.

H. A. Jr:

State Department?

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Stinebower: The work that the Department was going to do and didn't start last week-end we discovered was duplicating the work by the Tariff Commission, which it had well in hand, so it's been suspended for the moment. That is, they've gone through the tariff rates and also what has been done under trade agreements and what commodities are being currently listed for concessions or for consideration of concessions in trade agreements. At the moment, the work we would have done would have duplicated their work, and we dropped it.

With respect to a sub-committee on building materials of the Trade Agreements Committee which is going to be set up, that was also laid before the Trade Agreements Committee last Saturday morning, and in view of what the Tariff Commission is doing, inasmuch as it would have done all of the work for us, that sub-committee, anyway, that again has been turned over to them.

H.M.Jr: You're fortunate, aren't you?

Stinebower: Very.

H.M.Jr: Any suggestions?

Stinebower: None at the moment.

H.M.Jr: Agriculture?

Ezekiel: We're working primarily with Dr. Fisher on the organization of the housing industry. At the present time it is just in a tentative exploratory state. Making contacts with some of the people who have been studying this problem on the side of private industry. Find there is a lot of work already done that can later help here, but at the same time we haven't communicated with the rest of us here.

H.M.Jr: Any suggestions?

Ezekiel: No. We keep in touch with Dr. Fisher on it and we'll have something to report in a couple weeks or so.

H.M.Jr: Mr. Bean?

Bean: There is a question I'd like to raise. I don't know

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whether it's appropriate or not. Goes back to the labor union problem.

H.M.Jr: All right.

Bean: I'd like to know from either Dr. Lubin or others who are conversant with that situation whether anything is being done by the A.F. of L. to check the multiplication of this subdivision of labor that Mr. Walker referred to in the building trades. Or perhaps that's a problem which you'd like to come to.

H.M.Jr: No, don't misunderstand me, I'm not going to duck anything, but I'm just going to be a hundred percent careful that I don't find myself in the position that we are used here, maybe unconsciously or sub-consciously - to be put in the position of fighting the labor unions. That's all. But I mean anything that comes up - I mean there might perfectly well be a - I don't know what you'd call it - a unit of a labor union in a particular city which is controlled by a racketeer, and if that was so - I mean I think it could come under this. But I just wanted to make - I just don't want to find myself as a spearhead that I'm fighting labor unions.

Bean: Well, my question really is raised, in one sense, in the interest of, say, the A.F. of L. - that if they want their members employed, then it might be advantageous not to encourage the setting up of unions in sub-divided skills, which hamper re-employment. And I wondered if, first, whether ^{they} are conversant with that tendency, and secondly, whether they are sponsoring it or whether they are trying to prevent it.

Lubin: Well, they are

Bean: Whether or not it is something that can be done - can be handled.

Lubin: They are checking that tendency, but they are checking it in the reverse direction. In other words, they insist more and more that everybody is a skilled worker and that consequently everybody shall get a skilled wage, and refuse to permit unskilled people to do things that the skilled worker should not be permitted to do. Mr. Reynolds can tell you about the case we had down at the Post Office with paint. Question as to

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whether the helper or the painter shall move the ladder when he finishes a given area, and they say, "The skilled painter must do it," and the contractor says, "No, the helper can do it." So they're checking that, but the tendency is in the other direction; in other words, less sub-division rather than more.

H.M.Jr: Well, I wanted to talk to Dr. Lubin afterwards, because I took this question up particularly with the President; I've got three names from him of people that we might bring in who are to advise us on particularly the labor union angle. I've gotten three names from the President on that particular phase. So I thought very soon I might - think we want to take it up with the A.F. of L., because I understand all these unions are under the A.F. of L. And I've got three names from the President. So I thought sooner or later we'd want to tell them what we're doing, and I want to just tell you what - who to get - who those people are. I thought maybe we could get - meet them; have maybe another committee on just the labor angle. What?

Lubin: (Nods yes)

H.M.Jr: I'm sorry, I don't

Loomis: Loomis, at the Federal Home Loan Bank Board.

H.M.Jr: Oh yes, fine. All right, Mr. Loomis.

Loomis: Well, this, Mr. Secretary, is the second meeting that I have attended. At the meeting yesterday I made two or three inquiries. I understood from the reply that the questions I raised were not at the moment germane to this discussion.

The three elements of the problem of lowering costs which I think are of major importance and deserve to be considered some time in the analysis of this problem, are: the design of the building, which has a great deal to do with the ultimate cost; the selection of materials for the structure, which has a great deal to do with it; and the element of labor, which has just now been spoken of. We believe over at our shop that simplifying design is quite as important as some of these other elements; that is, it is entirely possible,

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with the appropriate design, to lower costs substantially. We also believe that the selection of materials can be wisely made in the interests of economy, so that you can have not only as durable a structure, but a structure which can be just as attractive in every other respect, serviceable to the buyer, as with materials now used.

In that connection, there is also the problem of the present waste of materials. The wastes in the use of lumber, which is a very large part of the construction material at the present time, is so notorious that you'd suppose something is being done about it. But the waste continues. Large lengths - unnecessarily large lengths and kinds of lumber are shipped at high costs of transportation and then promptly destroyed. Anywhere from 10 to 20 percent of it is destroyed in handling - wholly unnecessary waste which the wise builder, by cooperating with the mills, can wholly avoid. And those wastes run through practically every one of the materials today and I think are an important element in the cost of construction, which can be somewhat reduced by a proper handling of that problem.

In the labor field, it is our understanding that one of the very high elements in costs is these jurisdictional disputes that worry the contractors no end and increase the costs substantially. We believe that it is not only desirable but possible, in working with the labor unions, to get them to understand that problem and help in its solution, because the laborers of the country are the most directly concerned; it is their people who are going to buy these houses in large part, and obviously a labor union family can't afford to own the house if it is built at excessive cost by labor union people. I have been interested lately in learning that individual contractors have succeeded in dealing with unions in their areas so as to lower prices or costs of labor by as much as a third, in view of the fact that the houses which are built would go to families of small income, and in view of understandings, which are not literal agreements but fairly workable understandings, that as long as there was unemployment the labor union people would get the employment, at a substantial reduction, however, from the regular current hourly wage. Now, I think it is

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possible, dealing with labor union executives, to emphasize those objectives and enlist their cooperation in reducing jurisdictional disputes and developing a program of cooperation that is really substantial in its lowering of costs. After all, the labor unions have so much to gain by that cooperation, or more than anybody else, both in their own employment and in the benefits of that employment to their people. And it seems to me that is an important element in the consideration of costs and it should be taken into account in the means of reducing costs.

H.M.Jr: I haven't called on the Treasury people. If there is anybody here from the Treasury who has something to suggest, this would be a good time.

Oliphant: I want to be sure everybody heard Mr. Walker's suggestion that he had buyers all over the country - shoppers all over the country. I wanted to be sure White heard that.

White: Yes. Mr. Walker and I have had some lengthy conversations and we will utilize his experience to the full.

H.M.Jr: Anything else, Herman?

Wayne?

Taylor: (Nods nothing)

H.M.Jr: Dr. Viner?

Viner: (Nods nothing)

H.M.Jr: Have I called on all our guests, so to speak - I mean not in the Treasury. Have I overlooked anybody? Anybody got any afterthoughts?

Reynolds: Only this, Mr. Secretary, that with respect to operation of unions in the community and jurisdictional scraps, I have given up all hope of any settlement of the jurisdictional problem. And secondly, the local leaders of unions pay no attention to the national leaders. Not long ago, the local out in Memphis got an injunction against the national leaders to keep them from interfering with their business.

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Edwards: One thing about these trade practice agreements, Mr. Secretary. Thinking in terms of the sample cases which the Commission has been through and which I am familiar with, I think there may be some possibility of an immediate reduction of price if one can attack the practices in question; but it seems to me that the real possibilities in that line are not immediate but matters of some accumulating time. What really happens is, you get an industry organized in terms of practices which encourage wasteful types of establishment, bad location, wasteful ways of doing business, and there may not be so much leeway there at the moment when you shut down on the practice; there is likely to be an increase in leeway as time passes and as the industry has to adjust itself to a better way of doing its business.

Walker: Mr. Secretary, we have had some experience in that in Chicago. We contemplated building a five hundred million dollar - I mean a half a million dollar project

H. H. Jr: See what one day in the Treasury does to you.

Walker: And this took in sixty dwellings. We talked to the unions in Chicago, and not to - we weren't so much interested in reducing the wage rate - I don't think the wage rate in itself is too high - but in the stopping of these jurisdictional problems. And the racket that goes on - that almost doubles the cost of the labor in Chicago. And they told us that they would be willing to do it on a type of house that would be under seven or eight thousand dollars; and, as they expressed it, they are very frank in saying that if we wanted to build a house in Nectar or on the North Side, we would have to pay through the nose to do it, but if we built a house for their type of people that they would waive this jurisdictional disputes business and trouble of that sort. And I am quite confident, from my experience with these men, that if a local organization were built up for that purpose, including the building material people and the control, which is generally three or four men in an average city, representing the unions, that something can be done.

-28-

H.M.Jr: Well now, this group - as to their work and so forth, I take it ... I got a little financing to do this week, and what would you say if we met a week from today, Tuesday, at three o'clock? That ought to give everybody time to really have something pretty concrete. Week from today, say? And you've all gotten acquainted now, and if there is something that comes up between now and Tuesday, if you will ask Mr. Haas, why, he'll bring it in here. And I'm so interested that I'll drop anything that I'm doing, be more than pleased to see any of you that have got some particular problem that won't wait until Tuesday. So if anything comes up between now and a week from today, why, I'm available. Just give me an hour's notice or so. But I'm still very much encouraged. I think we're on the right track. And I told the President what we were doing and he's very much pleased.

And I think Mr. McDonald - the point that he made, that we must try to keep this secret as long as possible, so we don't get people sitting back waiting for prices to drop, I think is important. I can't tell you how I appreciate all the time you're putting in on this.

Group VI Wholesale prices in Jan. 1938 lower than index, exclusive of farm products and foods.

Wholesale prices during depression lower than index, exclusive of farm products and foods in 1932.

	(1929)	Low in 1931-34	May 1936	May 1937	Jan. 1938
(a) <u>Stabilized</u>					
Butyle acetate (N.Y.)	86.7	51.5	49.1	51.5	51.5
Lamp black (N.Y.)	94.6	66.7	66.7	66.7	66.7
Boilers, heating (N.Y.)	94.1	63.3	77.0	82.8	82.8
Closets, water	104.2	43.0	63.1	63.1	63.1
Lavatories	88.9	57.5	70.6	75.1	74.1
Sinks	81.0	44.4	55.7	55.7	55.7
Tubs, bath	80.8	47.3	66.7	66.7	66.7
" , laundry	103.7	58.7	68.0	83.1	82.8
Wallboard	82.8	69.0	75.9	75.9	75.9
Glass plate	(87.9	61.5	64.0	69.0	69.0
(contrast window glass)	80.5	54.4	56.4	60.6	60.6
Roofing slate, quarry	100.0	50.0	54.3	61.1	61.1
(b) <u>Moving</u>					
Black carbon	97.3	34.0	50.0	50.0	50.0
Gum copal	86.8	62.6	89.1	78.3	84.3(7)
Red lead	87.7	55.4	68.2	81.0	70.3
Litharge	82.7	49.0	62.3	75.7	64.6
Rosin	67.4	23.5	36.2	68.6	47.6
Shellac	122.0	24.8	42.5	37.9	35.0
Turpentine	59.1	38.6	40.8	43.7	36.7
Pine lath (see 5)	73.4	35.5	72.2	83.0	78.7
Lumber-gum sap	102.7	52.4	68.7	113.8	77.7
" -oak	87.3	60.6	68.2	86.3	72.7
" -poplar	93.1	54.1	72.2	93.9	77.6
Glass, window	(107.7	62.7	76.7	83.7	69.7
	(110.0	57.6	82.2	90.4	74.0
Knobs, door	108.8	37.1	55.7	74.3	57.1
Locks	114.5	42.1	64.7	84.2	75.2
Lead pipe	83.5	48.5	65.6	80.7	68.1
Sewer pipe	75.7	54.8	73.0	73.0	70.4
Roofing prepared individu-	73.6	57.6	85.3	101.1	84.1
al					
" " medium	78.7	67.1	71.1	78.2	68.1
" "slate surfaced	77.1	61.8	86.1	91.5	71.1
" " strip	69.0	59.3	88.5	102.1	80.9

Group VII Wholesale prices in Jan. 1938 lower than index, exclusive of farm products and foods.

Wholesale prices during depression did not fall to 1932 level, exclusive of farm products and foods.

		Low in	May	May	Jan.
(a) <u>Stabilized</u>	(1929)	1931-34	1936	1937	1938
Ethyl acetate	147.1	73.5	68.6	73.5	75.5
Zinc oxide	89.2	74.8	66.4	80.0	83.4
Lime, common building	88.9	73.8	79.2	78.1	80.4
(b) <u>Moving</u>					
White lead (in oil)	90.3	72.3	75.6	85.4	79.8

March 1, 1938

My dear Mr. President:

I am taking the liberty of sending you the inclosed article by Edgar Ansel Mowrer.

This article gave me an entirely new angle on Chamberlain's foreign policy and I thought that you would be interested in reading Mowrer's interpretation of it.

Yours sincerely,

The President,

The White House.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAR 1 1938

TO Secretary Morgenthau
FROM Herman Oliphant

For your information

I thought you might be interested in reading the attached letter which Daiger sent to Secretary Wallace in regard to the proposed housing program for the Farm Security Administration.

Attachment



FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.

OFFICE OF THE
FINANCIAL ADVISER

February 26, 1938

Dear Ed:

As you were at the White House meeting on Friday of last week, you may be interested in reading the enclosed copy of a letter that I have written today to Secretary Wallace.

I think it quite likely that Secretary Morgenthau would also be interested in reading it, since he had talked with Mr. McDonald prior to the meeting at the White House, and was familiar with the matters to be discussed there.

Yours sincerely,



J. M. Daiger

Edward H. Foley, Jr., Esq.
Assistant General Counsel
Treasury Department
Washington, D.C.

February 26, 1938

My dear Mr. Secretary:

In the absence of Mr. McDonald, I wish to confirm in behalf of the Federal Housing Administration the assurances I have given orally to your assistant, Mr. Evans, and to Mr. Baldwin, Mr. Perkins, and Captain Lord, of the Farm Security Administration, with whom I have had various discussions this week.

We are very much interested in expediting action on the housing projects outlined by Mr. Baldwin and Captain Lord, especially if there is a possibility of getting construction on some of these projects under way in the near future and before we are very far into the regular building season. The meeting held in my office on Wednesday of this week, in which representatives of the FSA, the WPA, the RFC, and the FHA participated, and subsequent conversations I have had with several of the participants, make it evident that cooperative action on the part of these four agencies in furthering the development of housing projects on land owned by the FSA is altogether feasible.

At the White House meeting held on February 18, Mr. James Roosevelt stated that it was the desire of the President to concentrate the housing activities of the Administration, for the next several months at least, on operations under the National Housing Act as recently amended. Where it seemed practicable to do so, however, the President wished WPA labor and the FSA projects to be availed of in connection with these operations. Mr. McDonald assured the persons at the White House meeting that the FHA would undertake to bring this about, and accordingly asked me to follow the matter through.

From the point of view of practical operation, the first step as I see it is the determination by the FSA of the sequence in which it wishes to have its projects considered for mortgage insurance by the FHA and financing by the RFC, and the submission of rough or finished working plans to the FHA and the RFC for such consideration. Colonel Harrington has advised me that the WPA is able and willing to supply the FSA with funds to employ the technical personnel required to do the land planning and architectural planning that I understand the FSA lacks funds to undertake.

Honorable Henry A. Wallace - #2

2/26/38

Mr. Baldwin and Captain Lord informed me that their first preference of the FSA projects would be that at Bethlehem, Pa. Accordingly, I arranged to have Mr. M. R. Massey, chief of the Locations Section of our Underwriting Division, go to Bethlehem yesterday with Captain Lord, look over the project site, make some preliminary inquiry into the sale and rental situation, and let me have an early report. I expect to receive this on Monday.

I ought to explain that, until Wednesday's meeting in my office, I was under a misapprehension as to the status of the FSA projects. Mr. McDonald, Mr. Eccles, and Mr. Chester Davis had mentioned them to me at various times before my recent talk with you, and I had somehow got the impression that the housing plans were ready and that construction could proceed at once, beginning with WPA labor on the roads, utilities, etc., if the FHA and the RFC could arrange the major financing. Hence I may have given to you, as well as to Mr. McDonald, Mr. Eccles, and Mr. Davis, a mistaken idea of the time element involved.

As a result of the inter-agency conversations this week, however, I believe that Colonel Harrington and Captain Lord will be able to get the project plans drafted shortly, and that the four agencies concerned will be able to arrive at a mutually satisfactory working arrangement with respect to the construction and financing to be done. Housing, like farming, requires some weeks or months between seedtime and harvest, and large projects cannot be improvised; but I am sure that the disposition of all these agencies is to move as rapidly as the circumstances will permit.

I wish to express for Mr. McDonald and for those of us associated with him the very real appreciation that we feel for the manner in which you and the persons representing you have gone about the business of helping to make the recent housing legislation more widely effective. We shall avail ourselves of the assistance and facilities you have kindly offered to us, and we hope that our agency in turn, with the rural provisions of the new legislation, may afford some useful benefits to the farming community.

Yours faithfully,

J. M. Daiger

The Honorable Henry A. Wallace
Secretary of Agriculture
Washington, D. C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 1, 1938

TO Secretary Morgenthau
FROM Mr. Hase
Subject: March Financing

Conclusions

It was recommended in a memorandum sent to you yesterday that a March financing be avoided, and that the \$455 millions of maturing 3 percent Treasury notes be paid off with gold drawn from the Inactive Account and the \$400 millions bill concentration be paid from tax receipts. This is our first choice. If this action does not appear advisable to you, however, we believe that it would be a significant -- although less important -- contribution to the monetary aspects of the recovery program of the Administration if the Treasury would confine its offerings of new securities (exclusive of United States Savings Bonds) in the immediate future to short-term securities, such as notes and bills.

This policy should be continued until the loans and investments of member banks have increased materially above present levels or until a significant measure of general economic recovery has been achieved. We recommend, therefore, if no action is taken with respect to gold, that the March financing be confined to rolling over the maturing notes into new notes and that any additional cash requirements of the Treasury prior to the June financing be met through additional issues of Treasury bills.

I. General Economic Considerations

Total loans and investments of member banks declined by approximately a billion dollars during the last half of 1937. This followed a decline of approximately \$300 millions during the first half of the year. Total member bank deposits declined by a little over two billion dollars during the entire year 1937; and such deposits, less interbank deposits, by about \$1,100 millions. Bank deposits constitute the major proportion of the cash resources of business and the decline in their total amount was, of course, occasioned principally

Secretary Morgenthau - 2

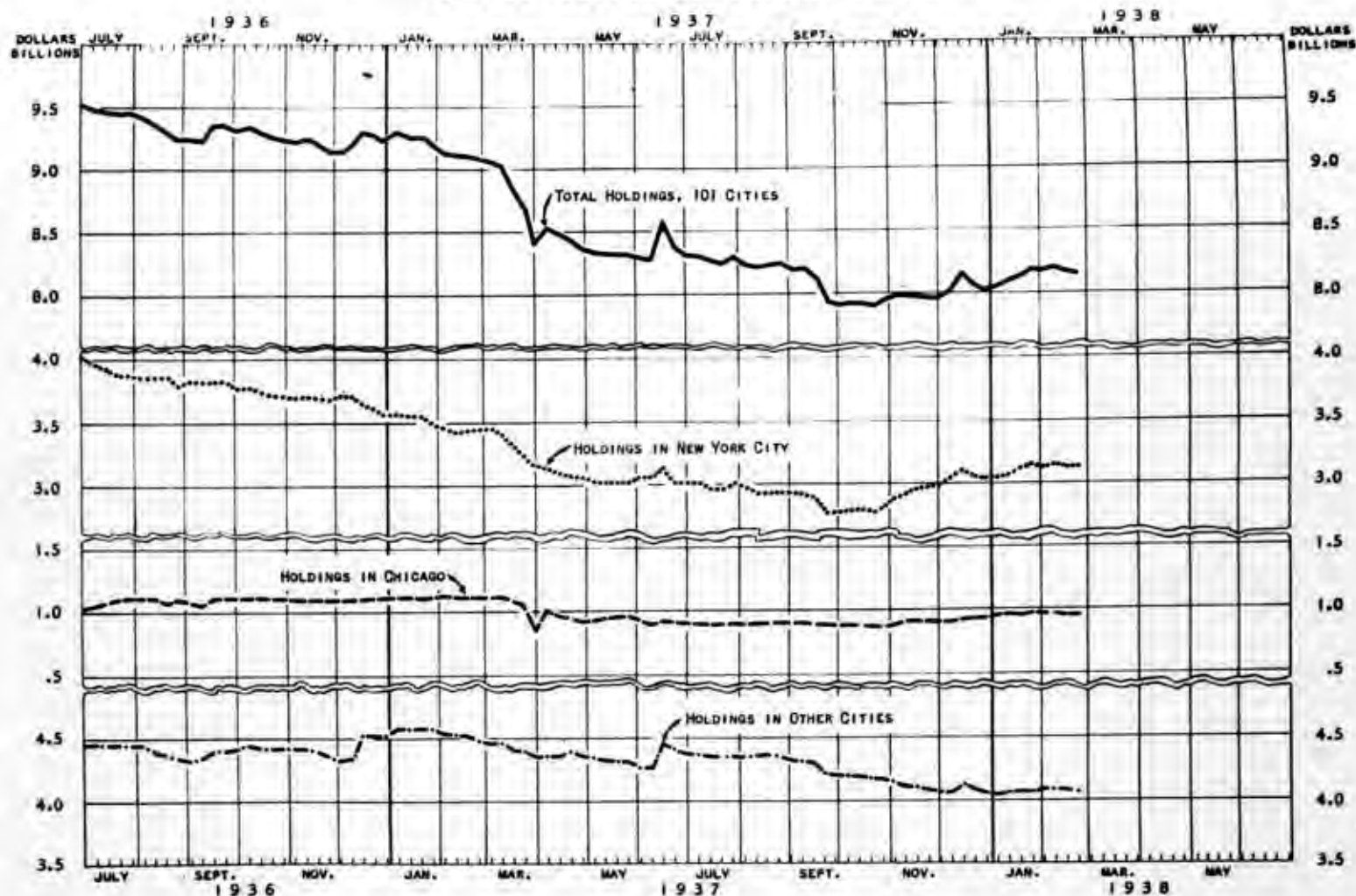
by the corresponding decline in bank assets, chiefly loans and investments. These declines are in part major causes of the current recession, and in part themselves resultants of the recession. If they can be stemmed and reversed, it will be a major factor in promoting recovery.

Member bank holdings of United States Government securities declined by \$769 millions during the first half of 1937, and by \$292 millions during the second half, or \$1,061 millions for the entire year. Declines in holdings of United States Government securities by member banks have thus, taking the year as a whole, contributed more than their quota to the total decline in loans and investments, and hence in deposits and in business cash.

The decline in member bank holdings of United States securities originated in the New York banks almost simultaneously with the first increase in reserve requirements and continued in such banks through the end of September 1937, since which time holdings by these banks have increased. Holdings of United States Government securities by other weekly reporting member banks commenced to decline later, and continued to decline until the end of November 1937. Since that time, there has been little change in holdings by these banks. Changes in holdings of United States Government direct obligations by weekly reporting member banks from the beginning of July 1936 to the most recent date for which figures are available are shown on Chart I.

The occasion for the credit policies which originally initiated the decline in bank deposits has now definitely disappeared, and we are generally agreed that an expansion of such deposits during the next year or so would be highly desirable. An expansion in deposits can be brought about only by a corresponding expansion of bank assets. The repayment of the March maturities in gold would increase bank assets by the amount of the notes not held by banks at the time of maturity, and would consequently increase deposits by an equal amount. The repayment of the notes in gold would also increase the total reserves of member banks by the whole amount of the maturing notes, and would contract their loans and investments to the extent of member bank holdings of such notes without a corresponding contraction in deposits. The combined effect of these two influences would be strongly to encourage member banks to acquire new loans and investments and hence bring about a further increase in deposits.

HOLDINGS OF U.S. DIRECT OBLIGATIONS BY WEEKLY REPORTING MEMBER BANKS



If the repayment of the March maturity in gold seems inadvisable, however, our next choice would be that it be refunded into a type of security likely to prove attractive to banking holders — in the present case notes. The remainder of this memorandum is devoted principally to the discussion of data concerning changes in the distribution of Government securities during the past few years which throw light on the technical aspects of the markets for different types of securities, and the likelihood of each to be bought and held by banks.

II. Bank Holdings of United States Government Securities

Chart II shows the composition of the interest-bearing public debt and the amount of each type of obligation held within the Federal Reserve System at the time of each member bank call report from the end of 1929 until the present date. As indicated in the chart, member bank holdings of United States securities reached their high on June 30, 1936, and have declined between each successive call report since that date. The proportion of the total privately held interest-bearing debt in the Federal Reserve System as of December 31, 1937 was smaller than on any call date since December 31, 1931.

Since June 30, 1936, when the holdings of Government securities by the Federal Reserve System reached their peak, the privately held interest-bearing public debt has increased very substantially, and all of this increase, plus the amount disgorged by the Federal Reserve System, has been acquired by other investors. The following table shows for each six-months' period from that ending December 31, 1936 to that ending December 31, 1937, the change in the total privately held interest-bearing public debt, the change in the amount held within the Federal Reserve System, and the change in the amount held outside of the System. "Privately held public debt", for the purpose of this table, excludes all securities held by Government agencies and trust funds and Adjusted Service Bonds.

Secretary Morgenthau - 4

Privately Held Interest-Bearing Public Debt

(Millions of dollars)

Six months ending	Change in total privately held interest- bearing public debt	Change in amount held within Fed- eral Reserve System	Change in amount held outside the Federal Reserve System
Dec. 31, 1936	+ 1,061	- 83	+ 1,144
June 30, 1937	+ 1,029	- 673	+ 1,702
Dec. 31, 1937	+ 244	- 254	+ 498

Our problem is how to reverse the decline in Reserve System holdings and encourage the absorption of substantial amounts of Government securities by banking institutions, if not from future increases in the public debt, then from present nonbanking holders. This will achieve the two-fold purpose of increasing bank loans and investments -- and hence deposits and business cash -- as previously discussed; and of concentrating investment from current real savings upon private securities, thus contributing to the revival of the corporate new issue market.

Obviously this can be accomplished best by concentrating our offerings on the types of securities which banks are most ready to absorb; namely, short-term securities such as notes and bills. This preference for shorter securities on the part of banking institutions is shown by the current distribution of each type of security between banking and nonbanking holders. As of December 31, 1937, 67.6 percent of the outstanding amount of Treasury bills, 51.5 percent of that of Treasury notes, and 29.5 percent of that of Treasury bonds was held in the Federal Reserve System; and the current banking position is such that it is likely that banks are, at the present time, desirous of increasing rather than reducing the proportion of their total position held in short securities.

The data used in the above discussion and in the accompanying charts have referred exclusively to securities held within the Federal Reserve System. This was done because the Federal Deposit Insurance Corporation Call Report for December 31, 1937, containing data with respect to the holdings of Government securities by all insured commercial banks, is not yet available, and because only data with respect to the holdings of securities by the Federal Reserve System are available during the earlier portion of the period covered by the chart. As of June 30, 1937, the holdings of United

States securities by nonmember insured commercial banks amounted to \$980 millions as compared with \$10,870 millions held by member banks on the same date. The inclusion of figures with respect to these banks would not change the conclusions reached in this memorandum, although it should be noted that these banks are somewhat more inclined to purchase and hold longer securities than are member banks. Data on holdings of Government securities by mutual savings banks have been purposely omitted from this section of the memorandum since these holdings represent, for the most part, absorption from current real savings rather than from bank credit.

III. Changes in Holdings of United States Securities by Nonbanking Investors

Data with respect to the net change in the amount of United States securities held outside of the Federal Reserve System during each six-months period from that ending December 31, 1936, to that ending December 31, 1937, were presented in the preceding section as a residual item in a table concerned primarily with holdings within the Federal Reserve System. These figures may be somewhat further refined for the purpose of a consideration of changes in nonbanking holdings of Government securities as indicated in the following table. It is assumed for the purpose of this table that all United States Savings Bonds are held outside of the banking system.

Changes in the Amount of United States Securities Held Outside of the Federal Reserve System

(Millions of dollars)

Six months ending	Changes in total: held outside Federal Reserve System	Changes in amount held by insured non-member commercial State banks	Changes in amount held by mutual savings banks	Changes in amount of U. S. Savings Bonds outstanding	All other changes
Dec. 31, 1936	+ 1,144	+ 102	+ 275*	+ 159	+ 608
June 30, 1937	+ 1,702	+ 84	+ 20	+ 325	+ 1,273
Dec. 31, 1937	+ 498	- 10*	+ 100*	+ 164	+ 244

* Partly estimated.

Secretary Morgenthau - 6

No data are available which permit a breakdown of the "All Other" column of the above table for the periods given. The importance of one of the groups of holders included in this classification -- insurance companies -- and of recent changes in their holdings, however, may be indicated by the available data which are not entirely comparable, and which cover different periods.

As of December 31, 1937, 49 large life insurance companies, holding about 92 percent of the admitted assets of all legal reserve life insurance companies in the United States, held \$4,416 millions of United States Government securities, including fully guaranteed securities, or 12 percent of the total privately held amount of all such securities outstanding. The net change in the amount of such securities held by this group of companies during each of the past four years is shown in the table below:

United States Government Securities*
Held by Life Insurance Companies

(Millions of dollars)

Date	Amount held	Change in amount held
Dec. 31, 1934	1,737	+ 933
Dec. 31, 1935	2,721	+ 984
Dec. 31, 1936	3,691	+ 970
Dec. 31, 1937	4,416	+ 725

* Includes guaranteed issues.

Data are available weekly on the gross purchases of United States Government securities, including fully guaranteed securities, by 45 large life insurance companies, which report such purchases to the Wall Street Journal. These companies make the bulk of all insurance company purchases, having purchased a volume of Government securities equal, in 1936, to 70 percent of the total Government securities purchased by the 800 insurance companies (including companies other than life) reporting to the Poor Publishing Company in that year. It should be carefully noted that these figures apply to gross purchases, and not to net changes in holdings, and are consequently comparable only with figures showing the same data during previous periods.

Secretary Morgenthau - 7

During the last eight months of the calendar year 1937, these companies purchased \$500 millions less of Government securities than during the same period in the preceding year. Purchases of investments other than Government securities declined by about \$100 millions compared with the preceding year.

The following table shows the gross purchases reported by these companies between November 27, 1937 and February 12, 1938, and during approximately corresponding periods for each of the past four years.

Life Insurance Company Investments

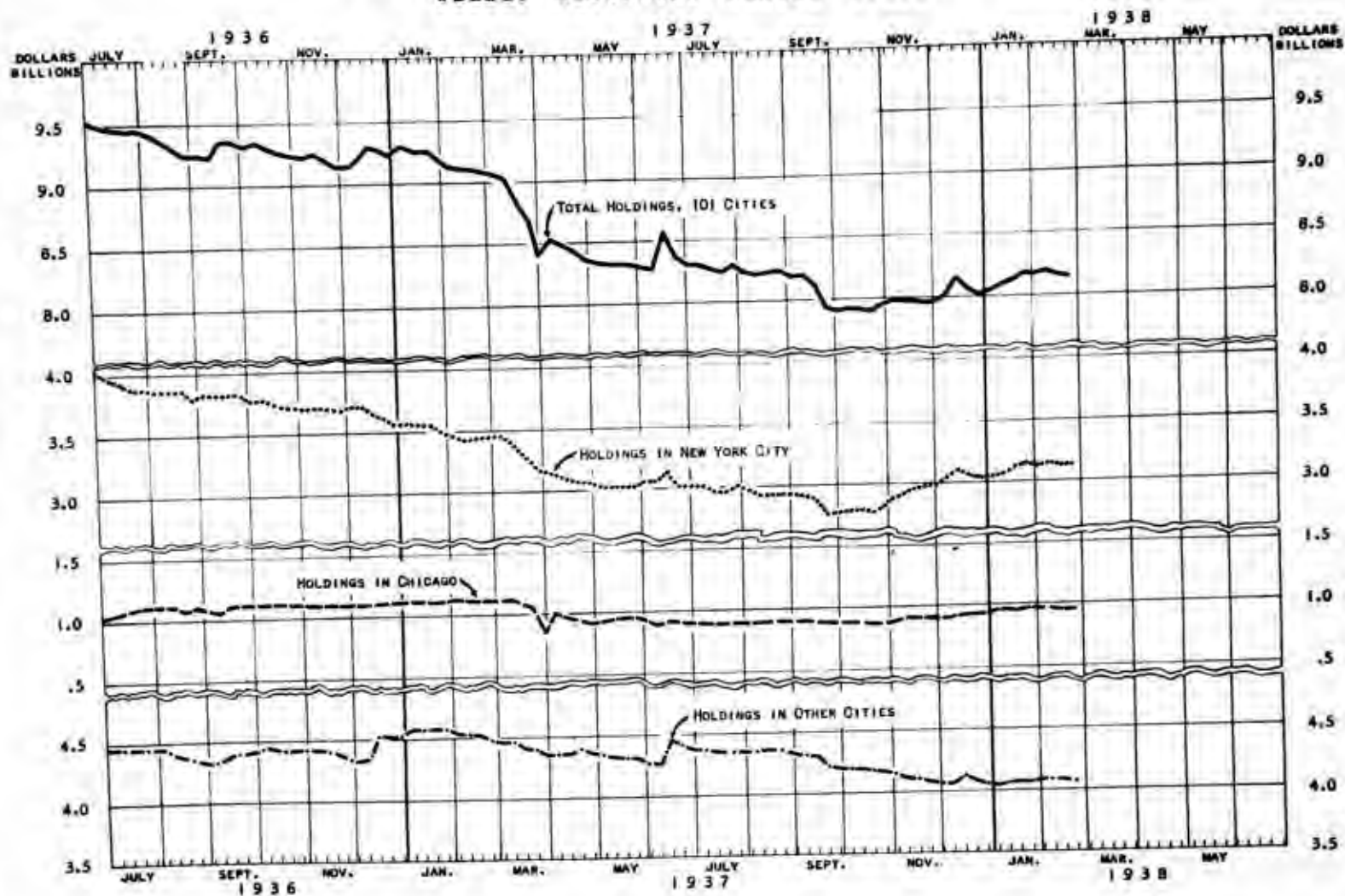
(Millions of dollars)

Period	U. S. Government securities* purchased	Other invest- ments	Total invest- ments	Percent U. S. Government secu- rities* to total investments
11/27/37-2/12/38	128	336	464	28
11/28/36-2/13/37	430	481	911	47
11/30/35-2/15/36	366	307	673	55
12/1/34-2/9/35	358	251	609	59

* Includes guaranteed issues.

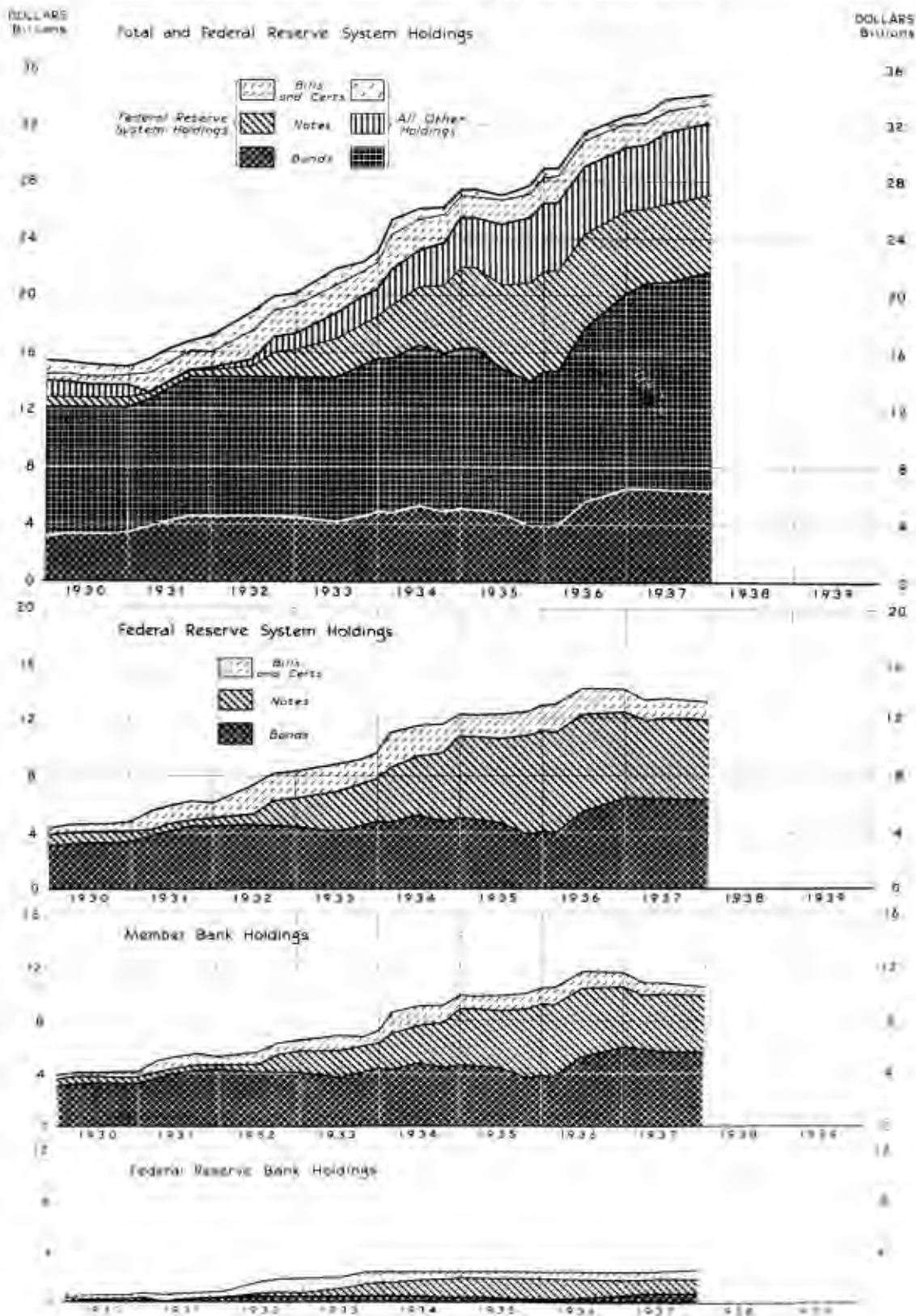
The conclusion from the above data would appear to be that life insurance companies, the largest single customers for Governments outside of the banking system, are not very active purchasers at the present time. We consider this an additional reason for making the present offering consist of securities of a character especially attractive to banks.

HOLDINGS OF U.S. DIRECT OBLIGATIONS BY WEEKLY REPORTING MEMBER BANKS



COMPOSITION OF INTEREST BEARING PUBLIC DEBT

Comparison of Total Outstanding with Government Security Holdings of Federal Reserve System, by Type of Obligation



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

7 files 79

DATE March 1, 1938

TO Secretary Morgenthau Re: Increasing excess reserves of country
banks by deposits of Government funds.

FROM Herman Oliphant

There is no statutory limitation as to the number of banks which may act as Government depositories, or as to the amount which the Government may have on deposit with banks authorized to act as depositories except that "The Secretary of the Treasury shall distribute the deposits herein provided for, as far as practicable, equitably between the different states and sections." A distribution of public deposits weighted more to the advantage of country banks could hardly be said not to be an "equitable" distribution, if the Secretary of the Treasury finds some reasonable basis for believing that the country banks are in greater need for such deposits than are banks in the large financial centers.

The Treasury regulations provide that "The balances maintained with general depositories to the credit of the Treasurer of the United States are fixed in direct proportion to the amount and character of the essential Government business transacted by such depositories and are adjusted periodically upon that basis." The regulations further provide that whenever a depository holds funds in excess of its fixed balance it must make immediate transfer of such excess to the Federal Reserve Bank of its district. It would therefore be necessary in order to secure the desired end to raise the fixed balances in country bank general depositories, or to create new country bank depositories. The effect of such action is indicated by the following example:

Assets of Country Bank	
Loans and Discounts	\$50,000
Building, etc.	10,000
Cash	5,000
Reserve with Federal Reserve Bank	14,000
Government Bonds	<u>21,000</u>
	\$100,000

If at this time customers wanted to borrow \$50,000, the bank could not make the loans unless it sold about \$7,000 of Government bonds or borrowed money from the Federal Reserve banks by pledging Government bonds or rediscounting eligible paper. However, if the Government deposited an additional \$10,000 in cash the bank could take from its portfolio \$10,000 in Government bonds to post with the Treasury as collateral for the Government deposit and could post the \$10,000 of cash with the Federal Reserve bank to cover (a) the \$1,400 reserve for the increased bank deposit resulting from the Government deposit and (b) the \$8,600 reserve for \$50,000 of new loans to the bank's customers.

The \$10,000 which the Government deposits with the bank may be obtained in a number of ways such as accumulating taxes and other Government receipts, transfer from Treasury deposits with Federal Reserve banks, issuance of silver certificates against free silver in general fund, and by an indirect distribution of moneys held by the depositories.

The success of such plan would depend upon the Government's refraining from calling its deposit in such manner or at such time as to force the bank either to call its loans or to sell Government bonds.

Herman Oliphant

TREASURY DEPARTMENT

80

INTER OFFICE COMMUNICATION

DATE MAR 1 1938

TO Secretary Morgenthau
FROM Herman Oliphant

Supplementing my memorandum to you of February 23, 1938, relative to increasing excess reserves of country banks by larger deposits of Government funds, the matter has been discussed with Mr. Bell.

As stated in my previous memorandum, there is no legal impediment to increasing Government deposits in the manner proposed. The legal side of the matter is more fully discussed on the attached page.

As a matter of policy, I share Mr. Bell's feeling concerning the difficulties and dangers of this undertaking. Beginning with the withdrawal of Government deposits from the Bank of the United States by Andrew Jackson, there has been no subject fraught with greater danger and possibility of political pressure and abuse than the allocation of Government deposits among banks. The Government, having finally developed the present objective standards now applied in the distribution of such deposits, would be exposing itself to serious danger by replacing the present standards with anything less objective and automatic in operation.

Increasing outlying deposits might well be a proposal of great importance in meeting credit shortage in outlying areas, and this proposal may be of major importance to recovery. It does not seem that it is impossible to modify present objective and automatic standards so that this proposal could be carried out without danger. That would require considerable work not legal in character.



As distinguished from the policy determination, however, it is my view that there is no legal impediment to increases in Government deposits in the manner mentioned in my memorandum of February 23. Under Circular No. 92 all deposits in "war loan deposit accounts" are payable on demand. Legally the Secretary could call such deposits either from individual depositaries or from all depositaries on a uniform basis. Whether the former method would be desirable is a question of policy. Even though the latter method were to be used, a redistribution of deposits could be effected, particularly as by far the greater portion of the war loan deposits are carried in the large New York banks. The only statutory restriction upon the distribution of deposits is that contained in the National Bank Act (U.S.C. title 12, sec. 90), which provides that deposits among national banks shall be distributed, as far as practicable, on an equitable basis between different States and sections. Such a restriction does not appear in the Federal Reserve Act (U.S.C. title 12, sec. 332) authorizing the designation of State member banks as general depositaries, nor does it appear in the Liberty Bond Act (U.S.C. title 31, sec. 771) authorizing the designation of any bank as a special depository (war loan deposit accounts). Moreover, as I mentioned in my memorandum of February 23, I do not believe that the restriction in U.S.C. title 12, sec. 90, is a legal impediment to the action that we are considering. Furthermore, attention is invited to that provision of the Act of August 6, 1846, R.S. 3640 (U.S.C. title 31, sec. 524) which confers express authority upon the Secretary of the Treasury to "transfer the moneys in the hands of any depository of public moneys to the Treasury of the United States to the credit of the Treasurer; and he may transfer moneys in the hands of one depository to any other depository, as the safety of the public moneys and the convenience of the public service shall seem to him to require."

EG

GRAY

London

Dated March 1, 1938

Rec'd 4 p.m.

Secretary of State,
Washington.

172, March 1, 7 p.m.

FOR TREASURY FROM BUTTERWORTH

One. In the course of a luncheon conversation Leith-Ross asked about the Hungarian debt offer referred to in the fourth paragraph of my 168, February 28, 7 p.m. and at the same time said that it was being reported in some sections of the foreign press that Hungary had been put up to making such an offer. He added that this was as far as he knew quite untrue, it certainly was completely untrue as far as Great Britain was concerned. Later Leith-Ross did say that if such an offer as the Hungarian one were accepted it might prove useful as a point of departure for others. Leith-Ross also said that he saw numerous Englishmen who on returning from visits to the United States came to urge the desirability of dealing with the war debt problem and in this connection he referred to what he termed "the saner view" now being taken in the United States of the possibility of adjusting the

war

REB

2-#172, From London, Mar.1,7p.m.

war debts and he specifically cited as an example an article appearing in the February issue of the Atlantic Monthly which he recommends that I read.

I might say that I did not feel that there lay behind Leith-Ross' remarks any more definite intentions than the above indicates. Reference is made to my 732 of November 23, 6 p. m., paragraph two. As regards France, Leith-Ross thought that the low point in the French situation -- though not necessarily of the franc -- had been reached and passed. He said that France seemed to be faced with three main problems (one) that involving the relationship of capital and labor (two) that involving an unbalanced budget and (three) that arising out of the European political position. As soon as progress was made on one the others rose up to create difficulties and in this connection he cited the fact that as soon as Saturday's reassuring vote was obtained in the Chamber of Deputies on the issue of foreign policy Chautemps found himself involved with the Senate on the labor code problem. Nevertheless Leith-Ross felt that things should improve in France but the rate of progress would be slow.

Three.

REB

3-#172, From London, Mar. 1, 7p.m.

THREE. Leith-Ross was rather inclined to Clay's view (my 142 of February 28, 5 p. m.) that the underlying trend in Great Britain was downward but that the decline would be gradual and the forthcoming spring upturn would for the moment obscure the basic trend. He was, of course, most interested in American developments and expressed the hope that confidence could be revived and capital expenditure resumed. He also stressed what an important part housing had played in Great Britain's economic recovery.

Four. Fluctuations in the foreign exchange markets were insignificant and the volume of trading continues small.

JOHNSON

CSB

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Y. H. CHEN, A. H. CHEN, J. H. CHEN, AND C. H. CHEN

Downloaded At: 11:53 11 September 2009

JR

GRAY

Paris

Dated March 1, 1938

Rec'd 11:18 a.m.

Secretary of State,
Washington.

317, March 1, noon.

FROM COCHRAN.

No official Paris market today but in fairly active inter bank transactions nervousness has been displayed and franc has fluctuated. Trading opened optimistically and franc strengthened from 153.43 to 12 with French control buying good amount of sterling. Trend later reversed and by 12 o'clock rate moved back to 153.55 without intervention by control. Forward franc and Government securities better. Bankers estimate cash subscriptions to new Treasury loan to date reach between 1 and 1.6 billion francs. Debate on labor legislation continues this afternoon.

Press report from Amsterdam indicates that in spite of opposition of "investors' front" new issues for converting three and one-half to three per cent loans are meeting with success and will be continued on Dutch market.

WILSON

CSB

Regraded Unclassified

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 2, 1938, 3 p.m.

NO.: 322

FROM COCHRAN.

This morning the franc opened weak. The market was discouraged over the long drawn out attempt at compromise in parliamentary handling of the labor bill. At 11:30 a.m. I called at the Bank of France. At that time the control had lost 150,000 pounds net. This brought the rate back from 154.30 to .07. The Reich in addition had brought in 40,000 pounds.

Tomorrow's statement of the Bank of France will not show any new advances to the State, but the last few days the State has been hard pressed to raise funds to pay maturing obligations of French railways on the markets in Belgium, Switzerland and the Netherlands. It would seem to be inevitable that the State during March will have to draw on its credit with the Bank of France. One rumor current today is that there will shortly be issued a low interest thirty year loan with complete exemption from inheritance and income taxes in order to provide funds for the national defense "Caisse" which is being established now. According to another report, the next issue will be a national defense loan with exchange guarantee.

The repayment operation mentioned above of railway

credits

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credits has involved yielding by the French stabilization fund of the necessary foreign exchange against francs to the French Treasury. As a result the stabilization fund contains only around three billion francs of gold today, which includes exchange. This amount is approximately one-half billion less than would have been its holdings if the railway credits had not had to be paid. Therefore the fund is not in a very strong position to resist any attack on the franc that might result from further advances to the State being shown on a statement of the Bank of France in March.

In official session and this afternoon the franc has improved a little but trading has been dull and market thin awaiting decision on labor bill. Money market easy. Rentes down on rumors of new loans and announcement of January tax returns which were below estimates and indicative of decreased consumption. Hotel strikes on Riviera may hurt a good season just at its peak.

END MESSAGE.

WILSON.

EA:LWW

GROUP MEETING

March 2, 1938.
9:30 A. M.

Present: Mr. Magill
Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Viner
Mr. Taylor
Mr. Lochhead
Mr. Bell
Mr. Upham
Mr. McReynolds

H.M.Jr: You two gentlemen (Mr. Magill and Mr. Oliphant) have just got to produce now on this tax exempt. The President will not wait more than another twenty-four hours.

Magill: I think we are all set.

H.M.Jr: Have you cleared it with Justice?

Oliphant: No, I was ---

H.M.Jr: Well, I wish you would. I wish you would clear it with Justice so that - what is tomorrow, Thursday? - Just a second.

(Mr. Kieley gives the Secretary a note.)

H.M.Jr: Yes.

So I mean - this is a highly legal document, isn't it?

Magill: Well, yes - fifty per cent.

H.M.Jr: Well, if you people will clear it, I will say at ten o'clock tomorrow?

Magill: Mr. Oliphant and I had a session on it from four-thirty to five-thirty yesterday afternoon. I think as far as we are concerned we are agreed.

H.M.Jr: Will you do Justice next? Say ten o'clock tomorrow.

Oliphant: We'll get together right after this meeting and agree on it.

H.M.Jr: Let's say ten o'clock tomorrow - Magill and Oliphant.
(Makes notation on calendar pad.)

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Then if you'll (Magill) wait a couple minutes - just dictating ---

And also, in the room, as the President told me, on Glass' bill, the Administration has no comment on it one way or the other. We make no comment, and the time he gave me - until March 20 - still holds, and if he decides - this is extra confidential - if he decides to send up a message on monopolies, most likely he will include bank holding companies, you see? But the Glass bill is 'no comment.' Just take it as it is.

So that clears that. Senator Glass most likely will be off in the Mediterranean, and in his absence who do you think is going to handle his bill?

Upham: The report is he and McAdoo are going to introduce it jointly.

H.M.Jr: Adams. So I know where I am at. So that doesn't put too much pressure on me. I can work with you ---

Upham: This afternoon at two-thirty.

H.M.Jr: But see, that does take the pressure off me.
(Nods to Mr. Magill.)

Magill: I have nothing else.

H.M.Jr: (Nods to Mr. Oliphant.)

Oliphant: The attorney for the debtor in that S. E. C. thing is coming down with his plan ---

H.M.Jr: What?

Oliphant: Debtor corporation - is coming down with his plan on Thursday - Mr. Landis.

H.M.Jr: Fine.

Oliphant: Senate will be considering the Reorganization Bill today, and the House will be considering the Appropriation Bill.

McReynolds: I also have a copy of that report.

Oliphant: I have the machine working.

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H.M.Jr: Well, that is helpful. What else?

Oliphant: That is all.

H.M.Jr: Has Clarence got a report for me on that thing?

Oliphant: Yes, I've got the S. E. C. report. You asked me to hold it for you. I've got a thick report and a summary.

H.M.Jr: Summary?

Oliphant: Would you like to have the summary now?

H.M.Jr: I'd like to do it personally with you.

(Nods to Mr. Gaston.)

Gaston: I haven't anything.

H.M.Jr: The other story the President told me this morning is very amusing. Before Baruch went on the Hill he called up Early and said, "There is nothing personal in what I am going to say. Just want the President to know that there is nothing personal."

Gaston: That has a very limited meaning. He didn't mean there is nothing personal about his own tax.

H.M.Jr: I'd rather have beefsteak for breakfast.

George, you know in that debate we had at eleven o'clock Harry White made the statement there would be three or four hundred million dollars worth of capital coming into this country, and this morning the Wall Street Journal carries a Brookings report that there is going to be a net outflow of about the same amount. If you remember, when Harry made that statement the two things just didn't make sense. Well, you fellows and Brookings might get together.

Viner: Not worth it.

H.M.Jr: Why?

Viner: Well, the people who work on the Brookings are not really competent. They may happen to be right on these figures, nevertheless.

H.M.Jr: Well, take a look at what they've got.

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Viner: Charitable to home - be charitable to your own.

H.M.Jr: Well, anyway, I'd take a look at what they've got. Will you?

Viner: Yes.

H.M.Jr: It is interesting - it is just that they take a hundred per cent off. We might set them right.

Haas: Harry, in his discussion, had the commercial balance mixed up.

H.M.Jr: I personally want to be set right on it.

Viner: The difference really sounds big but the difference from the point of view of estimate is not really a very big difference. The hazards of estimating are so large that three hundred million one way or the other is something I wouldn't dare to forecast at this time. You can't tell.

H.M.Jr: If you can decide which way is a trend - I mean if my Research and Statistics say that it is a trend this way; we had better have a plus movement of capital this way - and these people come out and talk about the net trend out - I'd like to know which way the trend is.

Viner: It depends on the speeches you are going to make.

H.M.Jr: If you will tell me that a speech will decide which way it is going to go ---

Viner: Well, I think I could draft a speech for you. It is simply - my only point is that you can't expect your staff to make these estimates to a very fine point. It can't exist, and that the difference between three hundred million movement one way and three hundred million another way, it is not a very great difference.

H.M.Jr: My point that I am making is that my staff informs me, unasked, that the movement is going to be plus. I didn't ask them - they make the flat statement that it is going to be a plus movement of three or four hundred million dollars, and I am asking them to justify it.

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Viner: Well, they are estimating that the temperature is going to be around freezing.

H.M.Jr: I say it doesn't make sense.

Haas: I want to get the memorandum. There is some confusion between gold and capital movements.

H.M.Jr: You are saying the estimate isn't worth a damn?

Viner: I say an estimate as close as that is as good as you can expect.

H.M.Jr: They may be out eight hundred million dollars.

Taylor: They probably are.

Viner: They probably are. After all, this includes short term movements. They have to forecast foreign European political developments.

H.M.Jr: Well, what we are arguing about is, we are both on the same side but you are a little more combative than I am.

Viner: No, I am defensive.

H.M.Jr: Incidentally, if you have nothing better to do would you like to have lunch with me today?

Viner: Yes. That's fine. That means I can't take a "wage lunch" today.

Taylor: I have had to tighten up this year.

H.M.Jr: What?

Taylor: Jake's feeding me.

H.M.Jr: Do you (Taylor) want to tell this crowd what, if anything, took place ^{yesterday} at your four o'clock meeting?

Taylor: There was no four o'clock meeting.

H.M.Jr: No four o'clock meeting?

Taylor: It was indefinitely postponed.

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H.M.Jr: I see.

Taylor: About the Hungarian debt negotiations that the British are so interested in, what should we do?

H.M.Jr: Let the State Department decide that. That is a diplomatic matter. Let them decide that.

Taylor: The Netherlands Minister is calling here at 11:00. Would you have any idea about what that is about?

H.M.Jr: No. But let them decide that over there. I'd like to know what they decide - what Butterworth does - but let them decide.

Anything else?

Taylor: (Shakes head negatively.)

H.M.Jr: Just draw you gentlemen's attention to the fact that our commodities are still going either sideways or up, and the English are off a little bit. That's on a day to day movement. Our stocks are moving much better than the British too.

Dan?

Bell: There is contemplation of a wool loan of seventeen and eighteen cents a pound, amounting to somewhere between forty and fifty million dollars. I have a letter on my desk ---

H.M.Jr: How much?

Bell: Between forty and fifty million. I have a letter on my desk from the President approving that. The question involved here is whether we should allow the R. F. C. Committee its - for that forty or fifty million dollars, just having gone through the Senate day before yesterday. It will be several days before it is signed, and I should think we wouldn't want it to go on the markets - give that commitment - until about April 1, I should think.

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

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Taylor: Just a stand by job.

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

Bell: Now, in the R. F. C. Bill that went through, on the interest, if you recall you told Jesse to present it to the Committee and, if the Committee agreed, to put in a provision to allow the Treasury and R. F. C. just that interest. When he put in the interest, it is thirty-three million dollars odd, and it is compounded - interest on interest.

H.M.Jr: Did it pass that way?

Bell: Yes. It's a law.

H.M.Jr: How much will that cost?

Bell: I haven't checked it yet. It will probably amount to several million dollars, and there is a mistake in the figure in favor of R. F. C. in the amount of seventy-two dollars. I told them I would interpret that not to exceed thirty-three million dollars, plus, and I'd take off the seventy-two dollars. I'd like to take off the compound interest if I could get away with it.

Lockhead: Take it off.

Bell: I've got to have support.

H.M.Jr: Well, we'll support you.

Bell: All right. I'll take it off.

H.M.Jr: That is not playing the game.

Bell: I don't think it is either.

H.M.Jr: That is going too far. Did it go a long way?

Taylor: There is simply a straight refund - no compound.

H.M.Jr: What else?

Bell: That's all.

H.M.Jr: Have you gone into that Straus letter?

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Bell: I'll have a memorandum and a draft of a reply around here this morning. I am going to tell Straus - I can see no reason for that letter except for publicity. Certainly I think the ten per cent in there applying to the states should also apply to the amount available each year. What I am afraid of is they get a state like New York, particularly like New York City, that is in a position to go ahead and they will spend ten per cent of the five hundred million dollars in one year. I don't think they can do it in the law.

H.M.Jr: You bring it around.

Bell: Yes.

H.M.Jr: Anything else?

Bell: That's all. I am ready to talk on that deposit business whenever you are.

H.M.Jr: Deposit?

Bell: Switching money.

H.M.Jr: I've got a long memorandum on that. Murphy particularly unsold me - unless you want to sell me.

Bell: I want to unsell you.

H.M.Jr: I am unsold. They wrote me a very intelligent memo and I am unsold. Huh?

Bell: I think that is right.

H.M.Jr: Incidentally, a memo on gold sterilization, for Harry to come around and see me on April 10.

Haas: I don't know what your criteria will be on April 10.

H.M.Jr: Well, at least you will know if this thing keeps moving the way it is. That is forty days from now.

Haas: Might move better.

H.M.Jr: Well, you know - forty days more is all. Just

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make a mental note - April 10.

Haas: O. K. We are hoping that will work out right.
Were you ---

H.M.Jr: Notes to ---

Lochhead: The volume of trade is so small on the exchange
markets these days you practically can't determine
the trend at all. It is just a fraction off the
last ten days.

H.M.Jr: Announcing the gold wouldn't hurt us any.

Lochhead: I don't see any adverse criticism.

H.M.Jr: Cy?

Upham: No.

H.M.Jr: Mac?

McReynolds: No.

Oliphant: You weren't going to attend that meeting at the
Institute?

(Mrs. Klotz comes in.)

H.M.Jr: I am not.

Oliphant: Is there any objection to my preparing that?

H.M.Jr: There is not.

Oliphant: I will prepare that for your signature then.

H.M.Jr: Please.

All right.

March 2, 1938

HM, Jr spoke to the President this morning and from the receiver Mrs. Klotz overheard the following:

'Well,' he said, 'in effect, yes' and he said, 'I would like to have McAdoo join me if he will and I am going away.' I said, 'I am very sorry,' and he said, 'I am going on a Mediterranean trip because I can't get reservations on the train and I am going while he wants to get in.' I said, 'I have not got a copy of the synopsis and', I said, 'but in effect it prevents the present owners from shifting funds. I think the idea is not so bad and it makes it a straight investment company without any bars.'

Mr. Morgenthau said, 'He sent me a synopsis and I am having it studied.' The President said, 'Carter, suppose this comes up while you are away. I am sending up a message on the general subject of monopolies and including banking, and supposing this comes up while you are away. Who will handle it while you are away?' and he said, without hesitating, 'Senator Adams.'

Mr. Morgenthau said, 'The fact that he is doing this, I can keep on the schedule which you laid down for me: to be ready before March 20th.' The President said, 'This bill is not our bill in any way, but Carter told me that he merely was going to introduce it.' HM, Jr said, 'As a trial balloon it may be very helpful.'

The President said, 'Will you do one thing. The Senate wants to abolish the undistributed profits and the capital gains tax. Will you get Magill started on getting some things together for me. I may say something when the tax bill passes. I want from Magill the following three things: (1) that the House bill will raise approximately the same amount of money; (a) that the House bill will take care of the little fellow, \$25,000, \$50,000 and in the case of the family companies, \$75,000; (3) that the House bill does not repeal the principle of the undistributed profits or capital gains tax and, therefore, is sound in principle.'

The President also said, 'I want to do a little warning. I want figures and facts to show what would happen if the bill were changed to the repeal of the undistributed profits in the way of restoring the old tax

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evasion. I want examples: Mr. 'A' and Mr. 'B'.'

The Secretary inquired: You mean back to where it was? Oh, I thought you wanted all the figures. Oh, I understand.' The President said, 'It will restore the old abuses, the Mellons, etc.'

The Secretary said, 'The thing that upset them yesterday was one of the leaders saw you on Monday morning and then went over to see Doughton and said that you told them at your conference that the bill was off \$40,000,000 revenue. Doughton and Vinson have been in a bad humor and they wanted me to write them a letter that as the bill comes out of the sub-committee that they had sufficient revenue.'

The President said, 'Somebody said, Does the present bill bring in the same amount? and I said I did not know; that the last report I had was about three weeks ago. One of the proposals, if it had passed, would have produced about \$40,000,000.'

The Secretary told the President that at a dinner last night they had seen Alsop and Alsop said, 'I think that when Senator Harrison goes to work, his bill will be exactly what Baruch wanted; that Harrison and Baruch have put their heads together.'

The President said, 'When the bill passes, I want to go on the air to make it perfectly clear that we can't restore the old abuses.' HM, Jr said, 'At that time it would be well to say something about doing away with tax exemptions.'

The President said, 'Baruch called up Steve Early and he said 'There is nothing personal in what I said,' and Steve replied, 'After all, you can't attack the Administration without hitting the President,' and his answer was, 'There is nothing personal about it.' Isn't that funny?'

HM, Jr. inquired, 'Did you see what Krock said yesterday? At last they are now in the open.' The President said, 'Isn't it amusing?' HM, Jr. said, 'Well..' and the President said, 'Well, amusing and also sordid.' HM, Jr. agreed, saying, 'That's right; it is sordid.'

SELF-HELP HOUSING PROJECTS

March 2, 1938.
10:30 a.m.

Present: Mr. Gaston
Mr. McReynolds
Mr. Foley
Mr. Reynolds
Mr. Barton
Mr. Udo Rall
Mr. C. B. Baldwin
Mr. Milo Perkins
Mr. Levy
Mr. Royal B. Lord
Mrs. Klotz

H.A.Jr: What I'd like to do, if possible, this morning, is either decide we will or won't, depending on what Farm Security says, go ahead and organize two cooperatives, one to do this particular kind of very low cost housing as they did in Idaho - one cooperative for negroes and one cooperative for whites. And I think that Mr. Rall had a chance to see Mr. Baldwin and prepare him, and I wondered if you (Baldwin) would care to talk to that; because, after all, you people have got the money and we're coming around and saying, "Please!"

Baldwin: Well, apparently we have the only one that's - money that's available for this purpose.

H.A.Jr: That's right.

Baldwin: There is one thing, Mr. Secretary, that - I've been in touch with the Secretary's office since I talked with you - I think the Secretary would like to have cleared up; that is, whether or not in connection with these self-help co-ops we're going to act as a transmittal agency, as we have in the case of the Puerto Rican Reconstruction Corporation in the Bureau of Indian Affairs, or whether or not we're going to have the actual responsibility for managing these enterprises.

H.A.Jr: How would you like to have it?

Baldwin: Well, frankly, because the Secretary is on record about projects, about not starting any more, he'd prefer not to have it.

H.A.Jr: Well, let's - see, you're on a matter which you are familiar with and I'm not. I mean I don't know what is done about Puerto Rico and the other thing. Would you - supposing you - well, let's say that you don't

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sponsor it. Is that the idea?

Baldwin: That's right. We approve the use of the funds. The Secretary approves the use of the funds for this purpose.

H.M.Jr: Well then, who would sponsor it?

Baldwin: Well, I don't know. I presume that we can make money available to other agencies.

Rall: Mr. Baldwin, would you mind pointing out what that kind of sponsorship would involve. There can of course be a local sponsoring group as we have with the Washington Self-help Exchange, and as we would have with these self-help housing projects, but the sponsoring on the Government's part would involve something like that. Would you explain that briefly?

Baldwin: Well, I'm not speaking of the local sponsoring group; you've got to have that local sponsoring group in any case. What I am speaking of is the department or agency that would actually handle the arrangements with the self-help co-op and would handle whatever controls are determined on.

H.M.Jr: I see.

Baldwin: That's one point.

Rall: It's a control over

H.M.Jr: Are you (Foley) following this?

Foley: Yes. I think I follow it. I don't see how it could be any other way except to have the responsibility for supervising and checking and controlling the project in the Farm Security Administration.

H.M.Jr: You think it should be there?

Foley: Yes, if it is going to be done at all.

H.M.Jr: Well, I'm trying to think around of some alternative, and I don't know where else to put it.

Foley: We certainly couldn't do it here.

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- Perkins: The actual administrative work, of course, is very simple; very, very small group of people could easily handle it, and it wouldn't be a full-time job. But there is the matter of controlling the money, getting your legal things set up, of having some one individual, with two or three assistants on part-time, responsible for seeing this thing is carried out as agreed.
- H.M.Jr: That's right.
- Baldwin: Here's where the Secretary is in a little difficult position, Mr. Secretary. Before the Appropriations Committee, the last few hearings we have had, he's gone on record that we were not going to start any additional housing projects. Now, whether this is considered that type of activity would be something that I guess he'll have to determine. Just remember that.
- H.M.Jr: Well now, somebody give me a wrinkle how we can satisfy his conscience and get the money both. It's been done before in Washington.
- Baldwin: It has been done before.
- H.M.Jr: I'm glad Danny Bell isn't here; I couldn't say all this. Well, let's - now, I'd like to settle this thing, subject, of course, to Mr. Wallace's approval, this morning if possible. I mean I asked you people, tied you up and my own people up, and I'd like to - let's see if we can't do one thing, let's do it now, because I don't know when I can see you again.
- Ball: As I gathered from your conversation yesterday, Mr. Baldwin, what you and Secretary Wallace were concerned about was that someone should exert sufficient control over these funds while they are revolving, even after the projects are finished, to be sure that any Congressional investigation afterwards would not place either the Secretary of Agriculture or the Secretary of the Treasury in an unpleasant position as not having controlled those expenditures sufficiently.
- Baldwin: Well, the grant alone is made to the self-help cooperative for certain specified purposes, and I think it is incumbent on someone to see the funds are used for those purposes.

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- H.M.Jr: Well, what are you going to do, for instance, about giving additional funds to Iona, Idaho, if you decide to do that?
- Baldwin: Well, of course, what we're - I judge, then, you think this is going to be done - Farm Security Administration is going to do it.
- H.M.Jr: No, what I asked you gentlemen to come over for is to decide if we could whether we're going to go ahead with this, and then how we're going to do it. Let's say the \$50,000 that you people gave us for the self-help co-op - it went over to Hopkins and from Hopkins' place the thing was administered. I mean it took more time to get that \$50,000 than it did - now, this is no exaggeration - than for you people to get your \$30,000,000, your 25 and your 5.
- Baldwin: Well, it took considerable time.
- H.M.Jr: But you got it.
- Baldwin: Yes, sir.
- H.M.Jr: Well, the other thing took more time, took months. I don't want to have to, if I can help it - to go through and say, "Well, we'll give this to the Hopkins organization."
- Rall: They are not set up to handle it, Mr. Secretary.
- H.M.Jr: Give it to Procurement? We haven't said we're not going to start anything.
- Foley: No. You could do it, but I should think this group is the best equipped group to handle a thing of this kind.
- Rall: Except it's a question of time. If F.S.A. activities are being wound up - certain phases of it at least - by the end of June, there would be no one over there afterwards to look after those things. It might be possible, Mr. Secretary, under Procurement to set up an experimental unit that will work out such experiments that afterwards, if they do work out, can be incorporated in some other governmental agencies.
- H.M.Jr: How about giving it to Mr. Straus?

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Foley: (Nods no)

Hall: Of course, it's not only the house

H.M.Jr: No?

Levy: I don't think any power.

Lora: He has no power to do it. Of course, in any case, the source of funds would have to be the F.S.A.

H.M.Jr: Has Mr. Wallace said definitely he won't?

Baldwin: On no, he has not. But I was instructed to talk with you about the possibility of its being handled elsewhere and our simply making the money available. No, I don't think that that's a closed book at all.

H.M.Jr: Well, let's just say this, that it seems so - I mean I think the logical place is if you people would do it. Now, if Mr. Wallace says he won't, then you call these people over to your office and decide after this meeting whether you'll do it; but I'd like to get this cleaned up. How's that? That's Point Number One. How's that?

Baldwin: That's right.

H.M.Jr: That's Point Number One. And if Mr. Wallace feels he can't, why then some place... In the first place, we start, are you willing to allocate the \$50,000? Have we got that far?

Baldwin: Yes, we've got that far.

H.M.Jr: What?

Baldwin: Yes.

H.M.Jr: We have. Well, that's the most important.

Hall: For here or for Idaho?

H.M.Jr: No, what I'm asking now is twenty-five thousand for whites and twenty-five thousand for colored people. Is that right?

Baldwin: Yes, we're willing to do that.

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H.M.Jr: You're willing to do that. Well, that's fine.
That's Step Number One.

Step Number Two to whom it is going to be
allocated. Is that right?

Baldwin: That's right.

H.M.Jr: Then, after we have found that

Ball: Sponsoring organization, Mr. Secretary.

H.M.Jr: ... how long is it going to take you to get

Ball: ... a sponsoring organization.

H.M.Jr: Yes.

Ball: With your help, it shouldn't take very long.

H.M.Jr: What do you want in the way of help?

Ball: The selection of the persons to serve, their agreement
to serve.

H.M.Jr: You have to have that?

Ball: Yes.

H.M.Jr: You have to have that?

Foley: (Nods yes)

H.M.Jr: That window dressing.

Foley: Yes, that's why you have to have an agency behind it
that's got experience, because that's just window
dressing; unless you want to throw that whole burden
on gratuitous service, and it's an awful task, because
you've got to acquire land and you've got to build ...

Ball: It's a little more than we know about. You've got to
have a legal body that can carry on this project until
the homesteaders themselves have reached the point
where they can take over practically all of the
responsibility.

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Baldwin: Mr. Secretary, the simplest way to handle it probably would be to make the grant to Mr. Street, as we did in the case of this Washington self-help.

Ball: No.

Baldwin: Might be able to work out something on this.

Levy: Yes, he's an official agency.

Ball: I'm afraid it won't work in this case because I think we'll have to go outside the District for the project, won't find any land cheap enough in the District. And I think his jurisdiction would not extend beyond the District.

Baldwin: What about that, Irv, do you think?

H.M.Jr: They've got their District prisoners 17 miles out of here.

Levy: He could probably make those funds available. Be District people involved, District relief clients, people under the jurisdiction of the local Department of Welfare.

H.M.Jr: The District prisoners are 17 miles out.

Levy: Probably be able to handle it. And of course, he could secure whatever technical assistance he needed.

H.M.Jr: Well, what you people have got, plus what we'll throw into it - I mean what Captain Lord has got, what Procurement has got. I think that would be all they need. They're getting more than anybody else ever got.

Lord: We'd make available all plans and technical help that we have.

H.M.Jr: And as I say, anything in the way of what Procurement can do - I don't know whether they can do anything, but if they can, that's why I asked them to come. You know, don't you, Mr. Reynolds and Mr. Barton?

Lord: Yes, I do.

H.M.Jr: So whatever they can do, they will do. And you've got legal authority here.

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Baldwin: well, there are some legal problems in connection with this. I don't think they will forestall us, but there are some that Mr. Levy may want to discuss.

Levy: The point was brought up as to whether we can make the allocation in the case of the \$50,000 to the District of Columbia. In the past we have found it necessary to get a letter of allocation from the President for that specific amount, and I assume we'll have to do it again.

H.M.Jr: well, I can get that.

Levy: In each such case.

H.M.Jr: I can get that.

Baldwin: Also the question of whether or not we can make a grant to an association which in turn will lend the money.

Levy: That only arises in Idaho. Wouldn't arise here, as I gather it here.

Foley: That's right.

Levy: Because if you work it through Street, he would be able to

Baldwin: Same thing would apply.

Foley: No, he wouldn't loan it, he'd build.

Levy: The plan would be different here than in Idaho.

Baldwin: You wouldn't follow the Idaho plan here?

Rail: Not exactly.

Lord: You'd build with these people - partly build with these people.

Rail: The same as in Idaho.

Lord: Yes.

Rail: But be slightly different arrangement under which the Government would

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H.M.Jr: Hall, take a couple minutes - you haven't explained it - take a couple minutes and explain how you do this thing here in the District. Just take the proposition, see?

Hall: It will have to go outside the District, I imagine.

H.M.Jr: I mean just what we're trying to do.

Hall: What we're trying to do is to set up two demonstration projects to prove that it is possible for families with incomes of less than a thousand dollars a year and with idle time on hand - families who are not fully employed but are otherwise responsible and have a fair promise of that much income over a period of years - to construct their own homes with financial assistance, not direct subsidy - they will have to pay that back - but financial assistance for the purpose of materials, of land, etc., and with advisory assistance in planning and supervisory construction, supervision, etc., and in helping them to organize themselves as homesteaders for the carrying out of certain phases of administration of the project after it has been developed.

Now, if these people could in their work - if the plans are properly designed so they can be worked up largely with unskilled labor and construction supervision, so that these people can put in their own work, for which they will not get paid, but which will be an equity in the particular homestead that a person wants to acquire, then I am convinced that it is possible to give them a quarter of an acre of land and a house, or help them to get that. And a house that is fairly comfortable - it won't be a model house - at a cash cost of around \$1,000. It may be a little more, it may be a little less, depending on cost of materials and various other things, on the requirements of the families. That can be paid back at rates no more, possibly less, than these people are now paying in rent for less adequate quarters, over a period of not to exceed ten years. I think for these families to achieve home ownership on an amortization plan of more than ten years would not be advisable. I think it should be done in a shorter time. And therefore, they cannot get what they would like to get, but what they are able to pay for within that time, on that basis, no more than they would

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otherwise pay in rent. I think it can be worked out.

Lord: Of course, the grant in labor isn't very large, because in small house construction, in one-party buildings, our labor costs in the house are only about 25 or 30 percent of the total cost of the unit; so really it means that actually, if you spend a thousand dollars for your house, you are really only getting around about a twelve hundred fifty dollar house.

Rail: A thousand dollars should cover more than the house, Captain Lord. It would have to be a very simple house, planned so they could enlarge it later on.

Lord: You don't get my point. In other words, when you spend a thousand dollars for your house you're going to build, the best you'll get is a \$1,250 house, because the labor part in small house construction can be cut so low that your people are really only going to give \$250 additional money in their labor; they are only going to build a \$1,250 house even if they are granted a thousand dollars.

Perkins: Less whatever skilled labor you've got.

Rail: Have to be built with cheaper serviceable materials. As I said, it won't be model housing, but it will be housing that is superior to what they are living in generally. It will have land which will enable them to put in their idle time growing vegetables for home use, thereby increasing their cash income - increasing their actual income through this non-cash income, and cut down their food costs, and they can use whatever income they have for other purposes, and they will also suffer less from temporary unemployment than they do at present.

Levy: Mr. Rail, is it contemplated that any part of this money that will be advanced will go for the purchase of the land?

Rail: Yes, it is.

Levy: Well, that is likely to raise some legal difficulties. The Comptroller General will very likely rule that none of the money given to us by the 1937 Emergency Relief Appropriation Act is available for the purchase

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of land; first, because they changed the prior right so as to prohibit the Government from acquiring any additional land; in the second place, at the same session of Congress you had the Bankhead-Jones Farm Tenant Act, which indicated the way in which loans could be made for the acquisition of land by farmers. And I anticipate there will be some difficulty

Foley: Well, W.P.A. can use that money for the acquisition of land, can't it?

Baldwin: No, not under the present Act.

Foley: They don't buy any land at all.

Lord: Sponsoring agency does it.

Levy: Neither the 1936 or 1937 Act permits it.

H.M.Jr: Then all the more reason that you give it to the District with the hope that the District has some land, they own it.

Baldwin: That would simplify it, if the District has land that could be used for this purpose.

Levy: In the Idaho case the prospectus stated that these applicants own their own land, so the only help they need is for building materials; none of the money would go into land. But, as Mr. Hall states, this plan contemplates some of the money would be used for the acquisition of land, and I think we're going to have difficulty on that.

Hall: Well, you'd have to work the problem out in that way in order to make it more generally applicable. Out in the rural areas it is relatively simple to own a small piece of land, but our industrial workers do not own land near the cities. And you can also develop a project more cheaply and more effectively if the houses are adjacent, if they are contiguous, the plots. And it is a logical thing to get a cheap tract and subdivide it into the size of lots that you want to use and have all the people work together there.

Levy: Well, I'm just raising a legal difficulty that we will probably face under that scheme, which would come from

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the rulings of the Comptroller General on the availability of these funds.

Rall: Does it mean that the F.S.A. cannot make a loan or a grant to another organization for the purpose in part of purchasing land?

Levy: We haven't done that.

Baldwin: Question with the Comptroller would be whether or not he'd let us do indirectly something we couldn't do directly.

H.M.Jr: We wouldn't want to do - I mean I wouldn't want to be a part of that.

Levy: Thus far the only funds we have used, either directly or indirectly, for the acquisition of land, have been in the 1935 Act, which gave us the power to do it both directly and indirectly.

Foley: Well, the only way to find out whether or not he would let you do it is to put it up to him informally before you submit the voucher.

Rall: Do you have money available from the old Act that could be expended under the

Levy: No, that's all ...

Baldwin: All that money's expired. Some of it has been reappropriated, but where it's been reappropriated, be subject to the new Act.

Levy: That money expired June 30, 1937.

Perkins: Of course, as the Secretary points out, if the District has the land, that would solve this problem, if it gets in this.

H.M.Jr: That would do it, or if you use one of these 13 sites that you've got.

Baldwin: (Nods yes)

H.M.Jr: You've got 13 sites, haven't you?

Baldwin: Yes, we've got - well, we have more than 13 sites, about 18 sites.

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H.M.Jr: Well, if you'd be willing to do that ...

Roll: The transportation problem would enter into it there.

H.M.Jr: Their sites are near cities.

Lords: Wouldn't be near the District.

H.M.Jr: Have to go somewhere else.

Baldwin: Have to go somewhere else.

H.M.Jr: If this is insurmountable and the District doesn't have any land, and it is insurmountable to use this money, then you'd have to go some place where you people already own some land.

Baldwin: We have some land, Mr. Secretary, near Tuskegee Institute, for instance, that might be used for this purpose. I don't know anything about the industrial employment there, whether that is a logical site; but it would be possible there.

H.M.Jr: Large city?

Lords: Bethlehem, Pennsylvania. We have a lot of acreage up there. That's a center of about 170,000 population.

Baldwin: That particular situation, I think, we worked out with F.H.A.

Lords: There are some tracts that

H.M.Jr: You going to use them all?

Lords: Not all of them. Probably make a hundred acres available.

H.M.Jr: You could make a hundred acres available?

Lords: Yes.

H.M.Jr: There you are. That's the advantage of getting everybody together.

Baldwin: Of course, lot of low income industrial workers in that area. Very poor housing.

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Lord: Very low income groups in steel plants, and they're used to farming too.

H.M.Jr: Maybe we could do it there.

Lord: I think you'd have to give more than a quarter of an acre; not less than three-quarters of an acre, or preferably an acre to a plot.

H.M.Jr: I'm very anxious to see this thing tried on a small scale, see? Then, if it works, we can take people up from Congress, if necessary, from the District. We've done it. Here is a way of housing people who have incomes of less than a thousand dollars who have part-time employment." And it is the best thing of its kind that I have seen. Now, the only way to find out whether it will work is to try it.

Baldwin: Well, are you particularly interested in starting in the District?

H.M.Jr: Well, I like it because - it's just like this self-help co-op - I mean you can get people who are in the Government or associated with the Government to go on the board - like Mrs. LaFollette and people like that. I mean you get interest. So that if, for instance, they decide they want legislation so as to make it possible to get additional money for that sort of thing, well, you've got somebody who has first-hand information and it is much easier to sell it.

But if we have these legal difficulties - I mean I'd be the last person in the world who'd want to do something by indirection, and if it can't be overcome, why, then, let's take the next best thing, which would be some land that you already have.

Hall: If it were possible, Mr. Baldwin, to buy land for which the F.S.A. money would not be used - if an arrangement could be made with the owner of the land that it will be paid back entirely out of the repayments by the homesteaders, would there be any objection on that basis?

Baldwin: Well, there would be - I don't imagine there'd be any

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legal objection, but there would be a practical objection. You'd be improving land on which the owner would probably want - retain a first mortgage on the property.

Lord: We'd make that arrangement ahead of time - agreement that he would sell the plots as rapidly as the people accumulate the money.

Perkins: Suppose they don't accumulate the money. He's got the house. The guy is sunk.

Lord: It's either got to be successful or unsuccessful.

Perkins: There is a serious question in my mind, Mr. Secretary, as to whether or not, if we're going to build 25 houses, the costs under this thing - of course, we're willing to try it - aren't going to be considerably higher than the costs would be if you went in and did a mass construction job. Now, in Idaho, 50 percent of the grant money went for overhead; I think they need it, got to have it. But add that on a \$25,000 application - \$12,500, which is a 50 percent overhead, and that is as economically as they can run that small scattered job. Then, by the time you take into account your wells, which you have to have, which you've got to take into account in terms of water supply, and the fact that you can build houses in mass construction with a low labor cost of only 25 percent - that's all they could contribute.

To get back to Captain Lord's figures, if a house costs a thousand dollars, the most you could get this way would be a \$1,250 house, and to the extent that you had plumbers and other skilled people come in, that would be cut down to where the actual labor contribution of the person would be perhaps \$175 or \$200; then, with the very high cost of supervision, you can't get away with building a \$1,250 house. You're going to get a finished house the cash cost of which will be higher than if - it would be if you went in with a construction crew and built a couple hundred houses.

I'm afraid it's a thing we ought to face frankly from the beginning. That doesn't mean it isn't a good

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idea to try it; and perhaps if this were done on a bigger scale you'd cut some of that overhead. But doesn't it, frankly, Captain Lord, look as if it would be a more expensive way than mass construction?

Lord: Yes. And we can use that labor in mass construction.

Perkins: And get more work per hour than you can possibly get under this other idea.

Lord: We have proof here. We are building a hundred houses in which we have a complete pre-fabricated scheme of house construction. And actually, in this case here (showing pictures), a \$1,130 house, the total labor cost in that house was about \$200, so it isn't And when you get to small houses, you don't get the 50 percent labor and 50 percent material. Of course, that's a normal average throughout the country, but it isn't true on small house construction when you get down to mass production principles.

This just shows the sequence of how we build: Loading of the truck with sections that have already been pre-fabricated. And there you have your truck.

You start out here with a house.

Gail: I'd just like to make some comments on Mr. Perkins' statements.

Lord: By noontime the platform construction is built and these are delivered to the site; by afternoon the whole house is erected, except for this. Here's the way the platform is. Material delivered to the site. That all works out scientifically. Here's the first section moving into place. Then here's the completed exterior without the roof on, and there is your gable being placed on. There's your roof trusses being placed on your house. This is all done by six men, this field work, in one shift. That takes less than eight hours. That should take seven hours. Here is your little completed house, which is finished the second day, with all the inside and the roof.

H.A.Jr: The second day?

Lord: Uh-huh.

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H.M.Jr: This is - I hadn't seen this. You didn't have this when you were over there with moving pictures.

Lord: No, this project was just getting started at that time.

H.M.Jr: That's the second day. How much?

Lord: About \$1180 - average cost for two and three bedroom house. Two bedrooms, probably built around \$900.

H.M.Jr: Does that include plumbing?

Lord: Does not include plumbing, but includes kitchen sink and kitchen cabinets. The actual plumbing in a house would cost approximately - complete plumbing, about \$150. Add that on to the cost of the unit and you've got the answer.

Rall: It's too much money, Captain Lord.

Lord: It could be done for less. We can do it for \$600.

Rall: Here's a house that cost \$733 in cash, which was built out at Iona.

Perkins: But you add \$500 for overhead, and that's their proposal.

Rall: That is more than necessary for construction purposes. They have to have an organization that will continue for a number of years to supervise this self-help program out there, and they're including part of that in this overhead.

H.M.Jr: Where do you get this 50 percent overhead on this?

Perkins: In their application, Mr. Secretary, they asked for \$25,000

H.M.Jr: This is Iona?

Perkins: Yes. ...for the housing, and \$12,500 for administration and supervision.

Baldwin: Mr. Secretary, I think it is only fair to point out

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that they intend to use this \$25,000 as a revolving fund, and it is true that the \$12,500 would administer over a period of years more than \$25,000 worth of houses. As they got repayments they would extend their program, so the two figures are not directly related.

Ball: No.

d. J. Jr.: Well, of course, you've got two entirely different principles. You've got this one - that is Captain Lord's development - which is as much ready-cut in advance and pre-fabrication, so forth and so on, and doing this and getting that; and this other idea, taking this group of people who are part-time workers, who have some skill and who could help each other and form a cooperative and through this exchange work, so forth and so on, build a house, the kind that they have there.

Now, I take it, the investigation you people made of the thing at Iona - it looks interesting. Now, it is an idea. But the thing is whether or not you believe in using a cooperative as a medium to get a group of people together to exchange work and build themselves houses over a period of two or three years. Well, that idea interests me; but it is entirely different than this thing that Lord

Lord: This is the mechanics of carrying out that idea, because - I mean in a way, because when you get unskilled people working you can get good supervision by pre-fabrication. And another thing, I think you've got to build your houses, once you start them, fairly rapidly - not necessarily build the whole project, but I don't believe it is feasible to leave a house half finished and then construct it progressively several months later on, unless you get the exterior finished and then finish up the interior of the house. Maybe that can be delayed; that is perfectly possible.

Ball: I think the Farm Security Administration experience will be extremely valuable to us.

But I'd like to comment on Mr. Perkins' statements briefly. In Idaho the overhead, the administrative cost is relatively higher than it will be elsewhere, because of the scattered location of those houses, for

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one thing. Also, that \$12,500 was not intended to be used for the supervision of houses to be constructed with that \$25,000 at one time. It was to revolve, it was to be used for a longer period and for the self-help program in general. It is true that to make such a project really efficient, it should be done on a larger scale, but for an experimental project I think it is justifiable to use a higher overhead cost and keep track of the entire development very carefully, so we can establish what the relative expense is of developing such a project, how many houses will have to be built at one time in order to make it feasible.

H.M.Jr: Do you mind - I mean this thing is - why don't we find out first whether we can do this thing legally, see?

Baldwin: Yes, sir.

H.M.Jr: I mean we may be talking about something that is impossible. Let's find out if you can do it legally, if the money can be used for buying the land; if it can't, that's out. Then it gets down to

Foley: Using their land.

H.M.Jr: ... using their land. Then the question is to send some people up there, look the thing over, see if the people are there, see if the people would be interested, see? You may find they're not interested at all. Have to see the Bethlehem people, because you'd have to get a group in Bethlehem that'd be interested to do this thing. And if you wouldn't mind giving it a little time yourself, Mr. Baldwin, just to keep the thing going.

Baldwin: Yes, sir, be glad to.

H.M.Jr: And Foley will follow it, assist on the legal if you need it. And if either one of you two gentlemen, Barton or Reynolds - I don't know - could sort of follow this thing too, see? I don't know whether you both have to do it. Are you duplicating on this, both of you?

Barton: No, we can separate it.

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- H.M.Jr: Just kind of follow it and keep the thing rolling, and if you think within a week maybe you could come back and let me know - is that pushing too fast?
- Bolawin: It would be pushing - I'm leaving, got to go to Milwaukee; I may have to pass it to Mr. Perkins.
- Perkins: I'll be glad to follow it through.
- Mr. Hall, don't misunderstand what I said. It isn't a matter of our not being interested. But I don't think it's efficient with 15 or 20 houses. If we want to do it with our eyes open, realizing all the time it is an experiment, that's one thing. But all our recorded data say it will be inefficient.
- H.M.Jr: I think you're perfectly right. You may find out that a hundred acres - may want to do a hundred acres. There may not be the colored people up there who are available. Here they are figuring on plenty of colored people. So you may want to do it for a hundred white men.
- Perkins: Wholly possible.
- H.M.Jr: I think you're perfectly right in doing the thing before you start. I think we ought to know what we're getting into.
- Perkins: It looks as though on 20 houses we're getting into something which costs very much more per house than we know a house can be built for. If there are other more important advantages from its experimental nature, it's all right. But I think we ought to face it.
- H.M.Jr: We can still keep the cooperative idea and still do it with an exchange of work and make it a hundred houses.
- Perkins: Mr. Secretary, we're doing a thing similar to that in Alabama, although we're paying the people five cents an hour.
- H.M.Jr: How much?
- Perkins: Five cents an hour.

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Baldwin: Mr. Secretary, that's just to supplement their regular income.

Rall: I think I'll have to help Mr. Perkins out on that. What they're giving these people is a dole to exist on while they're building their own houses; not paying them for building their own houses.

Perkins: That's right. And it works out pretty well.

Lord: We only have one man on the job. In one month's time they've built 18 barns. Now we're getting houses built.

H.M.Jr: That a co-op?

Lord: It is a natural co-op of a group of people.

Baldwin: Isn't a legal cooperative. Well, it is in a way. We have loaned them money, they have pooled together.

Rall: But you run into trouble on your repayments, Mr. Perkins, if you do the job with people who have no steady income from regular employment.

Baldwin: Of course, these are full-time employment.

H.M.Jr: The thing I'd like to try, unless it proves absolutely unfeasible, is to do this near an industrial center, see? That is - I mean so it isn't farming. I'd like very much to have it in connection with a factory city.

Now, would it be crowding you too much, say, to come back a week from today?

Perkins: Not the least bit.

H.M.Jr: At 10:30.

Perkins: Not the least bit. I think the first thing for Mr. Levy and Mr. Foley, to see the Comptroller General's office informally and let's get this land thing straight. We prefer not to lend the sponsoring group the money; rather make a grant and then let them fuss with it, if it's agreeable to you, Mr. Secretary, as a revolving fund to expand this thing.

Baldwin: Same way we have operated in the District.

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- Perkins: Well, that's another legal question to raise, as to whether or not we can make a grant through such a sponsoring association. They will use the money - as the Secretary says, if you want it used for land, that's out. Let's find out if they can take notes from these individuals with the money we make as a grant.
- Levy: I'm fairly certain that the co-op to whom we make the grant could purchase materials for the houses and sell them on credit, which would have the same effect as making a loan and would have the added advantage they want to get of mass purchase of materials, and that, I think, we have sufficient precedent for to
- Lord: We've done it.
- Haldwin: We do have an opinion from the Comptroller that a co-op to which we make a grant cannot lend the proceeds of that grant. We have an opinion on that.
- H.M.Jr: Well, could you between now and next Wednesday - some of you maybe go up to Bethlehem and see what the land looks like?
- Perkins: Captain Lord just got back.
- Lord: I've been up there.
- H.M.Jr: Oh, you have. How about seeing the people?
- Lord: That would be Rall's
- Hall: I think it would be unwise, Mr. Secretary, to see the people until we know the conditions under which we could work the project, because
- H.M.Jr: Well, Rall, I can't fool around with this much more. You've got to - I mean I can't - between now and next Wednesday you'll have to either come back and say "It is" or "It isn't." I mean I can't give this thing months. I mean you'll just have to step on it. I mean you go up and see what kind of people are up there. And I don't see, between - in a week, why you can't do it, because these people are going to do the legal work. I mean you'll just have to
- Perkins: Are you thinking of a sponsoring group or are you

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thinking of the people who are going to build the houses?

Foley: Both.

H.M.Jr: Both.

Lord: Well, I can work up a sponsoring group. We've already got a county leader up there who is willing to go in on sponsoring things like this - labor leader.

Ball: I am anxious to get it under way, Mr. Secretary. I am very much so.

H.M.Jr: Yes, but

Lord: I think there is a possibility, too, of going out and making arrangements with the landlord to lease land to be paid back at some future time, or rent that land on a long-term lease per acre, and these people - that's perfectly possible right in the District. In other words, go right out here, find some land, get hold of the farmer, make a 99-year lease - "We agree to pay you ground rent at \$10 an acre per year."

Ball: There is no objection to paying rent on land from such grants or loans?

Levy: No.

Ball: From your grants or loans. You can rent it on a 99-year lease.

H.M.Jr: Does that sound legal?

Foley: I don't see any reason why not.

Ball: That's the way everything is done out at Greenbelt; that's done privately on a 99-year lease.

Lord: Just pick a farm out, take three or four days, make a dicker with the farmer to pay so much ground rent on a 99-year lease, with the option to purchase at any time all or part thereof. You can probably get your ground rent at the rate of 3 or 4 percent of the capital listed value of the land - probably 6 percent.

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- Perkins: What plan, Mr. Hall, for getting the actual workers who are going to live there, how get in touch with the 30, 40 people? What mechanics have you got?
- Hall: That depends on how - where it's located. My idea is to work with some large employer - personnel people in Sears Roebuck, General Electric, people like that, and with the personnel division of the Navy Yard on the negro projects - practically all from the Navy Yard. Locate people that way. Easiest way would be to put an article in the press, but I think it's not desirable at this time.
- H.M.Jr: Well now, what are you going to do? You going to see whether legally you could - possibility of leasing land?
- Levy: Well ...
- H.M.Jr: And the possibility of looking Bethlehem over.
- Levy: I'd suggest that while Mr. Foley and I are looking into the legal thing, Mr. Hall might be looking into Bethlehem so when he comes back we'll be in a position to tell him what we have concluded about the legal possibilities.
- H.M.Jr: I don't see why not.
- Swadwin: Might be able to get your sponsoring group in a week, but I doubt whether it is physically possible to get the actual workers together.
- H.M.Jr: On, I agree with you. But if you have a county agent or somebody up there who could introduce Mr. Hall to the people and see whether they are the kind of people that this sort of thing is meant for - now, they may not be that kind of people.
- Lord: The man is right in town. Mr. Hall is the man, right here in Washington.
- H.M.Jr: He's right here?
- Lord: He was up there and purchased all the land, and knows all the people in Bethlehem who might be interested in it.

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H.M.Jr: And if you - is this asking too much of you, Mr. Perkins?

Perkins: Not the least bit, and I'll clear with the Secretary's office and find out about administrative matters. Might I ask another frank question on that. We can make available this money for this thing. We've got the money we can grant. We can also make available an engineer. Going to have to have that. We can get the administrative money, I think, for that. There is a matter, Mr. Secretary, of wells and house plans and all the rest of that. So to this group we could assign an engineer and pay for him out of our administrative funds.

Now, after you do that, some one person has got to follow through on getting your sponsoring group, working on the legal problems, seeing you get the workers in, and working on their by-laws. Now, if the Secretary were willing to put out the money for this and also the administrative personnel in an engineering sense, is it possible in Procurement or some place in Treasury to have one person who would undertake these other executive responsibilities?

H.M.Jr: That would be Rall's job.

Perkins: Be Rall's job. I mean there's such matters as seeing that - for instance, we never give these co-ops, as a rule, all the money at once. We give it to them as they need it.

Rall: That's the reason I want a legal sponsoring organization to which that money would be given to pay it out, and not to the homesteaders themselves.

Perkins: But some one in the Federal Government, some single person, has to have that responsibility and see that it develops properly along administrative lines. Now, I just grab Procurement out of the air, but if there would be a place in Procurement where such a person could have administrative responsibility for this thing

H.M.Jr: Well, Mac, you're my administrative assistant. Can you answer that one?

-26-

H.H.

Well, of course, it's a question of where you're going to fix the responsibility, what organization is going into it. Of course, Procurement on a thing of this kind, except for technical assistance has got no business at all in it. Functionally it's clear out, it's got no business to have anything to do with it, and I don't think it ought to have added to it this kind of a responsibility. It ought not to be identified with that. We can take engineers or we can take architects or we can take land valuation people, or anybody you need, and send them over for a week or a month or six months, if you need them, and I wouldn't hesitate a minute on that. But to say that Procurement Division is managing the funds for us - it's out, we mustn't do it. If you want to set up a separate unit for it, that's something else again.

H.H.-Jr:

But that throws it right back in Mr. Perkins' lap.

Perkins:

But I got the answer I want to get.

McH:

That's the answer.

H.H.-Jr:

I don't see why Hall can't assume ...

Perkins:

Well, Hall is technically with F.H.A. I tell you, I'm thinking of the time we go up there on the Hill and tell them that we've made a grant of \$50,000. "Who manages that?" We've got to have a clear-cut answer for them that that responsibility is vested in a certain person, in a certain section of a given bureau, given department.

Now, if Procurement is out - and I'm just exploring the possibilities, because it may be we'll have to put it up to Secretary Wallace on the basis, "If you don't take it, nobody else will." That's what I'm trying to find out.

Well now, would W.P.A. be a possibility in this, thinking again of undertaking responsibility for the giving of the funds to the co-op and the rest of it? Would you think so, Benny?

Baldwin:

I'd think not.

-27-

Foley: Not practical.

Perkins: I really think, as a practical matter, when it gets down to it, we're going to have to say to Secretary Wallace, "If this is done, it's got to be done in Farm Security."

Baldwin: Well, it is my understanding that that is what you've wanted from the beginning, whether or not we're willing to undertake it. In other words, you don't want the responsibility for administering this thing over here.

H.M.Jr: Well, McReynolds says I can't.

McR: Only two places

H.M.Jr: And I do what Mac tells me. That's why I still stay out of jail.

McR: Only two places this could be done. One would be your (Baldwin) place, which is preferable. The other would be Nathan Straus's place, and I don't believe if it is put over there anything will be done.

Klotz: That's being polite.

Roll: Would it be possible, with the use of emergency funds, Mr. Secretary, to set up just a small experimental unit of one or two persons within the Treasury somewhere, perhaps under Procurement?

McR: No. No, you can't do that. You're getting into a function that they don't belong in, and that's the trouble with the Government service, letting itself spread out like a

Roll: Well, unfortunately, the thing doesn't fit in anywhere right now and it will never get started unless somebody, as the Secretary proposes, takes it in his lap and nurses it along until we can make a demonstration.

Perkins: He's got to make it his job.

H.M.Jr: Well, you people have got to think it over and put it up to the Secretary and see whether it interests him.

Baldwin: Yes.

H.M.Jr: Thank you so much.

**A MIRACLE IN LOW-COST HOUSING
ACCOMPLISHED THROUGH ORGANIZED SELF-HELP**

The five-room house shown on the opposite page was built at a cash cost of \$733. Not one cent had to be paid for construction labor. Its occupants will own it in five years' time, without any down payment and on smaller monthly payments than they formerly paid in rent.

This family has an annual income of only \$700. In 1934 it owned a half-acre lot worth a hundred dollars, in Iona, Idaho. It was living in a rented house costing \$20 per month.

By joining the self-help housing cooperative it was able to get a loan of \$365 for materials for a basement home. All of the labor was supplied on a non-cash basis by the members of the cooperative during hours and on days when they had no paid employment. In the spring of 1935 the family moved into this basement home and instead of paying \$20 per month rent to a landlord it began to pay off its cash loan at the rate of \$18 per month. At the same time, the wage-earner in the family used his spare time to pay off his labor debt by helping other families in building their homes. In 1937 he owned his basement home free of any encumbrance. He then contracted for another loan of \$368 for materials for a superstructure which was completed before winter. As he kept right on with his monthly payments of \$18 he will have paid off all debt by 1939, and thereafter his only expenses for his home will be upkeep, taxes and insurance.

The completed home has electricity, running water, and a bathroom. It is much more spacious and more comfortable than the former rented quarters. Although its cash cost is only \$733, the appraisal value of the house is about \$2,000. This family would never have dared to try to buy a \$2,000 house on an annual income of \$700. Home ownership became possible only because nearly half of the cash cost was eliminated through a self-help use and exchange of construction labor. The owner did about one-third of the total labor himself, while the other two-thirds were contributed by other members of the group. When the owner has squared off his labor debts to the group, he will have put in the full amount of labor required to build his house. Since this labor is contributed at times when the owner has no cash employment, he loses no income thereby. Neither does he spend any more money in the process of acquiring a home than he would have spent by continuing to rent. Virtually, therefore, his home costs him nothing except the use of his leisure time during several successive years.

Eleven other families in Iona are acquiring their own homes on exactly the same basis. A miracle is being wrought for them.

THE EVOLUTION OF A SELF-HELP HOME



1. First month. A group of would-be home owners have put their idle time to use in excavating for a basement home for one member of the group.



2. Third month. By the same group effort, and with a cash loan for materials only, the concrete walls and floor have been completed. The forms will be used on each house in turn.



3. Fifth month. A temporary roof protects the basement home which now contains three rooms, kitchen and bath. The family has moved in and now can use its rent money for paying off the loan.



4. Two years later. The cost of the basement home has been repaid, cash with cash and labor with labor, and the owner enlists group effort once more to erect the superstructure.



5. The home is completed, at a cash cost of \$735 and a maximum loan of \$368. In two more years the family will own it clear, without any additional strain on the family income.

March 2, 1938

WPA employment figures:

For the week ending February 26: 2,076,219

An increase over previous week of: 67,074

21
785
6
45-00

Wednesday
March 2, 1938
2:47 p.m.

RMJr: Hello.

T.O.: Dr. Burgess. Go ahead.

RMJr: Hello.

W. Randolph

Burgess: Hello.

RMJr: Hello, Randolph.

B: Hello, Henry.

RMJr: What's doing up in the 'big city'?

B: Well, nothing very exciting.

RMJr: Yeah.

B: This market's a touch off today, but not enough to bother; just a free financing market a little less - a little less exuberant than yesterday.

RMJr: Yes.

B: The stock market's irregular...

RMJr: Yes.

B: ...a little bit off.

RMJr: Yes.

B: I've been talking with different people here today and just - just shooed the Guaranty Trust fellows out of the room.

RMJr: Yes.

B: They're - they're thinking along the adjustable lines I think, along the line of putting out some more of some of the outstanding issues...

RMJr: I see.

B: ...giving an option and converting into some of those. The forty-eight fifty-one, I think is the one that my mind is running toward rather.

-2-

HMJr: I see. Anybody talk about a note?

B: Why yes, there's some talk about a note. As a matter of fact we are just talking about the pros and cons on that now. There's some argument in giving them a choice.

HMJr: Yes.

B: I don't think there's anybody that suggested just giving another loan.

HMJr: Yes.

B: But there's some argument for a choice.

HMJr: I see.

B: I'm not convinced either way yet on it.

HMJr: Well....

B: It might be well, but it's one of ^{the} things that needs to be canvassed I think.

HMJr: You'll be in tomorrow?

B: Yes. The boys are all set. Now, what time do you want the Discount fellows, twelve-thirty or a quarter of one?

HMJr: About a quarter of one I'd say.

B: All right. All right. They're all set for that.

HMJr: All right.

B: They're coming down tonight. Devine will be there at nine-thirty.

HMJr: All right.

B: And the Board fellows are ready for eleven.

HMJr: O.K. I'll see you tomorrow.

B: Very good.

HMJr: Goodbye.

B: Goodbye.

Wednesday
March 2, 1938
2:53 p.m.

HMJr: Hello.

T.O.: Mr. Cummings. Go ahead.

HMJr: Hello.

Walter Cummings: Hello.

HMJr: Walter ~~Cummings~~.

C: Yes.

HMJr: Henry Morgenthau, Jr.

C: Hello, Henry, how are you?

HMJr: I'm fine. Walter, we've got to do a financing next week.

C: Yes.

HMJr: And I thought you might try to do a little checking up for me.

C: All right.

HMJr: It's just the question of converting that three per cent note into something.

C: Yes. Henry, I - we have been giving it a little thought here and had in mind that the thing that would fit in pretty well...

HMJr: Yes.

C: ...would be about a nine-year - about a nineteen-forty-seven at two and half per cent.

HMJr: Yes. You want it a little rich, don't you?

C: Huh?

HMJr: That'd be a little rich, wouldn't it?

C: No, I think that would be about right.
- make the exchange...

-2-

HMJr: What?

C: Two and a half would be about right. There's a slight premium on it of course.

HMJr: That'd be a little bit too good, I think.

C: (Laughs) Yes, we don't want to be too generous but we still want to encourage them and keep everything going nicely.

HMJr: Yeah.

C: I'll - I'll study it out a little, Henry, and...

HMJr: Will you?

C: That was my first thought on it.

HMJr: Well, I'll give you a ring again Friday.

C: Yes, all right.

HMJr: Will you do that?

C: Yes, I'll do that.

HMJr: Thank you.

C: All right. Goodbye.

Wednesday
March 2, 1938
4:08 p.m.

RMJr: Hello.

T.G.: Mr. Coolidge.

RMJr: Hello.

T. J.
Coolidge: Hello, Henry. How are you?

RMJr: How are you? - I didn't call you back about our depositing money in different banks because I gave up the idea.

C: I see.

RMJr: But I am calling up because I thought ^{that} if you would be sort of inquiring around I'd call you again Friday and see what you found out and what you thought yourself is the possible conversion...

C: Yes.

RMJr: ...for our three per cent note.

C: Well I think anything is possible that you want to do, Henry.

RMJr: Well, I think you're right, but I'd like to do what would be best for everybody concerned.

C: Yes.

RMJr: Unfortunately they've let this premium go up on the maturing note pretty high.

C: Well, I really think that you can pick the maturity that you'd like to sell and it would go.

RMJr: You think so. Have you any leanings between a note and a bond?

C: I think anything would go - just below the present market. I, personally, Henry, would rather like to see an increase in the two and three-quarter bond issue.

RMJr: I see.

-2-

C: In other words, one of your outstanding two and three-quarters at - to sell at a premium.

HMJr: I see. Of course, we've never done that.

C: Pardon?

HMJr: We've never done that; I mean, where we've had to sell at a premium.

C: You've often converted into an outstanding issue.

HMJr: But not at a premium.

C: Not at a premium, no, I don't believe so.

HMJr: I don't think - not since I've been here.

C: No, you have to do it - well, now let's see, - yes, I can remember...

HMJr: Did we do one?

C: Yes.

HMJr: Did we?

C: You'll find the first time you tried to convert the four and a quarters you offered the twos at par and the conversion at par and a half.

HMJr: Yes, well I wasn't here.

C: That was the very first conversion...

HMJr: I wasn't in the Treasury.

C: ... in the Treasury, the first one you had.

HMJr: Yes, I wasn't in the Treasury, then.

C: I see.

HMJr: Yes. Well, I'd like - are you going to be in Boston Friday?

C: Yes. I'll talk to the fellows in the bank here and sell any ideas I can.

-3-

HMJr: And then I'll call you back.

C: Fine, Henry.

HMJr: Good luck.

C: Goodbye.

Wednesday
March 2, 1938
4:16 p.m.

H.M.Jr: Hello.
Tom K.
Smith: Hello.
HMJr: Tom K. Smith?
S: Hello, Henry.
HMJr: How are you?
S: Fine!
HMJr: How's St. Louis?
S: (Laughs) Oh, it's pretty quiet out here.
HMJr: I see. Tom...
S: Yes.
HMJr: I think you promised me to make a few inquiries - what's about the possible kind of piece of paper we should give the people for this maturing 3 per cent note.
S: You mean, have I any ideas?
HMJr: Yes.
S: Well, we're talking about it around out here and we've - two things occurred to us.
HMJr: Yes.
S: First, that you might issue a one and a quarter due in forty-one...
HMJr: Yes.
S: You know you've got an issue of one and a quarter that's due in December of forty-one?
HMJr: Yes.
S: Two hundred and seven million.
HMJr: Uh huh.

-2-

S: You might issue some more of those or you've got to go to a - around a ten year two and a half at par.

HMJr: Ten year two and a half.

S: That'd make - let's see, that's a thirty-eight - that makes forty-eight.

HMJr: Yes. Yes. Ah - which way do they lean, toward the note or a bond?

S: Well, I don't believe there's much difference; I think either one would go.

HMJr: Yes.

S: I don't think there's any preference between the...

HMJr: Which would be better from the standpoint of the banks? - Looking at it from their standpoint?

S: Oh, I don't know, Henry. However, I think I'd flip a coin on it.

HMJr: I see.

S: If you mean which would the banks rather have.

HMJr: Yes.

S: Oh, split it.

HMJr: Split it? Give them each - you mean some of each?

S: We haven't got enough to split it.

HMJr: No, I haven't, that's the trouble.

S: No. No.

HMJr: No.

S: I couldn't answer that.

HMJr: Well, I may call you....

S: Too close.

-3-

HMJr: Pardon me? I may call you back...

S: I say, it's too close.

HMJr: Yes. That's right. I may call you back again Friday.

S: Well now, Henry, I won't be here Friday. I'm going down to visit Henry Couch. (?)

HMJr: Oh, you are.

S: Father Couch - I'll be down at his house Friday night.

HMJr: Oh, no...

S: - would tell your operator where I am.

HMJr: No, I won't bother you.

S: Well, I'll be in Washington....

HMJr: Well, we make up our minds Saturday morning.

S: What did you say?

HMJr: I make up my mind Saturday morning, this Saturday.

S: I know. Well, I'll be in Washington next week one day when I won't be busy, if you have any time - I'll write you.

HMJr: Well, you write me and have lunch with me.

S: Well, I'll - let's see - it's - Friday, Saturday - the tenth, is that Thursday?

HMJr: Just a minute.

S: I went to the booth here so I wouldn't be bothered.

HMJr: The tenth is Thursday.

S: I'll be there on the tenth.

HMJr: Well, have lunch with me.

S: O. K. I'll be - have lunch with you that day.

-4-

HMJr: All right. I'll have pigs' knuckles and sauerkraut for you.

S: What did you say?

HMJr: Pigs' knuckles and sauerkraut.

S: All right. (Laughs) Well now, Henry, I don't think anything can change between now and - - and Friday that would make any difference in my views because...

HMJr: All right.

S: A one and a quarter in forty-one and a ten year two and a half at par.

HMJr: All right.

S: We - we want - we're going to - we've got to buy about five million bonds and - so we - our pars have gone up now - I'll you about it though when I see you.

HMJr: All right, Tom.

S: O. K.

HMJr: Be good.

S: Bye bye.

— J. K. Smith 3/2/38 —
~~1/4~~ — Acc 4/

10yr - 2 $\frac{1}{2}$

deriving

② 47-50 - 2 $\frac{1}{2}$ ✓

① 10yr 2 $\frac{1}{2}$ (almost to mat)

③ 48-51 - 2 $\frac{3}{4}$ (?)

9 to 1 for new issue

Insurance co 200 behind
 in purchases

Market not too broad

EMPLOYMENT ON WPA PROJECTS, BY STATE

UNITED STATES AND TERRITORIES

Weeks Ending February 26 and February 19, 1938

(Partly Estimated - Subject to Revision)

State	Number of Persons Employed		Increase (+) or Decrease (-)
	Week Ending February 26	Week Ending February 19	
GRAND TOTAL	2,076,219	2,009,145 A/	+ 67,074
CONTINENTAL UNITED STATES	2,073,721	2,006,611 A/	+ 67,077
Alabama	30,957	30,140	+ 417
Arizona	7,642	7,525	+ 117
Arkansas	30,576	26,241	+ 3,635
California	86,526	85,621	+ 905
Northern	16,918	16,511	+ 107
Southern	39,578	39,080	+ 498
Colorado	25,517	24,999	+ 518
Connecticut	20,879	20,143	+ 436
Delaware	2,578	2,562	+ 16
District of Columbia	7,042	6,954	+ 88
Florida	28,372	28,063	+ 309
Georgia	33,912	33,140	+ 772
Idaho	10,040	10,931	- 91
Illinois	119,276	113,643	+ 5,333
Indiana	64,991	60,599	+ 4,592
Iowa	26,576	24,117	+ 2,259
Kansas	34,109	33,160	+ 949
Kentucky	43,800	43,327	+ 473
Louisiana	50,520	29,760	+ 560
Maine	7,443	8,138	- 195
Maryland	11,142	11,258	+ 184
Massachusetts	31,960	33,354	+ 1,406
Michigan	86,356	75,500	+ 10,856
Minnesota	118,561	115,604	+ 2,957
Mississippi	36,131	25,884	+ 247
Missouri	65,123	62,543	+ 2,578
Montana	16,414	16,113	+ 1
Nebraska	27,227	25,171	+ 2,056
Nevada	2,240	2,121	+ 119
New Hampshire	1,309	7,371	- 62
New Jersey	71,973	71,592	+ 381
New Mexico	8,001	7,611	+ 190
New York City	113,797	112,539	+ 1,258
New York (Excl. N.Y.C.)	52,819	52,826	- 7
North Carolina	28,804	28,344	+ 440
North Dakota	14,786	14,700	+ 86
Ohio	150,030	131,762	+ 18,268
Oklahoma	54,128	54,262	- 134
Oregon	16,187	15,932	+ 225
Pennsylvania	193,217	193,766	- 519
Rhode Island	12,570	12,854	- 284
South Carolina	27,173	27,279	- 106
South Dakota	17,474	17,373	+ 101
Tennessee	28,413	27,722	+ 691
Texas	70,963	69,521	+ 1,442
Utah	9,084	8,508	+ 576
Vermont	4,941	4,928	+ 13
Virginia	21,590	21,466	+ 124
Washington	32,963	39,259	- 296
West Virginia	35,314	35,287 A/	+ 27
Wisconsin	52,352	49,321	+ 3,031
Wyoming	3,323	3,688	+ 355
Hawaii	2,498	2,501	- 3

A/ Revised.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Tokyo, Japan

DATE: March 2, 1938, 11 a.m.

NO.: 142

STRICTLY CONFIDENTIAL.

Reference is made to telegram on Japanese gold shipments from the Embassy on December 14, 1 p.m., No. 627.

The Commercial Attaché has been told by the Vice Governor of the Bank of Japan that on the twenty-sixth of February gold was shipped to the United States to the value of 15 million yen; this shipment is the first that has been made since the shipments reported in the telegram mentioned above.

GREW.

EA:LWW

DISCUSSION ON WHETHER PRESIDENT ROOSEVELT EVER "DID A DAY'S WORK IN HIS LIFE" CROPPED UP DURING DEBATE ON THE BILL.

IT CAME ABOUT WHEN REP. JAMES C. SCRUGHAM OFFERED AN AMENDMENT TO INCREASE THE APPROPRIATION FOR THE PROVO RIVER PROJECT, UTAH, FROM \$100,000 TO \$350,000.

REP. ROBERT F. RICH, WHO HAD BEEN VAINLY OFFERING AMENDMENTS TRYING TO CUT DOWN INDIVIDUAL ITEMS, GREW ANGRY.

"WELL, OF ALL THE BRAZEN--" HE STARTED. HE SPUTTERED FOR A WHILE AND THEN ADDED: "WELL, I DON'T KNOW WHAT TO SAY!"

RICH THEN BEGAN SHOUTING SOMETHING NOT INTELLIGIBLE ABOVE THE MURMUR OF CONVERSATION. BUT ONE PHRASE CAUGHT THE ATTENTION OF REP. WEAVER, AND HE ROSE TO INTERRUPT:

"THE GENTLEMAN CANNOT SAY THAT PRESIDENT ROOSEVELT NEVER DID A DAY'S WORK IN HIS LIFE!"

"WELL," SAID RICH, "HE NEVER WORKED EXCEPT AT A POLITICAL JOB."

"DOESN'T THE GENTLEMAN KNOW," SAID WEAVER, "THAT BEFORE THE PRESIDENT WAS STRICKEN DOWN HE WAS VICE-PRESIDENT OF AN INSURANCE COMPANY IN NEW YORK?"

"I'VE NEVER HEARD ANYTHING ABOUT IT," SAID RICH. "I KNEW THAT VIMMY WAS WORKING, -- SELLING INSURANCE UP IN BOSTON."

"THE GENTLEMAN DOESN'T WANT TO KNOW THE FACTS," WEAVER CONTINUED.

"AW, YOU CAN'T DEFEND THAT MAN," SAID RICH.

REP. MCCORMACK JOINED IN THE MELEE. HE SAID IT IS "THOROUGHLY UNETHICAL TO ATTACK THE PRESIDENT OF THE UNITED STATES NO MATTER WHAT HE MIGHT BE."

"I NEVER HEARD OF A DEMOCRAT WHEN HERBERT HOOVER WAS PRESIDENT OR MR. COOLIDGE WAS PRESIDENT WHO PERSONALLY ATTACKED THE PRESIDENT," HE SAID. "OF COURSE THEY ATTACKED POLICIES, BUT THAT'S PERFECTLY ALL RIGHT."

"THE POSITION THAT JAMES ROOSEVELT OCCUPIES IS ONE HE HAS EARNED HIMSELF. HE DID MORE IN CARRYING MASSACHUSETTS THAN ANY DEMOCRATIC LEADER IN THE STATE."

MCCORMACK SAID THE WHITE HOUSE STATEMENT IN TODAY'S PAPERS REGARDING THE REASON MR. ROOSEVELT WAS PUBLISHING TRANSCRIPTS OF HIS PRESS CONFERENCES WAS SUFFICIENT TO SATISFY "ANY REASONABLE PERSON."

"WHAT ABOUT THE SIGNATURES AT \$250 APIECE IN THE CAMPAIGN BOOKS?" INQUIRED RICH.

"BLAME THE PARTY IF YOU WISH," REPLIED MCCORMACK.

"WHO GOT THE MONEY -- THE PARTY?" SHOUTED REP. CLARE E. HOFFMAN. "WHO GOT THE BENEFITS? -- THE PRESIDENT OF THE UNITED STATES, THE HEAD OF THE PARTY. WHAT'S THE DIFFERENCE?"

HOFFMAN CHARGED THE PARTY SOLD JEFFERSON DAY DINNER TICKETS TO GOVERNMENT EMPLOYEES WHO DARED NOT TURN THEM DOWN ON THE INSTALLMENT PLAN.

"OH YEE, HE IS THE FRIEND OF THE FORGOTTEN MAN," SAID HOFFMAN, "AND HE HAS NEVER FORGOTTEN ANYONE BY THE NAME OF ROOSEVELT."

"I HAVE NO CRITICISM TO OFFER MRS. ROOSEVELT, BUT THERE SHOULD BE ONLY ONE ACTUAL BREADWINNER IN THE ROOSEVELT FAMILY."

WHEN THE SHOUTING DIED AWAY THE HOUSE VOTED 54 TO 47 TO INCREASE THE PROVO RIVER PROJECT FUND.

ADD INTERIOR APPROPRIATION, HOUSE

AFTER A HALF HOUR'S REST, RICH RETURNED TO THE FLOOR AND SAID HE "HAS NOTHING AGAINST THE PRESIDENT OR ANY MEMBER OF HIS FAMILY" BUT ONLY OPPOSES THE NEW DEAL'S POLICIES.

REP. JED JOHNSON ASSAILED RICH'S SECOND APPEARANCE AS A "HALF-HEARTED APOLOGY." HE ACCUSED THE PENNSYLVANIAN OF "BLOWING HOT AND COLD AT THE SAME TIME" AND CHARGED THAT HE WAS FRIENDLY ENOUGH TO RECLAMATION PROJECTS IN THE SUBCOMMITTEE BUT NOW POSES AS A "WATCHDOG OF THE TREASURY."

BEFORE HE FINISHED, RICH RETURNED TO THE FRAY ONCE MORE, CHARGING MR. ROOSEVELT WITH STARTING RECLAMATION PROJECTS BY ALLOTMENTS, AND THEN PRESSURING CONGRESS TO COMPLETE CONSTRUCTION.

THE ROOSEVELT DEBATE ALSO DREW VERBAL FIRE FROM REP. WILLIAM P. LAMBERTSON WHO CONCENTRATED HIS ATTACK ON JAMES ROOSEVELT.

"THE PRESIDENT ASKED FOR SIX ASSISTANTS WITH A PASSION FOR ANONYMITY," LAMBERTSON SAID. "HE GOT JIMMY ROOSEVELT, WHO HASN'T A PASSION FOR ANONYMITY IN THE WORLD. AS A MATTER OF FACT, HE HAS A PASSION FOR NON-ANONYMITY.

"IS THE RULE GOING TO APPLY THAT MEMBERS OF CONGRESS CANNOT DISCUSS OR EXAMINE THESE GIGANTIC PROJECTS, MERELY BECAUSE THEY WERE STARTED BY THE PRESIDENT?"

3/2--R245P

ADD INTERIOR BILL, HOUSE

THE HOUSE SHOUTED DOWN AN AMENDMENT BY RICH TO CUT \$4,000,000 OFF A \$9,000,000 APPROPRIATION FOR CALIFORNIA'S CENTRAL VALLEY PROJECT, AND ANOTHER BY REP. WILLIAM P. LAMBERTSON, TO CUT GRAND COULEE'S \$13,000,000 TO \$10,000,000.

3/2--R313P

Excerpt from Herman Oliphant's memo of March 2, 1938, to the Secretary.

REORGANIZATION

Genesee Valley Gas Company, Inc. Mr. Foley and I will attend a meeting in Roy Smith's office at the SEC on Thursday morning, March 3. Mr. Landis, attorney for the Company, and Mr. Kline, attorney for the trustee for the bondholders, will also attend. A revised plan of reorganization worked out by Mr. Landis is to be discussed.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 2, 1938

TO The Secretary
FROM Mr. Taylor

I had a call today from the Netherlands Minister, who wished to bring to my attention, at the suggestion of Secretary Hall, the situation presented by a contemplated countervailing duty decision by the Treasury on milk products. He left with me a copy of the aide memoire which he had presented to the Secretary of State. I told him that we would investigate the situation and called his attention to the difficulties which the countervailing duty law often presented. I will talk to Johnson about this matter.

I talked to Herbert Feis about the Hungarian situation and Butterworth's cables. He told me that he had forwarded to Butterworth without instructions a copy of the aide memoire presented by the Hungarian Government. He also told me that Sir Ronald Lindsay had called at the Department of State and had also formally asked for information on this subject, and they were in process of preparing a note to be given to Sir Ronald Lindsey, and that when the text was agreed upon he would let us know.

Jesse Jones called me on both the last two days to find out what was going on, and I told him today that the wool matter would be taken care of through an R.F.C. commitment pending detailed consideration of the Commodity Credit financing, and also told him that we were encountering some difficulties on the adjustment of interest provided for in the legislation but that I thought that the matter would be satisfactorily adjusted, to which he agreed -- I did not tell him what the argument was about.

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I had a call from Draper of Commerce about the position which we are taking on the Turkish matter, and I also had another call from Pierson on the same subject. Pierson is writing me a note asking us to review our position. I will turn it over to you as soon as I have received it, but see no reason for altering the position which I recommended to you.

W.D.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAR 2 1938

TO Secretary Morgenthau
FROM Herman Oliphant

files
For your information -

I saw the Attorney General at 11:45 this morning. I stated that the President had in mind sending to the Congress a message pointing out how tax exemption defeated the equitable operation of our tax system and tended to divert credit from areas in which it was needed most; that his thought was to submit the problem to the Congress to be dealt with by legislation or constitutional amendment as it thought better. I stated to the Attorney General that all that was wanted at this time was to inform him of the general plan, and to get his general approval. I pointed out to him that, after the message had gone down, both the Treasury and the Department of Justice would have to work out the problem of how the President's general recommendation was to be carried out. He said he approved the general plan, and stood ready to cooperate in working out the details later.

I am to see Bob Jackson late this afternoon to ascertain exactly what Cohen and Corcoran have done on the subject.



Thursday
March 3, 1938
9:14 a.m.

Henry
Wallace: I suspect we'll put out that statement on the
payments either today or tomorrow.

HMJr: Good.

W: They wanted to do some retouching on the thing
and consider certain matters of policy but I
think it will be coming out either today or
tomorrow. The other matter - Baldwin was talking
to me, Baldwin and Dr. Alexander....

HMJr: Yes.

W:about this Idaho project...

HMJr: Yes.

W: I had the - went over with them in some little
detail...

HMJr: Yes.

W: ...giving them strict orders not to start any new
projects.

HMJr: I see.

W: And this - this - after going over it with them
it seemed to me that possibly, in view of the interest
this might be a way out, I don't know whether it would
recommend itself to you or not.

HMJr: Well, I'd like to listen.

W: I suppose, in view of the fact, that this is pretty
well along it might be possible to work it out before
June 30th - I don't know to what extent that is true,
but - and in view of the fact that it would take -
they estimated about fifty thousand to do it on this
kind of a basis.

HMJr: You mean the Idaho one?

W: Yes.

HMJr: Yes.

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W: ...that we might be able to take that one on without - although I just - I do sort of like to keep my record clear that I haven't started any new projects, and...

HMJr: Well, I don't want to press you, Henry.

W: Yes.

HMJr: I don't....

W: But they suggested this that we can do, too, that you could take - you could - we could assign to you our money and you could do it, or we could - this Idaho thing is such a small matter that we might do the Idaho thing. But from the...

HMJr: Well, I went over that with McReynolds, my Administrative Assistant. He said we positively cannot take the money.

W: Oh, I see.

HMJr: He said that's out of the question.

W: Yes.

HMJr: And we said that while your people were here.

W: Yes.

HMJr: No, he said we just - well, it just doesn't belong here.

W: Yes.

HMJr: So, unless you felt entirely comfortable about it I wouldn't urge you to do it, see?

W: Well, this is - this is the position I'm in. I've told nearly all the leaders on the Hill...

HMJr: I see.

W: ...that I wasn't starting any new projects.

HMJr: Well I know just how you feel, and I'd be the last one in the World to urge you to do something which would in any way be embarrassing. See?

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W: Yes.

HMJr: Of course, I didn't know until yesterday about this position.

W: Ah - I....

HMJr: I don't want to urge you to^{do}/anything that in any way might be embarrassing tomorrow or a year from now.

W: Now, they're looking into this matter - I don't know to what extent...

HMJr: Yes.

W: ... They told you they were looking into it from a technical point of view.

HMJr: Yes.

W: And if you want we'll have a report made to you from a technical point of view.

HMJr: Well, I think...

W: Or would you like to have one of your people do it?

HMJr: No, I just think this. I think that if you will decide whether you want to do it or not and then if you decide that you don't want to do it why I'll just drop it.

W: Uh huh.

HMJr: And I have no...

W: Ah -

HMJr: I have no feeling about it, it's just something which seemed an interesting thing to look into - whether we could house people with this....

W: No, it - I'm not one of those - one of these absolutely rigid folks....

HMJr: No. No, I know, but...

W: And - I'll - if you're sufficiently interested and the thing to be approached warrants it and we can get the thing done rather rapidly...

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HMJr: Yes.

W: ...so that it's....

HMJr: Well, I just feel this....

W: ...not sticking out on a limb apart from other activities...

HMJr: I see.

W: ...why, we could - we could finish it up and make a report to you on what there is in it.

HMJr: Fine.

W: But I - I don't want to get in a position of having to do more of that kind of thing.

HMJr: I understand. Well, I - my interest was simply this. Here was seemingly a way to house people who are part time workers with incomes of less than a thousand dollars.

W: Uh huh.

HMJr: And I hadn't run into anything like it before.

W: Yes. Yes.

HMJr: That's my only interest.

W: Suppose I talk to them about the desirability of finishing that particular - of going into that particular thing and see if they can get it done rapidly and then making a report to you on it because you might want to use the information...

HMJr: Yes.

W: ...some place else.

HMJr: Yes, that's right.

W: All right.

HMJr: Thank you so much.

W: Thanks, Henry.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 3, 1938

TO Secretary Morgenthau

FROM M. A. Harris

An additional offering of the outstanding issue of 1-1/4% Treasury notes due December 15, 1941, is another possibility for the March refunding. This issue is outstanding in the amount of 204 million, and currently quoted 101 bid, 101.2 offered, and would give the holders of the 3% of March an immediate premium of a point for a 3-3/4 year note. At the current price the yield is about 0.98% to maturity.

Conference in the Secretary's office, March 3, 1938
regarding the forthcoming Treasury financing
with Mr. Devine of New York.

There were present beside the Secretary and Mr. Devine,
Mr. Taylor, Dr. Burgess and Mr. Bell.

The Secretary asked Mr. Devine what he would do on March 10. He promptly said that we could issue, with ease, 10-year $2\frac{1}{2}\%$ bonds in exchange for the maturing notes. He said we could also issue a $2\frac{1}{2}\%$ 1947-50 bond, which is really, in effect, a 12-year bond. He thought that the straight 10-year bond would be a sure thing and excellent from the standpoint of the market. He thought that it might have the effect of pulling the market up, just as the issue did in December. Of course, in December we wanted that effect but now he questioned as to whether the Treasury wants the market to go any higher. The other suggestion, namely, the $2\frac{1}{2}\%$ 1947-50 bond would be better from the standpoint of the Treasury. It would not, in his opinion, pull the market up but would have the effect of holding the market back, which is exactly what he should think the Treasury would like to have.

He said there had been further suggestions such as selling an additional amount of an outstanding issue. It is quite certain that we could not go beyond the 1948-51 but he was certain that in a sell of the banks and dealers preference would be expressed for a

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new issue rather than an outstanding issue. At the present time he said that insurance companies are behind in their buying Government securities by approximately Two Hundred Million Dollars. He felt that they are now quite a factor in the present market and would buy the bonds that he has suggested. Of course, he says that we would always have to face the opposition of banks and others outside of New York to paying a premium for a bond. His opinion is that if we sold an additional issue of the 3% 1948-51 that we would have to sell it for about 102.25.

He would personally not take a chance on the 1948-51 and he feels that a 2½% 10-year bond will go much better than a 3% 1948-51 at the premium which we would have to put on it. He felt that the 2½% 1947-50 would sell at about 101 whereas the 2½% 10-years straight would sell better than 101 and substantially increase immediately after the market settled down.

He said that if we had any doubt about the issue going higher we could offer an additional amount of outstanding note issue which would give the holders of the maturing securities an option.

The Secretary asked him about a 5-year note. He said we would stay away from this note. He thought that ~~by~~ using an outstanding issue would be better from the standpoint of the Treasury. He realized that the small amount involved would not justify a split.

WMB

OPEN MARKET MEETING

March 3, 1938.
11:00 A. M.

Present: Mr. Taylor
Mr. Bell
Mr. Lockhead
Mr. Harris
Mr. Haas
Mr. Murphy
Mr. Upham
Mr. Eccles
Mr. Burgess
Mr. Harrison
Mr. Davis
Mr. Szymczak
Mr. Sinclair
Mr. Piser
Mr. Goldenweiser

H.M.Jr: Well, Mr. Bell, will you tell them the state of the nation as far as cash goes?

Bell: Uh huh. We are going into March with a balance of about nine hundred fifty million, and this program contemplates that we will raise two hundred million dollars additional money during the month of March on Treasury bills, those bills to mature around June 16. And then in May we will raise another two hundred million dollars in cash - bills to mature around September 16. That would give us a balance going out of March of a billion and seventy-nine million; going out of April of eight hundred seventeen million, and going out of May nine thirty-two, and the end of June nine hundred ten million; contemplating of course that we refund only the Treasury notes on March 15, pay off the Treasury bills of four hundred million maturing in cash.

Eccles: That's the four hundred

Bell: Specials. And this doesn't provide for any gold purchases during this period.

Eccles: Or doesn't provide for any funds

Bell: going into the System.

Eccles: Going in?

Bell: That's right, except what already has gone in.

Eccles: Uh huh.

Harrison: Any gold sales?

Bell: None contemplated in this picture. What has already been sold is in the balance.

Eccles: You have in the balance now the gold received since the first of the year?

Bell: Yes, that is in the nine hundred fifty - in the February 28 - we went into March with.

H.M.Jr: We are not holding up the gold sales more than a day or two. That will come out - balance as we get them.

Any other questions to Mr. Bell? Anybody want to ask anything of Mr. Bell?

Well, Mr. Burgess, do you want to tell us

Burgess: about the market.

H.M.Jr: What the market thinks.

Burgess: Well, the market has been improving pretty steadily since September and is now the best, that is the strongest that it's been for about a year - about this time a year ago. It has been partly due to the increase in bank reserves which has made bank funds available and the banks have been buyers of bonds and notes from time to time. The insurance companies have been buyers. It is partly due, of course, to the absence of other methods of employing money; that is, bank loans have been going off and there have been very few corporate issues, and the Treasury has not been increasing its outstanding debt over this period. So a combination of those circumstances has led to a persistent rise in Government security prices.

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So that I think the market feels that the Treasury can sell almost anything it wants up to ten or twelve years pretty freely. If you go beyond ten or twelve years, you would appeal to a much more limited market, to the insurance companies, savings banks, and other investors. The commercial banks would not be as large buyers over that point. And I think it is the general feeling of the market that you have a great deal of freedom of action up to ten or twelve years; you can do the thing that is soundest from the point of view of the Treasury and the banking system.

The market is not so strong that you can do anything. That is, it is a market that could react. The underlying lack of confidence in the general bond market and the general new issue market is such that you could get a reaction, although there is present a persistent strength; it is likely to continue in the absence of adverse factors.

W. J. J.: Excuse me just a minute. (Speaks aside to Mr. Lockhead.)

Wargasse: Now as to what the market expects in the way of new issues, there, of course, has been the usual conversation around the market, various suggestions of one sort or another. I think it is fair to say that the market expects a bond rather than a note, although it might expect a choice. But I think the market would expect the Treasury to take advantage of this position to extend its debt out further; that is, it has fifteen billion dollars maturing within five years, and they would expect the Treasury to take advantage of that position and extend that debt as maturities occur and there is an opportunity.

Now, as to what bond the market expects, there is no consensus of opinion. I think that a majority of banks and dealers I have talked with feel that it would be sound policy for the Treasury not to put out a new bond, but to put out more of an outstanding issue; that there is already a very large list of bonds and that as a matter of long term policy you can't put out a new issue every time. For several years past we have been under

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the advantage of having a blank period into which we have been throwing five year notes. That is, there was no maturity when we started several years ago between '38 and '40, and '42 and '43; there was nothing really until '43 that amounted to anything in the way of maturities. We have now got to the point where we have filled up that vacancy and as you look along this sheet there is something in almost every year. Some of those issues are pretty small; the small issues are unsatisfactory from a trading point of view; they are not as liquid as the larger issues. So the sounder fellows I have talked to seem to feel that it would be better in this small issue to open up one of the outstanding issues and increase it rather than to put out a brand new issue.

There is also the argument of rate. If you put out a new issue of eight or ten years, it would have to carry a two and a half per cent coupon, and I don't think some people I have talked with feel that is a very sound thing to do, because it would be putting out an issue that would be selling below par in any drop of the market; whereas, if you take an outstanding issue, open it up, it is less apt to sell below par; a fellow buys the thing at a little premium, and is apt to make provision for writing it down. I think it is a little less vulnerable to any market fluctuation.

On the other hand, there are a number, as indicated by one man we talked to this morning, who feel that the market would gobble up and would warm up to a new issue better. That is undoubtedly true. The market would feel that it probably had more chance of making a quick profit on a new issue. The whole market is more apt to rise on a new issue. The question is whether that is an advantage or a disadvantage at this time.

H.M.Jr: Does anybody in this room favor a note?

Murphy: Yes, Mr. Secretary.

Harrison: All alone?

H.M.Jr: What?

Harrison: All by itself?

H.M.Jr: Any way - I mean Burgess is talking bond

Burgess: I may say that a number of those I talked with feel there should be a choice, that while the main reliance would be on the bond, it would be well to offer an option into a note, partly because some of the holders of these maturities would like a note and if you don't give it to them they will be buying the bond and then selling it and buying notes, which tends to distort the market. And also it's a double assurance; you are sure your issue is all right if you have a note in case of some adverse development in the market. But I don't think even those who urge that feel it is essential.

H.M.Jr: When we said 'note' we seemed to have several customers. Governor Harrison?

Harrison: Mr. Secretary, I agree with Mr. Burgess that you probably have never had a time when you have had a freer choice than you have today. That being so, as a market proposition, you can no doubt successfully sell any issue within reason that you want to put out.

I think with that broad background if I had to make a choice I'd make a choice of putting out an intermediate bond and give no option. I have made a number of statements here, in fact I think every time I come here I point out what I think in principle is the advantage of the Treasury extending its maturities whenever it gets a chance to do so. You therefore have a very good chance now to do the thing which in principle I believe to be right.

On the other hand, the market is high, it is more or less vulnerable, and rather than go too long in your maturity of a bond, I would prefer a more conservative intermediate issue of bonds. I think my first preference, therefore, would be to open up the two-and-a-halves of forty-five and put them all in there and give no option. That issue is one that is more out of line than any other, selling higher relatively than any other. It is selling now at 1.99; just short of it in September you're at 2.07, and in March a '46 is selling at 2.16.

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Burgess: You think a single date rather than an optional date?

Bell: Require a pretty high premium.

Harrison: That's true of almost any of these.

Eccles: I think there is some argument for just a note. It seems to me that that would be my first choice. But you raised the question, does anybody here favor just a note issue? Looking at it from purely the standpoint of the money market, if a note was offered - of course, the banks which are the large holders of these, the existing notes, would change into notes. There would be no reduction in their holdings of total governments, which is desirable. Reduction in the total holdings would tend to reduce the total deposits, and that is undesirable. It is desirable to have the banks take as many of these maturing securities as they now hold. The longer the bond is - the issue is - that is offered in conversion, the less likely they are apt to exchange existing notes into bonds. I do think, however, with George, that the present market is such that with any offering up to 1945 you'd find the banks converting their notes which mature into the short bond issue, possibly almost as quickly as they would into a note issue. And for that reason I think I would favor offering at a premium; I think it is just as well to get used to the premiums. Private issues are hardly ever sold at par. They are sold on a basis of discount or premium. I'd like to see the total amount of the outstanding issue of '45 increased rather than seeing an entirely new issue put out. So that I think that my first choice would be the additional issue of the 1945 issue. I don't think it would be necessary to give an option in that case.

Harrison: That is one advantage of that '45 issue over a longer one.

Eccles: That's right. If you give a longer issue, I think it would be desirable to give an option. If you go to the '48-'51 I think you should give an option.

Harrison: Isn't this a pretty small issue at a time like this to be giving an option on?

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Bell: (Nods "Yes.")

H.M.Jr: Well, I am just listening.

Bell: Well, what would your additional issue of '45s do to the market?

Eccles: Be a good thing if it tended to hold it. The strength of it is - I think it's going up too fast and we have always, judged from past experience, when we get a market like this, we usually pay for it some time later. And I wouldn't care if the issue did tend to level the market out and stop the rapid rise. I think it would be a whole-some thing. And for that reason, if all bonds were put out, of course, the four hundred fifty million issue, inasmuch as there is no new money being raised, in a short bond, couldn't in my opinion be an adverse factor in the market, which would take it very quickly.

H.M.Jr: Now I know our boys have got a different idea. You (Murphy) want to talk? Are you (Eccles) through?

Eccles: Yes.

H.M.Jr: Sure?

Eccles: I'm through.

H.M.Jr: I didn't mean to

Eccles: No, that's right.

H.M.Jr: I didn't mean to cut you off.

I read your (Murphy's) memorandum last night, so go ahead - George or Murphy.

Hass: Go ahead.

Murphy: It seems to us that the market is sufficiently good so that from the standpoint of the Treasury financing we can get away with almost anything, as Dr. Burgess and Governor Harrison said, but that the matter of paramount concern should be the business recession and the ways in which the position of the country might be bettered by quasi-monetary action. There has been a very

sharp shrinkage in loans and investments of banks during the last six months. Member banks have a shrinkage of more than a billion dollars of their loans and investments during the past six months. The holders of United States securities have contributed quite a bit more than their quota to this shrinkage in loans and investments. Banks have by and large been getting out of governments for sixteen months now. The New York banks have started getting back in again. There are no signs yet that the other banks have. All other considerations should be subordinated to putting out an issue which is attractive for banks to purchase and hold. The expansion in member banks' loans and investments which would result as a general policy of making our issues as attractive to banks as possible would result in a corresponding expansion of deposits, a reasonable proportion of which might be expected within a reasonable time to find their way into the hands of business concerns.

We have a great many statements being made to us about the working capital of business firms being impaired. Dr. Sachs has laid the recession to that. It seems to us that the most promising way in which the working capital of firms might be built up is by building up the raw material out of which working capital is made. Surely, the shortage of working capital doesn't consist of a shortage of investors in the aggregate. There are plenty of those. It doesn't consist of a shortage of receivables, because one man's receivables is another man's payables. It must consist of a shortage of cash.

Now I say a shortage of cash relative to people affects psychological demand. Business men feel optimistic when they have large cash balances. The reason they have smaller cash balances is because the amount available for them to have has shrunk. All our policy should be subordinated to increasing that and consequently to putting out the form of security most attractive to banks, namely, notes.

Harrison: Namely what?

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Murphy: Notes.

Harrison: You don't think that the '45 bond would be almost as attractive for the banks? That was the reason I had the first preference for the '45 bond. It enables you to cater to the principle that I believe in of lengthening maturities where you can, and at the same time does put out an obligation which today I think would be fairly attractive to the banks, would probably go pretty well - maybe not as well as notes, but tends to do both things you have in mind.

Murphy: I think you are quite right, Governor Harrison, but I think the emphasis should be placed on the words "almost" and "fairly." Of course, it is a matter of degree and not a matter of kind. There would be a substantially large amount of non-banking absorption of the bonds. Really there are two aspects to the problem. The problem is not merely to make the securities attractive to the banks. They should be positively repellent to non-banking holders in order that the concentration in the banks may be greater. If you say that the intermediate bond might be almost as attractive as a note to the banks, I can say that they would not be nearly as repellent to non-banking holders.

Eccles: That was the point I wanted to make, and apparently didn't make; that is, you said your boys have had a different opinion.

H. A. Jr: Yes.

Eccles: Well, the point I was attempting to make was that there was no real argument against a note issue, that whatever issue was offered it should be an issue that would be attractive to the banks so that the banks would be willing to convert their holdings of notes, whereas if bonds were offered they would be more likely to attract investors and less likely to attract banks. And I think it is important from a monetary point of view to attract banks rather than investors. But I believe that the '45 bond issue would be just as attractive. The banks today are pretty heavy buyers of short bonds. Their position has, it seems to me, changed some the last few months, and a '45 bond

is sufficiently short, I think, in the absence of other opportunities for investment on the part of the banks, and with the excess reserves where they are, to attract a conversion.

H.H.Jr: Well, Marriner, let me make it a little bit easier in your advising us. I just can't get myself to the point where I will sell a bond at a premium, or a note, so you might just as well eliminate that. I mean, it is perfectly silly, but I can sell a bond and have it go to 103, and I won't be criticized on the Hill, but if I sell that same bond on Monday, let's say, at 102 and it was selling at 103 on Saturday, they just don't understand it, they think I am handing one point to the bankers.

Harrison: You are.

H.M.Jr: And I am, and if I offer them something at par on Monday and it sells at 101 on Tuesday, they don't object. Now there is no use trying to argue about it, but those are facts.

Eccles: Don't they think in that case you are handing something to the bankers if you are selling it at par and it goes to 101?

H.I.Jr: There isn't any criticism. But you just can't overcome criticism. But you just can't overcome that prejudice which they have, and there is no use trying to unsell me on a situation which exists. I mean, it is just something that - which is there, and I can't overcome it. And as I say, they are perfectly willing to have me offer something at par on Monday and sell it at 102 Tuesday, but they are not willing to have me offer something which is selling at 103 on Saturday and offer it at 102 on Monday.

Eccles: It doesn't make sense, does it?

H.M.Jr: It doesn't make sense. But I think that - the number of times you've been up there and testified, I think - I don't know whether you are conscious of it, but I am. Now what I am trying to do is - I mean if I tell you gentlemen and you recommend something for consideration, something that I am not willing to do - if I tell you, that makes it easier for you. "Well, if Morgenthau isn't willing" -

you can disagree with me a hundred per cent, but still the fact remains I don't want to offer a premium bond on account of the prejudices which exist amongst the people on the Hill. So if you wouldn't mind eliminating that, why, we can get a little bit further. I mean there isn't really any use arguing with me about it. In the final analysis it depends on what I do. I know how they feel.

Harrison: That means, Mr. Secretary, -- I see your difficulty and it would mean, if you comply with that principle consistently and the bond market continues strong, that every quarter period you have to put out a new issue, and you will have a whole raft of little issues being put out each quarter period.

H.M.Jr: Not necessarily.

Harrison: Unless your bond market goes down to the point where you

H.M.Jr: Well, the fact remains I have been here four years and I have never issued a bond at a premium in four years.

Burgess: Why do you feel so sure they'd criticize you for it Henry? I don't get it. I'm sorry.

H.M.Jr: Well, if you go up and talk to some of them - I don't want to mention names, but there is one very important fellow who just sits back waiting for me to do that. There's no use - I mean I've come through the last four very difficult months with a minimum of criticism. They've been exceedingly generous on the Hill in leaving me alone, and I'd like to be left alone so I can do my business. I mean I don't want to get down to naming names, but there are several people who feel very strongly on that and I just don't want to bring on unnecessary criticism when at the same time there are other ways of doing it just as economically from the standpoint of the Treasury, and as I say, in the four years I have never done it.

Burgess: Oh, you sold the 2 7/8 at a premium when you had those auction

Eccles: Bid basis.

H.M.Jr: On a bid basis?

Burgess: But they sold at a premium.

Eccles: But they bid on it, which is something else.
The last one sold

H.M.Jr: My immediate predecessors did something on those
four and a quarters.

Burgess: Three and a quarters, four and a quarters.

H.M.Jr: And that was a flop.

Burgess: But it wasn't criticized especially.

H.M.Jr: But it was a flop. Well, I am afraid on that. I
just don't - I don't want to get in on it, that is.
And Taylor agrees with me.

Taylor: (Nods "Yes.")

H.M.Jr: You feel just as

Taylor: Exactly the same way.

H.M.Jr: The same as I do. Bell says it doesn't make any
difference, but Taylor feels just as strongly as
I do. And it would be either Taylor or I that would
have to go on the Hill.

Harrison: That is, or Bell.

H.M.Jr: Well

Bell: (Looking at Harrison) Friend.

H.M.Jr: Well, I happen to like Dan, and I think

Taylor: It doesn't make the slightest sense, but it's
just there.

Harrison: This is news to me, and I had no idea that there
would be that difference in reaction in Congress.

Eccles: God, you'd think they'd be favorable to selling a
bond at a premium.

Golden.: I agree entirely with Mr. Murphy. I think that
all things considered - I think that that is

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probably the best thing at this time.

H.M.Jr: I was going to ask you, but before I asked you I wanted to explain the way Mr. Taylor and I felt in order that I wouldn't have you people talking on things we couldn't accept. And having known that it gives you a chance to clear your own advice.

Would you mind talking a little more on that while you feel that way?

Golden.: It is very much the same as Mr. Murphy and Chairman Eccles have said. I think this is the time where you want to be very sure to offer something that is attractive to the banks, because you want to keep this supply of deposits and because you don't want to use up investment funds. You want to leave the funds that are available for long term investments to go to other things than Governments, and you want to be sure that the banks buy it and replenish the supply of deposits rather than diminish them in any way. And in the circumstances, and particularly since this short-time bond that was talked about would have to be a premium bond, and I understand that is out - in that case I think the only thing to do is to issue a note. I think it will be

Eccles: A long note?

Golden.: A long note. It will be in the interests of the generaleconomy to do so in my opinion.

H.M.Jr: You think so? Well, then, it gets down to a five year note, doesn't it?

Haes: There is an open date.

Eccles: March 15, '42. That would be a new note, and you could

Burgess: '43.

Eccles: '43. I mean - did I say '43?

Davis: '42.

Eccles: Oh, I meant '43. You've got a place there that you could put a note in.

H.M.Jr: Did you (Harris) - did they price it for you?

Harris: Well, at this date they priced it $1\frac{3}{8}$ - the market is stronger since this date - $1\frac{3}{8}$ coupon rate would sell at $1\frac{19}{32}$, and it would yield $1\frac{1}{4}$, so about a $1\frac{3}{8}$ issue - maybe a $1\frac{1}{4}$ may be the thing. I don't know.

Piser: The market has gone up since then. I figure it would sell at a premium of about $24/32$.

H.M.Jr: Well, that's pretty sweet, but that possibly would be all right. $1\frac{3}{8}$, five-year would give you $24/32$.

Piser: Just about.

Eccles: That would certainly go over with the banks.

H.M.Jr: Well, this thing we are talking about now - I'd like to - what's Philadelphia got to say on this?

Sinclair: Mr. Secretary, continuing what I said last year once, the idea of a bond, ten years, and also the option of a note - but I don't think the two types of demand are quite as marked the way I felt last December and September. I still feel that it is evident. This discussion here - I mean on the other side - I didn't feel very strongly against a 1945 bond. Now if we get down to a 1945 bond, for reasons satisfactory to yourself - I can understand them - there is not much difference between a '45 bond and a '43 note, so I can't get very excited. I still feel that I'd like to see personally a bond up to ten years and an option of a note, if it could be worked out.

Harrison: That would mean a new bond.

Sinclair: New bond, and it might be worked up in '48.

Harrison: But it would be an awfully small bond issue.

H.M.Jr: Of course, this gentleman in this morning - he recommended a $2\frac{1}{2}$ per cent '47-'50, which, incidentally - both '47 and '50 - but he recommended a '47-'50 $2\frac{1}{2}$.

Eccles: That will give you about a point premium.

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H.M.Jr: Did you (Harris) figure it?

Eccles: On today's market?

Harris: '47-'52?

Eccles: A new issue of '47 2½ would yield about 2.40 - give you about a one point premium.

Harris: Well, I figure a straight nine-year, '47 bond would sell at least two points - anywhere on up, any place the market wanted to place it, but a '47-'50 as a minimum would start at a point and a quarter and probably work up to 1 3/4.

Bell: If it sold on a call date basis?

Harris: Yes.

Eccles: Figure on a call date basis.

H.M.Jr: Wouldn't it sell more to the maturity date though?

But you gentlemen are talking now about deposits and all that. I just wonder if anybody's going to take the position that they don't agree with Dr. Goldenweiser and Murphy - that this thing doesn't hold water. Is anybody going to take the opposite point of view?

Sinclair: My only reaction to that is that the amount of the issue, if there were an option given, is apparently so small that it wouldn't be so large a factor.

H.M.Jr: Well, I'll help you again. I won't do an option. Do one thing. I'll help you again. It's too small to fool around with.

Sinclair: I think the shorter.

H.M.Jr: What?

Sinclair: The note - five year note.

H.M.Jr: I mean that this thing that Murphy and Goldenweiser and Haas talked about - does that hold water in your mind?

Sinclair: I'd have to think it over more. I don't get worried - if you had a billion or a billion and a half, I'd feel much different about it.

H.M.Jr:

Let's put it this way: Here the Federal Reserve - Executive Committee of the Open Market Committee meets with the Treasury, and if we go towards a note, well why? Well then, an indication is given why. See? I mean even if it's small. But I mean it is a move in the monetary field. I mean will it be well received? I mean will we be criticized? I mean will the banking community say, "Well, that's sensible." See what I mean?

Burgess:

I think there will be criticism. I think there is a great deal of feeling that the Treasury's short dated debt is large and the Treasury ought to improve every opportunity to push it out somewhat further. Now maybe that isn't rational, maybe fifteen billion isn't large, but the experience of people with corporations and every other institution in the world is that if it gets too big a short dated debt it gets into trouble.

H.M.Jr:

Well, that is one thing, but what about this business of deposits?

Burgess:

Well, I don't think it's sound myself. First place, I don't think that the deposits that you lose through the purchase of securities are the business deposits. If the life insurance companies, for example, have a lot of inactive deposits I don't think you lose deposit activity by having the life insurance companies invest some of those deposits in Government securities.

Eccles:

But you lose deposit volume.

Burgess:

Yes, but what you are after is M. V. What you are after is money times velocity.

Eccles:

That's right, but as long as the deposits are there, there is a likelihood you will get velocity, but if you eliminate the volume it is certain you can't get velocity of something that doesn't exist. It is more desirable that investors' money go into mortgage loans, housing loans. Let's not find an attractive investment in the Government field for them. I think the insurance companies ought to put their funds out into other fields. And to the extent that you provide a place for those funds they will draw them out and put them into velocity, but it will diminish the total volume of deposits.

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Upham: Want the banks to go into other fields?

Eccles: Yes, but of course the banks largely hold these bills, these notes, and I would like to see the banks replace those notes with Government securities rather than let some of them run off because you offer a long-time bond. I can't agree with Randolph at all.

Burgess: Well, I think there is another point which is one that you raised, Marriner, that the real question is whether over a period the banks would be larger holders of the notes than they would of a short-time bond, that is a '45 bond. I think the banks would continue to hold the bonds perhaps as well as a note. The notes have a continuing market in the people seeking tax exempts, the trust funds, and so on. That reduces that amount gradually.

They are also held by corporations in some measure. So that I am not at all sure that the notes will be more largely taken by the banks than the short bond would.

H.M.Jr: Well, I listened to somebody the other day who was making out an investment portfolio for a very rich man. He said by the time he got through he had to recommend Government notes to him, and he was ahead of the game.

Burgess: That's right.

H.M.Jr: I mean this man was that wealthy; that his private investment counsel was recommending these five year notes because the man was ahead of the game to put his money into that.

Eccles: Total tax exempts. Of course that is a small part; it is a factor.

H.M.Jr: And the other thing I am bringing up is this. When we go into the five year we are continuing to create more tax exempt securities, and I think - I don't think that that can just be brushed aside either as an indication of a Government policy, because - I mean

Eccles: Cut the tax exemptions down to bills.

Haas: You can cut it off the notes.

H.M.Jr: But I am just throwing it out.

Murphy: The Secretary has the option of making the notes only partially tax exempt.

H.M.Jr: Oh yes, but I am not doing that yet. What I mean

Burgess: Mr. Secretary, I didn't want to give the impression that there was nothing in this argument, ~~but~~ I just want to raise some of the other considerations that are sufficiently powerful so that I doubt if you could, in an announcement, say that you favored this because it was a monetary move, etc. I think that there are enough arguments on the other side

H.M.Jr: Well, I am just wondering. But these men wrote this and I want to bring this out.

Cy, you've been mumbling there, shaking your head. Talk a little.

Upham: I agree thoroughly with Mr. Burgess. This is wholly new. I haven't seen Mr. Murphy's idea before. But it doesn't strike me as being necessarily sound monetary action. I should prefer to see the banks get out of Governments a little bit and expand in other fields. And if the insurance companies and savings banks and other investors took a fairly long bond now it seems to me it would be desirable from several standpoints.

Eccles: What?

H.M.Jr: Go ahead Marriner.

Eccles: He said from several standpoints. I am asking 'What?'

Upham: From the standpoint of freeing the banks for other investments, from the standpoint of the Government getting a little further out in the field and reducing its short dated debt.

Haas: Well, it seems to me

Upham: I may be all wrong, but that is the way it strikes me.

- Golden.: Wouldn't you rather see private investors go into other fields rather than the banks?
- Upham: Well, there seems to be a good deal of criticism of the banks for not financing business.
- Eccles: Well, the banks can do both. It isn't an unwillingness on the part of the banks to finance business because of a lack of funds. It isn't the absence of the funds that is deterring the banks at all. They have their reserves and they have the funds. And if it was that, if it was a question of the Government competing for such funds as may be available, then I would agree. But as it is today, it isn't the Government competing so far as the banks are concerned, because the banks can take all of these Government securities that are being proposed here and a good many more and will still be in a position to furnish such credit as business wants. It is the absence on the part of business today to be able to use credit profitably.
- Golden.: Banks would only buy blue-chip bonds.
- Eccles: That's all they will buy. That's all they can buy.
- Golden.: I don't think they should be encouraged to buy blue-chip bonds at this time when the blue-chip bonds are high, and it would be much better for the banks to buy short time Governments, and have the private investors buy the other kind of bonds.
- H.M.Jr: Well, supposing we say for argument that we get out a '47-'50, 2½, and the insurance companies say, "Yes, we'll buy that."
- Golden.: Yes.
- H.M.Jr: Now we are told the insurance companies are considerably behind in their investment programs. Supposing we convince ourselves, and we have enough people in the insurance business who will tell us they will or won't buy that kind of a security - or a ten year two and a half to a fixed date - how do you feel about that?
- Golden.: Well, I think on the whole - I don't think it is a terribly vital issue at this time, because of

the small amount involved, but I should think it would be a move in the wrong direction, because it would result in the banks getting rid of their maturities and not putting something else, some other Government securities in their place - possibility of bank funds remaining idle, and therefore, the total amount of deposits diminishing. I do not think that it is a life and death problem, but I do think it would be a move somewhat in the wrong direction. No particular occasion for taking it.

H.M.Jr: Of course you people are getting rather theoretical for me, and I just want to ask you a question. I mean I am not belittling it. I mean isn't the way to increase bank deposits to put the money to work through lending it?

Eccles: That's right.

Golden.: I agree with that all right.

Eccles: That's right, but they are lending it to the Government when you give them something they will take.

Golden.: I agree with that, Mr. Secretary, but the point whether they are or not is not going to depend on this policy. In the mean time, you don't want to discourage, you don't want to do anything that will reduce the amount of the banks' portfolio, or that would tend to reduce it. I mean they've got plenty of money to lend, and if they are not lending it is a matter between the banks and the business people why they are not, but in the meantime we've got a volume of deposits which is adequate, but which has been diminished somewhat, and in this stage of the business situation it is certainly not desirable to have it diminish any further.

H.M.Jr: But that diminishing due to the fact of their letting their Governments run off is really a psychological one rather than anything else, isn't it?

Eccles: The diminishing deposits

Golden.: It isn't when they are short of funds, no.

Eccles: It is not very largely - it isn't because of the amount of Governments that have run off over the last year and a half in the banking system as a whole. The total amount of Governments that have run off is very small. The last few months there has been quite a contraction of loans, particularly collateral loans, but the loan portfolio as a whole has been reduced not because the banks have brought about that reduction, but the borrowers have liquidated inventories or have preferred to sell securities and pay loans - get out of debt. The reduction has pretty largely been voluntary on the part of the borrower rather than on the part of the banks.

H.M.Jr: Well, let me just say the way I look at this thing, although I don't know - from a strategic point, and that is this: This has got nothing to do with this question of bank deposits or anything else. We have practically no open dates left from 1943 going backwards, and there always will be a time where a few open dates would be extremely useful. They have been in the past. There came periods where we used up practically all of our open dates. And undoubtedly there will be times in the not too distant future where we will again wish we had something between two and three years which was open. And that is why I did not look with favor on a note, because I felt that here was March 15 - we could skip it, give us an open date, say, to the windward, for some time or other when we might be very glad to put four, six, seven hundred million dollars into that date, and you look back over it and practically everything is full except September '40. There are some which are not very full, but still I think everything is full except September '40.

Eccles: That is '40.

Bell: Up to the end of '41, that is true.

H.M.Jr: Yes, But I am looking at it just as a tactical thing. So my inclination, I might say, not going into this question of bank deposits or the monetary side of the thing, was, "Well here is a time where everybody says the Treasury can do almost what it wants to do. Why not skip this March 15? You leave a blank spot which will be a buoy, which we may be glad to anchor to in a day of storm." And then go out as far as we can with

a two and a half per cent coupon.

Then Burgess has told me, and I don't think there is any disagreement, that if we sell a fixed date, that would be apt to give the market an upward shove, which I don't particularly want to do at this time. I mean I am just telling you how I have been arguing with myself. I mean it just pushes it up, at least it did last time.

Eccles: You are speaking of the note issue of '40?

H.M.Jr: Well, that is the only one that's open.

Eccles: Of course the '43 - if you issued a note issue

H.M.Jr: But, if you go back

Bell: These are

Murphy: June '42 is open.

Bell: June '42 is the next.

H.M.Jr: Well, there's just one or two places which are open, and as I say, there are very few, and in the past they have been very useful - to have a couple of places which were open.

Eccles: But if you used the '43 date, which would be the five year note

H.M.Jr: That is open. But I am arguing with myself why I want to leave March '43 open as something to go back to when we can't sell a five year note. And therefore in arguing with myself I say, "Well, do you want - you can sell a ten year, two and a half, to March 15, '48, but Burgess and the rest of them say that that gives the market kind of a kick up, which we don't need at this time. Therefore, I look with interest on a two and a half '47-'50, which I know is a new issue; it is a small issue, be four hundred twenty-five million dollars." We've got other issues like that, but it would be - the banks - we can find out whether they would buy something like that. We don't know. My guess is they might buy half of them.

Harrison: I am not so certain, even if you accept the deposit theory - excuse me, I thought you were through.

H.M.Jr: These insurance companies have been a most useful customer. I mean they saved the situation for us from July 1, '36 through to October first, '37. If it hadn't been for the insurance companies, I don't know what we would have done. We'd have been sunk. They did come to our rescue. I don't think we should just say to them, "The hell with you, we don't need you now," and I just - I mean I want to let you know how I think. I am more than willing, in fact ask you gentlemen to put pins into what I have been saying, but that's the way I feel as of now, and my mind is still open, with the exception of certain things that I feel I don't - I'd rather not do. But I have reviewed how I feel as of now.

Now I didn't consider this monetary theory - I don't know how important it is. Frankly it doesn't impress me very much. I am not at all sure of it. I may be wrong. And on the other hand - every time I work like hell at this thing, we're going into every single angle, and I am convinced of one thing, that if it goes well it doesn't make very much difference, but if it goes badly it could hurt considerably. But if it goes well I don't think it makes a damn bit of difference as far as this present business situation is concerned. If it goes well I don't think it will help or hurt. If it goes badly it might hurt very much.

Academy: It is a refunding issue and it isn't large and I don't think that as far as this particular issue is concerned it does make very much difference. This monetary thing - I think the principle is sound, and if it was a new issue, if there was a lot involved, it could be very important; but due to the fact that it is small and it is a refunding issue, whatever effect it does have on the deposit structure of course would be very minor and very small, and you can't prove whether it has or it hasn't.

Golden: I agree with that too. It isn't vital, Mr. Secretary. The only reason I make this point is that that is a -

I've always tried in these conferences to look at these problems of the general banking situation and the monetary position because that is the only way that I can in any way contribute to it, because these men are all experts on the exact issues, and on your discussion of maturities and all that, and I don't feel that I can contribute anything on that. And so I try to look at it from that particular angle, and this is the way it looks now, as I stated before. But it isn't a vital matter at this stage, and if you have good strategic reasons for the other policy, I don't think it is something for which you'd be criticized by monetary authorities or anyone else.

H.M.Jr: You said one thing which bothered me, because I take what you say very seriously. You said you thought if we got out a bond issue at this time you considered it a move in the wrong direction.

Golden.: Well, a move in the wrong direction from the point of view of the deposits supply, and that's all, from just that one point of view.

Harrison: Mr. Secretary, may I say something.

H.M.Jr: Please.

Harrison: You've got two monetary theories involved, and they in a sense are in conflict. One is the deposits theory that Mr. Murphy and Mr. Goldenweiser have expounded. I think there is much to be said for it. In this case, it is minor, in fact, because of the amount involved. The principle is the only thing.

You have also got the other thing which Mr. Upham refers to, which I think over a long range is equally important; that is the risk of overloading investments of banks lest they have not enough money - funds available at the time of recovery and they are forced to liquidate their bonds to make sufficient funds. So you've got two theories, each in conflict.

But even if you accept the deposit theory at this time because of the fact the deposits are going down, then I think you've got to consider this additional situation. I am not so certain that banks as a whole outside of the money centers would

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favor a note much above, if at all above, say, the eight or nine year bond - either, let's say, forget the exact maturity - because today they are tremendously interested in earnings as well as in the shortness of the maturity. And if I were a banker and had a choice of a five year note at $1 \frac{3}{8}$, or a seven year bond at two per cent, I know definitely what I would take.

Eccles: Well, there is no seven year bond involved.

Harrison: Well, I was just saying for instance, a '45.

Eccles: Oh yes, a '45.

H.M.Jr: Which would you take?

Harrison: I would take the '45.

Eccles: At two and a half?

Harrison: At two per cent.

H.M.Jr: If we got a two and a half per cent coupon bond, the banks might take half of it. The statement I made - I mean half of it might stick with the banks.

Harrison: I should think it might.

Sinclair: I think that is a conservative statement. I think a lot of our banks would.

H.M.Jr: Half might go to banks, and we are really talking about a couple hundred millions of dollars.

Haas: That's all, and the principle involved isn't nearly as important for that amount as adapting your financing to your own requirements.

H.M.Jr: Well, I lay a great deal of stress on having another open date, for a day where we could sell a note, a three or four year note. Now I've been going through this thing - it goes in cycles, and an open date, a three or four year date which is open, is a damn useful thing to have, and it gives me a very comfortable feeling, and believe me

Harrison: Some day you'll need it.

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H.N.Jr: Well, last September - I mean it's just as sure as I'm sitting here that we'll need it. I don't know when, but we'll need it. And every time I can skip a five year date, I like to do it. And there is a whole period there for a year or so - the banks must be fairly well loaded up with this four and five year paper too.

Reeles: Well, the banks increased their long-term bond holdings by - they are still about a billion eight hundred million more than they were two years ago - the bank holdings in long-term bonds. They didn't let any amount of Governments run off that we hear talked about. The figures don't verify it at all. So that the bank holdings of long-term Governments are really very large at the present time, and I wouldn't like to see the banks decrease their holdings of long-term Governments, for the reason that this is a low coupon rate and we may get a period when they will let those bonds run off in order to meet credit demands, and they may have a considerable shrinkage in the market value of the bonds, which would cause quite an unsatisfactory situation.

Therefore, in offering bonds, a long bond - ten years is long - however, it means that we're inducing the banks to go into long-term securities, which I think Burgess and George will both agree is not a desirable development. Now, if the banks don't go in, then they liquidate and reduce deposits. So if they do go in the long-term security, that is not desirable, and if they don't go in it means you liquidate or reduce the total volume of deposits.

Sinclair: I think what you'll find to some extent, possibly, in our district - our country banks are pretty long - is that they'll find this 10-year or 9-year bond a pretty desirable thing, and you may find them shifting to the 9 or 10, shifting some of those longs. Those longs have probably gone to savings funds, some of them; we have noticed that tendency. I'm not so sure whether it will happen or not, but I think it probably will.

H.N.Jr: Well, I'm going to go around the room.

Davis: May I ask one question, Mr. Secretary?

H.N.Jr: Please.

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Davis: Mr. Burgess, how many of this maturing issue does the Federal hold?

Burgess: 85 million, thereabouts.

Davis: About 85. Brings down the question to a somewhat smaller amount than 455, doesn't it?

Burgess: That's right.

Eccles: Except if we took bonds, Chester, it would likely be our policy to keep our bond portfolio down and it would mean that as far as the total market is concerned we would likely want to sell, let these bonds run off, replace them with short issues - I mean if we pursue the present policy.

H.M.Jr: Well, I'm going to ask you people who are not in the Treasury if they would advise me. I'm going to put it this way: a bond or a note. See?

Baymezak: A bond, under the circumstances.

H.M.Jr: A bond.

Mr. Davis?

Davis: Well, I've changed my mind twice since I've been sitting here. I would say that when we left the office we were in agreement with the objectives stated by Murphy; that is, we want to keep this issue in the banks and if there is the slightest reason to believe that the bond would not accomplish that, and if we still had the same objective as when we were in the other building, I would say "No."

H.M.Jr: I just didn't get that.

Davis: I don't mind.

H.M.Jr: Do you mind - I'd really like to hear it.

Davis: I say this morning we seemed to be in agreement with the monetary objective of keeping this new issue in the banks. If we still have that as an objective and if there is still even the slightest weight in favor of the note, I would say that's the thing to do - the note.

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Golden.: I feel the same way. So long as the shortest bond is out, I'd be in favor of the note.

Piser: I'd be in favor of the bond. If we were talking of the difference between a 5-year note and, say, a 25-year bond, I'd agree with Mr. Murphy that there would be considerable difference. Where it is between a 5- and a 10-year issue, I can't see very much advantage, and I think there would be a disadvantage from the point of view of the Treasury, which you have pointed out, of filling up the open dates, and also that a shortening of maturity at this time might be interpreted that the Treasury was not sure of its market and felt that it should back up a little from the policy that was followed in December. As between a bond with a call period and one with a single date, I think I'd prefer the issue with a single date - that seems to be more popular in the market - and particularly since it would be a relatively small issue.

H.M.Jr: Well, that's a clean-cut statement, for which I thank you.

I'm coming back to the Treasury people afterwards.

Burgess?

Burgess: I'd do a bond. I think that what Piser says about the reaction of the market is pretty important. That is, the sentiment in the investment market is of real importance now. We want to keep a new issue market open. We want a good investment market and I think what the Treasury does has a great influence on that. I think going to a note would be interpreted as a sign of weakness. So I'd do a bond.

Sinclair: I'm always for a bond, and I've given up my theory of optional, in view of what you said; so I'm for the bond.

Harrison: Oh, I'm definitely for a bond. Think I still prefer the '45.

H.M.Jr: You sell your virtue dearly, don't you?

Harrison: In other words, I came here thinking I had for once a really clear, free choice of a lot of different alternatives, and I find out I've got a choice between Calmora and Cascara.

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H.M.Jr: Oh no, there's castor oil too.

Harrison: But I've got to take one.

H.M.Jr: Is it bad as all that?

Harrison: No, I frankly think, Mr. Secretary, that I don't want to reopen the thing that you've closed for reasons that I'm not very familiar with. But I do think that if you now establish the principle that you won't reopen any existing issues so long as bonds are above par ...

H.M.Jr: Yes.

Harrison: ... that you're going to be faced with continued embarrassment both as to dates and also in crowding into a market a lot of small issues every quarter date. And I don't see how you're going to avoid that. And I think that would be very bad, generally, for the whole tone of your market ultimately. But if you eliminate the reopening of the '45 bond, as I assume you have done, I would then prefer a bond of one date rather than a call period.

H.M.Jr: One date?

Harrison: Yes, I would.

H.M.Jr: To a fixed date. Well, I'm very much interested.
Mr. Eccles?

Eccles: I still lean toward the note; certainly do in principle. In this particular situation I don't think it is very important. I think the principle is important if the issues involved were greater. The large amount of bonds held by the banks - I don't like to encourage the banks to increase their holdings of bonds, because the time will come when they sell and that will create a problem for the Treasury and a problem for the banks. And yet I don't want the banks to not take an amount of this issue equal to the securities that they now have. So that if you offer a bond, then it means that you want the banks to take the bonds in order to keep up the volume of money, and as I say, I don't like to see the banks increase their bond holdings. Therefore, I have some slight preference for the note. If a bond is to

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be offered, I prefer the single date and the 10-year issue.

H.W.Jr: Single date if it's to be a bond.

Lochles: If it's to be a bond.

H.W.Jr: Well, that's helpful.

Now we'll get the Treasury. Mr. Taylor?

Taylor: I have a choice which doesn't include a note. It is additional bills or a bond, and of the two I favor the bond.

H.W.Jr: I see. And you want

Lochles: I could go with you on the bills. I mean I didn't think they were in the picture. I could go with you on the bills.

Ball: We've got bills.

Lochles: I can go with you on the bills.

H.W.Jr: We'll have to give Chester Davis another chance.

Taylor: Carrying out your deposit and monetary principles to the "nth" degree, they ought to be

H.W.Jr: I didn't hear, Wayne.

Taylor: I said, carrying out monetary theory to perfection, they certainly should be bills. Therefore, if you eliminate that, you go to bonds. I think the notes are just something in between.

H.W.Jr: And would you care to say, if it was a bond, whether you'd want a fixed date or something new like a '47-'50?

Taylor: I like the '47-'50.

H.W.Jr: You like the '47-'50.

All right, Mr. Lochhead?

Lochhead: At this particular time I can't get very excited

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about the monetary significance. I don't think it's - I think it's a practical matter of refunding the issue. I think the easiest - we have two alternatives, and the easiest one is the 5-year note. I think you can price it easier - just from our standpoint - it is an easier thing to price, and I think you would cause less disturbance in the market, none of this mix-up about who's going to take and who not. I mean just to be taken as a simple operation - 5-year note.

H. A. Jr: You're note.

Harris?

Harris: Well, I like the note. I agree with what Mr. Murphy said, and what alarms me is that some time in the future we're going to have another tumble in prices like we had last March. I don't see any sense in starving the short-term market any more than it's already been starved. By June all our bill debt will be concentrated in three months, and you can't get a yield on anything up to a year and a half, and the banks are being forced for earnings reasons to go into long-term bonds, and as a result the long-term rate has become the most sensitive rate in the United States; and fear of price decline plays a very big part in the market, and once recovery comes around and they start liquidating any bonds at all, they're going to be long-term bonds.

H. A. Jr: So you want ...

Harris: I want a note.

H. A. Jr: Mr. Bell?

Bell: Well, I would prefer the bond, but I'm not quite decided yet whether it should be a fixed date or a '47-'50. I'll have to admit that I like the '47-'50, principally because it's a 12-year bond in effect. I think maybe the 10-year is, as the gentleman told us this morning, might cause a decided upswing in the market, which I don't think you want. And he indicated that the '47-'50 might slow it up, just let it go along gradually. I think that's the better, if we can do that, I don't know yet.

H. A. Jr: Upham?

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Updham: I'll sign Mr. Bell's statement.

H.M.Jr: Oh - just like that?

Updham: Just like that, exactly.

H.M.Jr: All right. Murphy?

Murphy: I would agree with everything that Mr. Harris said, which approaches the same problem from a different point of view, and I think a sound and important point of view. I think that our greatest risk is that the time for the application of principles is always tomorrow or the next time. It's a good thing to apply principles now. In our recommendation for the note, we meant the recommendation to apply not merely to a 455 million dollar issue now, but to apply to a Treasury policy, the policy of building up bank deposits by any sound means.

and it seems to me the number of speakers that made reference to the bad psychological effect on the market of a note because they'd say, "The Treasury is backing out" - I would discount that, because I think the facts are too apparent; the market is so good that if the Treasury is backing out, it is backing out because it wants to. But I think that could be completely dissipated and turned to major advantage if the announcement of the note were accompanied with an inference, at least, that the Treasury was and would continue to be interested in a - shall I say, reflation of bank deposits?

H.M.Jr: George?

H.M.Jr: Because of the size of the issue I think, mechanically, from a monetary standpoint, it has no great significance; but I think in the matter of principle it has a great significance. Just recently you, as chairman of an interdepartmental committee, formulated a price policy, and I think it would be very difficult to explain a bond issue as conforming with that stated policy - the Treasury issuing a bond issue at this date; whereas, a note would be in complete alignment with it.

I think there are two types of - or two viewpoints; at least, two here. One is the consideration of the issue like a corporation would consider its finances; and

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while that consideration is being given, to ignore the - and I don't think it can be ignored - the monetary aspects of the Treasury's fiscal operations.

Now, to keep these funds in banks and put out an issue that insurance companies and other investors would not get would be to leave these insurance companies' and private investors' funds as they now stand and leave them open, putting pressure on them to do commercial lending, thereby aid recovery. Somewhat the same pressure is put on by putting excess reserves on banks. You put some - in a measure, put excess reserves on private lenders. And that's another way of stating the reason for staying in short-term stuff. I'd be for a note.

H.A.Jr: Then who's got some afterthoughts? Who wants to talk again?

Harrison: What about this idea of Mr. Taylor's on bills? Let's suppose now we've got that as an alternative.

Eccles: Let's find out if we have.

Taylor: If you want to dramatize this, what you're talking about, that's the way to do it - much more than by doing it with a note.

Davis: Well, wouldn't the banks take the note in the same way they'd take a bill?

Taylor: Yes, but it's costing them more money. I mean if you're doing it for a theory, why, let's do it the cheapest way you can.

Golden.: But aren't you going to have 150 millions of bills a week shortly anyway, and would your bill market be open to a still further increase? I don't know.

Taylor: I would think so. We're pretty well starved down on them now.

Harrison: That's what I wanted to ask about, how you would do your financing through bills, Mr. Bell.

Bell: Well, we started on the second with an additional issue each week of \$50,000,000 and planned to have four issues during the month of March. Now, that's only 200 million. And of course, on the 16th,

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17th, and 18th you take out a total of 400 million in bills from the market, and we won't put back any more until about May, under this program. So that by the end of June you would have the same amount of bills in the market that you have today. I mean a lapse there over a month and a half. And as Mr. Taylor says, I think there's a real demand for bills, and if you're going to take 200 million out, why, that demand will probably increase.

Burgess: Pretty well committed now to a refunding, though, aren't you, on March 15? It's been announced the Treasury would refund 455 million in the market.

Bell: Yes.

H.M.Jr: Well, we never had a more honest difference of opinion.

McCles: We always have.

Golden.: Mr. Secretary, I might only add that I was a good deal impressed by Mr. Harris's statement on the fact that our experience has shown that banks, when they are under any pressure, do not liquidate their short-time stuff, but they'd liquidate the bonds, and that that is one additional reason why even if the banks should take the bond, that there is an element of - an element of risk, an element of weakening the situation, by having them take the bond rather than notes.

McCles: We don't want them to take bonds, and yet if we don't offer notes they've got to take bonds. By not offering notes, you're practically forcing banks to take a long bond. And I know that the banks, with the long Government bonds' present yield, have an idea that there is a point pretty soon where they can take their profit. They don't think that over the long run the rate is going to stay down at this price, and they all, of course, think they're smart enough to be able to get their profit. And the more bonds that the banks take, the more dangerous the entire situation is, and yet we force them to take bonds, in a sense, because we don't offer them something else.

Now, the insurance companies and the investors - we

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want them not to have their funds invested at this time necessarily, let them be in a position to take these bonds when the banks have to sell, or when the banks do sell in order to meet other situations. That's the time, it seems to me, when the investment funds can come out and go into these bonds, and not now.

I didn't mean to make another speech. I'm kind of one ahead, I guess.

H.M.Jr: Well, thank you very much. I'll try to make up my mind.

Pages 192 and 193,
dated 3/28/38 and
placed in Book 117

March 3, 1938

My dear Mr. Secretary:

I am inclosing herewith a preliminary report for the first three weeks of February on United States trade with Japan and China.

Sincerely,

The Honorable

The Secretary of War.

*This copy not sent
to the President.*

March 3, 1938

My dear Mr. Secretary:

I am inclosing herewith a preliminary report for the first three weeks of February on United States trade with Japan and China.

Sincerely,

The Honorable

The Secretary of State.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 1, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Current United States trade with Japan and China
(preliminary data).

(1) United States exports to Japan during the first three weeks of February 1938 show a 3 percent increase over the first three weeks of January 1938 and a 16 percent increase over the first three weeks of December 1937.

United States exports to Japan

	<u>1st week</u>	<u>2nd week</u>	<u>3rd week</u>	<u>Total 1st 3 weeks</u>
February 1938	nil	\$6,112,000	\$4,667,000	\$10,779,000
January 1938	\$2,726,000	3,759,000	4,013,000	10,498,000
December 1937	1,694,000	5,217,000	2,394,000	9,305,000
November 1937	1,180,000	4,813,000	4,745,000	10,738,000

(2) The following items show large increases in our exports to Japan during the first three weeks of February 1938, as compared with the first three weeks of January 1938.

	<u>February 1938</u>	<u>January 1938</u>	<u>December 1937</u>
Raw cotton	\$3,168,000	\$2,574,000	\$854,000
Iron and steel scrap	769,000	277,000	448,000
Pig iron	381,000	242,000	nil
Tobacco and manufactures	289,000	nil	257,000
Fertilizer and fertilizer materials	248,000	24,000	134,000
Hides and skins, raw, except furs	225,000	15,000	79,000

Secretary Morgenthau - 2

The following items show sharp decreases in our exports to Japan during the first three weeks of February 1938, as compared with the first three weeks of January 1938.

	First three weeks of		
	February # 1938	January 1938	December 1937
Petroleum products	\$1,498,000	\$2,925,000	\$2,186,000
Industrial machinery	1,071,000	1,229,000	862,000
Pig lead	59,000	116,000	75,000
Ferro-alloys	nil	182,000	51,000

(3) Of the total \$10,779,000 of exports to Japan during the first three weeks of February 1938, the following items account for almost all:

Raw cotton	\$3,168,000	
Petroleum and products	1,498,000	
Industrial machinery	1,071,000	
Copper and manufactures	893,000	
Iron and steel scrap	768,000	
Automobile parts and accessories	494,000	
Paper base stocks	406,000	
Pig iron	381,000	
Iron and steel semi-manufactures	361,000	
Tobacco and manufactures	289,000	
Fertilizer and fertilizer materials	248,000	
Hides and skins, raw, except furs	225,000	
Total	9,802,000	91%
All other	977,000	9%
Grand total	\$10,779,000	

Secretary Morgenthau - 3

(4) United States imports from Japan decreased 24 percent during the first three weeks of February 1938, as compared with our imports during the first three weeks of January 1938.

United States imports from Japan

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

(5) The imports of raw silk from Japan showed the principal decrease; imports other than raw silk decreased about \$1,400,000, but individual items maintained about their same relative position.

<u>Imports during the first three weeks of</u>	<u>Raw silk</u>	<u>Total imports other than raw silk</u>	<u>Total</u>
February 1938	\$3,970,000	\$2,260,000	\$ 6,230,000
January 1938	4,586,000	3,652,000	8,238,000
December 1937	4,487,000	3,750,000	8,237,000
November 1937	6,169,000	5,086,000	11,255,000

(6) Of the total of \$6,230,000 of our imports from Japan during the first three weeks of February 1938, the following items account for almost all:

Raw silk	\$3,970,000	
Cotton manufactures	417,000	
Hats and hat materials	132,000	
China and porcelain ware	128,000	
Edible vegetables, other than tea	106,000	
Menthol	101,000	
Fish and fish products	96,000	
Silk manufactures	78,000	
Pyrethrum flowers	68,000	
Toys and parts	66,000	
Tea	66,000	
Earthenware and stoneware	60,000	
Total	5,288,000	85%
All other	942,000	15%
Grand total	\$6,230,000	

Secretary Morgenthau - 4

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

(7) United States exports to China and Manchuria during the first three weeks of February were 18 percent lower than during the first three weeks of January 1938.

First three weeks of	United States exports to		Total
	North China and Manchuria	Shanghai, South China & Hong Kong	
February 1938	\$1,134,000	\$2,441,000	\$3,575,000
January 1938	1,375,000	3,001,000	4,376,000
December 1937	2,003,000	4,023,000	6,026,000
Whole month of February 1937			\$5,262,000

(8) Leading export items to China:

(a) To North China and Manchuria:

	First three weeks of February 1938	January 1938
Iron and steel and manufactures	\$ 334,000	\$ 800,000
Petroleum and products	234,000	122,000
Raw cotton	128,000	72,000
Automobile parts and accessories	105,000	165,000
All other	333,000	216,000
Total	\$1,134,000	\$1,375,000

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

	First three weeks of February 1938	January 1938
Automobile parts and accessories (including aircraft)	\$ 619,000	\$1,207,000
Firearms and ammunition	381,000	420,000
Printed matter	238,000	7,000
Petroleum and products	149,000	142,000
Tobacco and manufactures	142,000	27,000
All other	912,000	1,198,000
Total	\$2,441,000	\$3,001,000

Secretary Morgenthau - 5

(9) United States imports from China and Manchuria declined about 22 percent in the first three weeks of February 1938, as compared with the first three weeks of January 1938. Imports from North China declined about 40 percent and imports from Shanghai, South China and Hong Kong declined 16 percent.

First three weeks of	United States imports from		Total
	North China and Manchuria	Shanghai, South China & Hong Kong	
February 1938	\$472,000	\$1,794,000	\$2,266,000
January 1938	782,000	2,139,000	2,921,000
December 1937	864,000	2,926,000	3,790,000
Whole month of February 1937		\$11,804,000	

(10) Leading imports from China:

(a) From North China and Manchuria:

	First three weeks of February 1938	January 1938
Textile materials and manufactures	\$226,000	\$203,000
Bristles	91,000	203,000
Sausage casings	51,000	14,000
All other	104,000	362,000
Total	\$472,000	\$782,000

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

	First three weeks of February 1938	January 1938
Tin, ore, bars, etc.	\$409,000	\$239,000
Tung (wood) oil	377,000	515,000
Bristles	185,000	165,000
Flax, hemp and ramie	166,000	308,000
Vegetable products, edible	124,000	186,000
All other	533,000	726,000
Total	\$1,794,000	\$2,139,000

March 3, 1938.

In view of the fact that a joint resolution proposing an amendment to the constitution for a referendum on war, Senate Joint Resolution 270, was introduced in the senate Friday, thus reviving the Ludlow resolution recently shelved in the house, an analysis of the vote on the Ludlow resolution is transmitted herewith for whatever consideration it merits.

It will be seen from this analysis that the support for Ludlow's idea came principally from the following groups: Foreign elements (Germans, Scandinavians, Irish); republicans seeking partisan advantage; pseudo-democrats; and professional pacifists. The resolution introduced in the senate contains the names of 12 senators, 8 of whom are from the states of Minnesota, North Dakota, South Dakota, Montana, and Wisconsin, a north west group of states preponderantly German and Scandinavian, the latter siding with the Germans during the world war. These states contributed almost a solid vote to Ludlow's house resolution. The other four signatories were Capper, Bone, Clark, and Donahay. Capper's Kansas went solidly for the Ludlow resolution. Clark was linked with Nye in the senate committee effort to prove that this country's entrance into the world war on the side of the allies was a

mistake and was forced on an unwilling people. Bone and Donahey have shown similar sympathies and are habitually anti-administration. Donahey's Ohio cast the largest democratic vote of any state for Ludlow's scheme. The statement accompanying the senate resolution carries the usual pro-German tone of criticism for our participation in the war against the Kaiser.

There should be some way to focus the attention of patriotic Americans and of the democratic members of congress on the influences agitating this war referendum business.

G. C. Hanna.

I

The Ludlow War Referendum Vote

When the Ludlow War Referendum Resolution came before the national house of representatives Monday, January 10, it received the support of 188 representatives as follows:

Republicans	64
Farmer-Labor	5
Progressive	8
Democrats	<u>111</u>
Total	188

Not a single democratic leader supported the resolution and only two republican leaders were counted for it. Of the democrats voting in favor of the resolution seven were from Indiana, including Ludlow, author of the resolution, and six of his colleagues. Among these was Pettengill, who next to the late Senator Schall, republican, of Minnesota, has perhaps been the most bitter critic of the present administration in congress. Mr. Pettengill although claiming to be a democrat has consistently voted against administration supported measures and has repeatedly indulged in casting aspersions upon the president and questioning his purposes and motives. Ludlow, author of the resolution, who is known as a prohibitionist and pacifist, has likewise been critical of the present administration and has shown by his course in congress that politically he is a hybrid. He has leaned so far towards the republican side that he is supported for election by the republicans of his district who consider him more a republican than a democrat. He has never lost an occasion to deprecate the entrance of the United States into the world war on the side of the allies.

Eight out of Minnesota's nine votes went for the referendum and the entire bloc of ten votes in Wisconsin was similarly cast. Thus from these two states preponderantly foreign in population and notoriously opposed to America's action in going to war against the Kaiser came eighteen of the votes for the Ludlow resolution. Minnesota's votes included five cast by members of the farmer-labor party, two by republicans, August Herman Andresen and Harold Knutson, and one by Ryan, the single democrat from that state. Knutson was in congress when war was declared against Germany and was one of the few voting against the declaration. Mr. Knutson represents a district almost exclusively populated by Germans and Scandinavians whose sympathies were actively pro-German before and during the war. He has devoted the time since the war to an attempted justification of his position and reiterates at every opportunity statements to the effect that the war was forced upon an unwilling people. His course leaves no doubt as to his endorsement of the German Kaiser and all his acts nor to his perpetual regret that this country entered the war on the wrong side. The Wisconsin delegation is composed of seven progressives and three democrats. The names of the five Minnesota farmer-labor and the seven Wisconsin progressives favoring the Ludlow resolution appear below:

8

Minnesota

Tiegan
Johnson
Kvale
Bernard
Buckler

Wisconsin

Boileau
Schneider
Hull
Gehrmann
Amie
Sauthoff
Withrow

Kansas, long noted for its attachment to statutory prohibition and its devotion to 'isms and as the home of Carrie Nation and other freak reformers, cast its solid vote for Ludlow's idea. This was mostly a republican vote as the state has only two democratic members in the house. One of the 111 democrats who voted with Ludlow stated that he was opposed to the resolution but desired merely to bring the matter before the house in order to dispose of it finally. It may be assumed that 110 democrats favored the resolution. With Indiana (7), the seven states of Ohio, Pennsylvania, California, New York, Wisconsin, Illinois and Missouri contributed half this number as follows:

Ohio

Bigelow
Sweeney
Crosser
Dixon
Ashbrook
Hunter
Fletcher
Polk

Mosier
Kniffin
Secrest
Thom
Imhoff
Fleger
Aleshire

Pennsylvania

Allen	Gildea
DeMuth	Gray
Dunn	Moser
Eckert	Stack, Michael J.

California

Dockweiler	McGroarty
Ford	Tolan
Izac	Voorhis, Jerry

New York

Barry	Lanzetta
Kelly	Sirovich
O'Day	

Missouri

Cannon	Anderson
Shannon	Zimmerman
Cochran	

Wisconsin

Cannon
O'Malley
Reilly

Illinois

Beam (Chicago)	Boyer
Kelly "	Fries
McKeough "	Rigney

Democrats from other states as follows favored the Ludlow

resolution:

Connecticut

Shanley
Fitzgerald
Phillips
Citron

Michigan

Luecke
O'Brien
Hook
Sadowski

Mississippi

Collins

5

McGehee
Ford
Rankin

Washington

Leavy
Knute Hill
Martin F. Smith
Coffee

Texas

McFarlane
Poage
Patton
Dies

Ohio's 15 members, elected as democrats, constituted by far the largest delegation from any state favoring the Ludlow amendment on the majority side. No other state approached this vote. Ohio has large Irish and German elements in its population particularly in the large industrial centers of Cleveland, Toledo, and Cincinnati. Pro-German sentiment was in evidence prior to and during the world war. The Jeremiah O'Learys and Sylvester Vierecks have had a long inning. Representatives Sweeney, Crosser, and Bigelow of this state were among the very few democrats actively supporting Ludlow. Most of the active support for the war referendum came from the republican side. Some extracts from Mr. Sweeney's speech printed in the January 14 issue of the Congressional Record and reproduced below are illuminating as to the activity of Sweeney, Crosser, and Bigelow in behalf of the war referendum:

" A few weeks before our entrance into the world war I presided at a meeting of several thousands citizens of Cleveland, Ohio, who had gathered to protest our entrance into the world war." "The

Local newspapers already subsidized by Northcliffe characterized this meeting as pro-German." "It was Lord Northcliffe who subsidized the American press and caused the spreading of the vicious propaganda which ultimately influenced the passions and hatred of American people to such an extent that they temporarily lost their reason and applauded our entrance into that terrible holocaust."

"The local political bosses whooped it up for the administration. Calls went out to slaughter at the polls every Congressman who voted against war. In the Twenty-first Ohio District Representative Robert Crosser, who had the courage to vote against conscription in the late war, was denied in the following primary campaign the right to speak on Democratic platforms. He was slandered in the public press as a coward, a traitor, a deserter of our beloved President. He was defeated in that election by a small margin. Time continued to march on. By the next election the truth about the war had dawned upon the constituents of Congressman Crosser and he was returned to Washington by a substantial margin. He has, thank God, continued to serve to the present hour."

"Because he dared to exercise his constitutional right by arising in a pulpit of a church where he was pastor in Cincinnati, Ohio, and protest against our entrance into the World War, Representative Herbert S. Bigelow, now a member of this Congress from the Second District of Ohio, was taken by a group of filthy, low-down, masquerading patriots from Cincinnati, Ohio, to the lonely woods of Kentucky, tied to a tree, and beaten."

Since the administration stated its opposition to the resolution it may be assumed that a large proportion of the 64 republicans who supported it were not un-influenced by that fact. Among these republicans the following names appear:

Andresen	Kinzer
Arends	Knutson
Carlson	Lenke
Crawford	Michener
Crowther	Plumley
Culkin	Rees
Dirksen	Seger
Ditter	Shafer
Dondero	Stefan, Karl
Guyer	Tobey
Gwynne	Welch
Hoffman	Wolfenden
Jarret	

If there are deducted from the 188 votes for the Ludlow resolution the republican vote of 64, the farmer-labor and progressive vote of 13 from Minnesota and Wisconsin, the seven votes of Ludlow, the author, and his six Indiana colleagues, and the votes of foreign born and first generation members feeling the influence of sympathies opposed to war on the countries of their origin or to action linking the United States with the principal democracies of the world because Great Britain happens to be one of them, fewer than 50 votes are left favoring this most dangerous proposal. The course adopted by these elements threatens national unity while assaults are being made openly and flagrantly by dictators and militarists on defenseless and helpless peoples and while democracies are being held up to scorn and ridicule, as powerless and impotent forms of government, by these same international ruffians who are encouraged by every anti-nationalist sentiment manifested in America and the other democratic nations.

Two hundred nine members voted against bringing the Ludlow resolution on the floor and so opposed its further consideration. One hundred eighty eight of these were democrats and twenty one republicans. The republicans included the following leaders: Snell, Wigglesworth, Taber, Tinkam, Maas of Minnesota, and Mrs. Rogers. Mrs. Rogers, speaking against the resolution on the floor of the house, said: "Every subversive influence in this country, as well as every potentially hostile nation abroad, would be extremely glad to see the Ludlow resolution passed." No stronger indictment against these influences could be uttered.

Through the influences referred to by Mrs. Rogers and numerous well intentioned but misguided peace organizations congress was flooded with propaganda on behalf of the Ludlow resolution. Professional British-hating Irish, still disgruntled over the fact that the United States was allied with their traditional enemy in the world war; war time pro-Germans nursing resentment because the United States chose to defend itself against the acts of the Kaiser and German war lords; Nazi Hitlerites lately in evidence among the population; Italian worshippers of Mussolini; fascist sympathizers generally; and every influence in America that would render the nation impotent for conducting a war against any nation having a considerable representation in the population of the United States, poured

upon congress letters, telegrams, and petitions endorsing the Ludlow resolution. On the other hand the patriotism of America did not feel impelled to speak. It rested its case in the belief that congress would not paralyze the power of the nation to defend itself against enemies at home and abroad; in the belief that the constitutional provision for national defense would not be stricken down through the machinations of foreign influences and the misguided enthusiasm of pacifists and prohibitionists; and in the belief that the effect of the adoption of the Ludlow resolution would be so obviously opposed to peace as to fail to command the necessary strength for passage through congress.

In order to understand fully the nature of the Ludlow following one has only to read the debate of the lower house subsequent to the defeat of the resolution. The debate on the president's recommendation for increased national defense proved to be only a continuation of the debate on the Ludlow resolution, the principal opposition to strengthening the defensive arm of the nation coming from the Sweeneys and Sauthoffs. Representative SAUTHOFF of Wisconsin, son of August and Hermine Brueggemann Sauthoff, both born in Hanover, Germany, faithful satellite of Ludlow in his war Referendum business, leaves no stone unturned to make national union impossible lest such unity should be directed against his beloved "Deutschland über Alles." What a different attitude would be found among the British-hating Irish

and Kaiser loving Germans in this country if England were allied with Japan and a greater navy were advocated because of the threats of the Japanese. As long as Fascist Italy and barbarous Japan are allied with Germany those miserable creatures owing allegiance to America and giving it to Hitler will be firm defenders of these countries. Their bombastic leaders can do no wrong.

On Monday February 7, SAUTHOFF offered a resolution in the house calling upon the president of the United States to inform the house whether he intends "to pursue the historic policy of the United States as laid down by Washington, or does he expect to depart from it, as was done in 1917?" This language coupled with the following wording of one of the "whereas's" is deliberately insulting to the patriotism and intelligence of the American people: "whereas the people of the United States, as a free people, have departed from that policy only once, in 1917, and most of them now believe that that departure was an unqualified mistake."

Is there any wonder that Congresswoman Rogers referred to the influences favoring the Ludlow resolution as subversive when pro-Germanism raises its head thus boldly twenty years after the war to claim that most Americans now believe it was a mistake to defend their country against the Kaiseristic assault upon it. Apparently it is going to take action that will be understood to let such influences know where real Americans, with no other allegiance, stand.

Genuine American citizens, whose parents were not SAUTHOFFS nor BRUEGGEMANNs born in Germany, resent these perpetual slurs on America's part to save democracy. It is only because of the Sauthoffs who were so vociferous in 1918 and the years immediately following and were so ably aided by partisans seeking partisan advantage that the job was not finished at the time. Woodrow Wilson foresaw that if the war was ended merely by the withdrawal of the troops the present international situation would result. If his purposes had prevailed the country might not now be faced with this new threat on democracy.

It is time this country's foreign policy was dictated by the spirit of American citizenry and not influenced by minorities whose interests are bound up with unfriendly foreign nations or who foster ancient hatreds inspired from the cradle. It is time the voice of America rang through congress when pro-German S a u t h o f f s spout their insolences and deplore America's participation in the World War. Senator Glass rendered a notable service when in the senate he stopped the mouths of pro-Germanism, defaming Woodrow Wilson's memory and denouncing America's contribution to the frustration of the mad Kaiser's design to crush democracy, and drove the snakes into their holes.

What 'Every Patriotic American' Hopes

To the Editor of The Post—Sir: May I commend the attack by your correspondent, Miss Fisch, in the February 17 issue of your paper, upon the fallacious idea that England is or should be our natural ally? From the standpoint of self-interest and of international stability, our co-operation must be with the Berlin-Rome-Tokyo axis, and I look forward to a time when public opinion will demand our adherence to that axis.

Except for the unfortunate accident of language, we have nothing whatever in common with England, Canada or any part of the British Empire. Our heritage is largely Teutonic-Aryan. (We were dragged into the last war by British, French and Belgian propaganda, in opposition, I believe, to the sympathies of a majority of our citizens.)

The coming war must find us on the right side. To be elsewhere would be disastrous. It would mean the ultimate partition of the country, with Japan holding Alaska and the West as far as the Rocky Mountains and with Germany and Italy dividing the rest of the country under some sort of mandate or mutual protectorate.

As a patriotic American, I am unwilling to see our national identity submerged, even though it might mean a swifter purification of our racial culture and the more rapid modernization of our government. The same ends can be accomplished without allowing ourselves to become a conquered nation, with the inevitable stigmas that goes with such a "loss of face." (And conquered we would be—make no mistake about it—if we enter another war on the side of the decadent democracies.) The next war will be won by Germany, Italy and Japan and their allies. The destiny of the world depends upon—and demands—such a victory!

Our own political economy for the past five years has been pointed toward the totalitarian ideal of government. Politically, we are no longer a republic, but a democracy with a controlled majority. It is but a step from a controlled majority to a completely controlled political economy and the sooner we take that step the better. The recent triumphant passage of the Government's farm bill indicates

the direction we are taking and must take to modernize our economic and our Government structure. It brings great encouragement to those of us who recognize the absolute necessity of a completely controlled agriculture and industry in the modern state.

Further, the outworn ideas of the "right of the individual" and of so-called "personal liberty" must be stamped ruthlessly out of our educational system and that system re-oriented to train the individual and the group for the service of the state. (Immediate progress toward this ideal could be made by a consolidation of the Civilian Conservation Corps, the German-American Bund and the National Youth Administration into a youth movement patterned on the lines of similar movements in Germany and Italy. The direct Nazi control of the Bund would, necessarily, be transferred to the head of such a movement.)

It is tremendously encouraging to find so many Americans everywhere—in Congress, in the contributors' columns of the newspapers, on public platforms and on street corners, inveighing against any actual or sympathetic alliance with Great Britain.

Every patriotic American who hopes for the time when America will take her place with Germany and Italy as a modern state, thanks God for such legislators as Johnson and Borah, who stand implacably against a vicious and dangerous friendship with England. All legislators who, by speeches and votes, set their faces courageously and militantly against "undertakings" and "alliances" and "sympathies" with England raise hopes here and in Germany, in Italy and in Japan that the time is not far distant when America will become one of the poles of an invincible Berlin-Rome-Tokyo-Washington axis.

If that is too much for which to hope at this time, then at least we can rely on the isolationists and the temporarily useful pacifists in Congress and in the country to prevent any understanding with Britain that might weaken and delay the ultimate triumph and vindication of the German world state and its allies.

OTTO STRECKER.

Port Richmond, N. Y., Feb. 17.

From the Washington Post

Nothing could more clearly the aspirations of Germans

in this country.

Thursday
March 3, 1938
3:35 p.m.

HMJr: Hello.

T.O.: Mr. Griswold. Go ahead.

HMJr: Hello.

B. H. Griswold: Hello.

HMJr: Mr. Griswold.

G: Yes.

HMJr: Henry Morgenthau.

G: Yes, Henry.

HMJr: How are you?

G: First rate.

HMJr: Now, I've read that stuff of yours...

G: Yes.

HMJr: ...and a couple of changes won't make any difference in what I'm going to say.

(Someone breaks in on the line)

HMJr: Hello.

G: Yes.

HMJr: And that is this.

Woman's voice: Hello.

HMJr: I guess we've got a busy line.

G: Yes.

HMJr: You want to wait a minute?

G: Yes.

HMJr: Let me clear this wire,

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T.O.: Hello.

HMJr: Somebody's on this wire. Will you clear it up, Mrs. Spangler?

Mrs. Spangler: Yes, I will.

(Short pause)

HMJr: Hello.

S: Mr. Griswold.

HMJr: Thanks. Hello.

G: Yes.

HMJr: What I wanted to say was this. I read those things through, that you gave me.

G: Yes.

HMJr: And I had this suggestion to make if you thought it was practical. In reading over the papers the one that seemed to be - how should I say - the most fruitful or...

G: Yes.

HMJr: ...was Cleveland.

G: Yes.

HMJr: I don't know whether you agree or not.

G: I do.

HMJr: And I wondered if you couldn't concentrate on Cleveland and see whether we can't develop something there.

G: Yes.

HMJr: I mean, I think if we could take one section and just concentrate on that.

G: Yes.

HMJr: And - with a possibility of either bringing the people here or you and I going out there.

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G: Yes.

HMJr: See?

G: Yes.

HMJr: What do you think of that?

G: I think that's all right. But I think also that if we can keep on at the same time and get a wider sampling crop...

HMJr: That's all right.

G: But - so I've already started on that.

HMJr: That's all right.

G: And that won't come in until a little later, but I think that's a good idea. Yes, I can bring the Cleveland people out here and we'll have a pretty good talk with them about it and bring them over there.

HMJr: Well, suppossing you do that and then let's see if we can't get down the actual companies.

G: Yes.

HMJr: See?

G: Yes. I'm sure - I think that report was really actually prepared by my - one of my very close friends out there. And I'm sure he'll come on and I'm sure he'll bring all the data for you.

HMJr: Well, if you do that and let me know we'll fix up next week and we'll go to it.

G: O. K.

HMJr: Now, while I've got you on the phone. Do you know Dr. Charles Austrian of Johns Hopkins?

G: Yes. Dr. Austrian?

HMJr: Yes.

G: Yes.

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HMAJr: Is he good?

G: Very!

HMAJr: The reason I'm asking you is - you know my Secretary, Mrs. Klotz?

G: Yes.

HMAJr: Her child has had this bad cough for about four months.

G: Yes.

HMAJr: And he's been recommended as a diagnostician.

G: I don't know any better.

HMAJr: You don't know any better?

G: No. He's one of the three best here.

HMAJr: He is?

G: Yes.

HMAJr: And if you had a sick child would you take him?

G: Wouldn't hesitate.

HMAJr: You wouldn't? Thank you so much.

G: You're welcome. Goodbye.

HMAJr: Goodbye.