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MEETING WITH MR. HAAS' GROUP RE
BUSINESS SITUATION

January 26, 1938.
9:30 a.m.

Present: Mr. Taylor
Mr. Haas
Mr. White
Mr. Murphy
Miss Michener
Miss Lonigan
Mr. O'Donnell
Mr. Daggit

H.M.Jr: All right, go ahead. How you going to handle this?

Haas: That's that thing we called the Chronology.

H.M.Jr: Yes. You don't want me to read that now, do you?

Haas: Not necessary, no.

H.M.Jr: What I want, George, is this. I want a review of
the business situation as of date.

Haas: Fine, fine.

H.M.Jr: Discussion.

Haas: Might as well let Mr. Daggit start that, and the rest
can come in.

(Daggit brings various charts to
Secretary's desk)

H.M.Jr: That's what I want.

Daggit: Since our last meeting the business situation has
developed about as expected, and some of it has been
rather slow in recovering because of continued low
levels in freight car loadings and automobile pro-
duction and lumber production. There's been a
strong recovery in steel and textiles.

H.M.Jr: The President asked me, "Do they include freight car
loadings in the Federal Reserve?"

Haas: No.

H.M.Jr: Production.

Daggit: No, they don't.

H.M.Jr: They do not.

Daggit: Their index is just on physical production.

H.M.Jr: I see.

Daggit: The New York Times index includes it.

That drop in the end of December has been recovered to this extent, which puts it about up to here.

H.M.Jr: Yes.

Daggit: The activity in the steel industry has recovered to 32.7 percent this current week, which is the highest since November 15.

Cotton - I don't believe they have it dated in here, but cotton mill activity has increased also very strongly. Commodity prices have had a reaction which is probably no more than a normal reaction after the sharp rise during the first ten days of January.

Spot prices in Great Britain got down nearly to the low reached at the end of December, but in the United States they have held up better than that. Futures prices have declined about to the average of December, but not nearly as low as the low reached early in January.

This reaction in spot prices seems a little more than what one could normally expect.

H.M.Jr: Hides and copper

Daggit: Hides and copper have been weaker than other commodities. Sharp decline in hides, and a decline in copper to about the previous low. The others have held fairly well. This is due partly to a reduction finally in the asking price of copper producers. They had been holding their quotations above the general market. A reduction in hides probably is a reaction from this very sharp rise you had during December, which may have brought in more buying than could currently be sustained.

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H.M.Jr: Got another one there? Let's see it.

Daggit: These give some other prices of individual commodities, which, as you can see, have held very well, with the exception of those two.

H.M.Jr: All right.

Daggit: That just about covers it. And it seems to be developing as one could normally expect at this time.

Haas: I don't know, while Daggit has the floor, whether or not you want him to go over - I discussed with you some time ago the question of working out a basis, industry by industry, of production and demand to check disequilibrium situations.

H.M.Jr: Yes.

Haas: He has a tentative chart made up on that.

H.M.Jr: Where is it?

Haas: Here it is.

H.M.Jr: All right.

Daggit: This is it. I mentioned at the last meeting that we were working on this and included in the last report a chart on steel and textiles. We have included the same two charts in this group, but have added about six others, and have also added a calculation of the deviations of production from our curve of basic demand.

Taking steel - production of steel during December, we got nearly 40 points lower than our estimate of demand from the steel-consuming industries. That is as low as it dropped in '34 and lower than it dropped in '32; but in both '32 and '34 that low level was followed by a sharp upturn in production. Production in '33 again got far above the estimated level of demand, and that was followed by a decline. It got further above the estimated demand in '37 than it did in '33.

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We expect these to provide a pretty useful index of the extent to which production is getting above demand and the extent to which it is getting below demand. The composite index is shown here, and that is made up of a solid line representing the Federal Reserve index and a dotted line representing our calculation of this demand index based on 80 percent of the total weight in Federal Reserve index - based on industries representing 80 percent of the total weight.

The significance seems to be that when production gets about ten percent or ten points below the demand level, it turns upward as it did in '32 and in '34; when it gets about ten percent above, it turns downward as it did in '33 and in '37. We are still working on this and are trying to learn just how to interpret it accurately.

- H.M.Jr: Well now, let's see, in textiles the demand is above, isn't it?
- Daggit: Yes, production is way below.
- H.M.Jr: Your demand is above. Is that right?
- Daggit: That's right. We consider that a bullish situation.
- H.M.Jr: Your coal is bad.
- Daggit: Yes.
- H.M.Jr: What?
- Daggit: Yes.
- H.M.Jr: Your coal is bad. Your automobiles
- Daggit: Automobiles - let's see, they're fairly good.
- H.M.Jr: I mean it ought to get better, oughtn't it?
- Daggit: It ought to get better.

I don't believe the December figure has been put in here. These December figures are tentative.

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H.M.Jr: I see.

Daggit: Leather is very good.

H.M.Jr: Leather's all right, but you haven't got it far enough.

Haas: Petroleum is another one which is bad.

Daggit: Petroleum is bad.

H.M.Jr: Oh, these are other ones, huh?

Daggit: Yes.

H.M.Jr: Where is petroleum? Yes, I know petroleum's bad. When the Standard Oil of New Jersey man was down here a couple weeks ago - in charge of production - he told us that thing was out of line, didn't he, Harry?

White: Yes.

H.M.Jr: Huh?

White: He did.

H.M.Jr: They were worried then.

White: Expected that the price would be a little lower.

H.M.Jr: He was worried about it.

Daggit: This would seem to indicate something to be worried about.

H.M.Jr: What else?

Daggit: Meat packing - that's about on the fence. It got favorable some time back and is - has now recovered.

H.M.Jr: Lumber ...

Daggit: Lumber is rather bad. Now, this could change either ...

H.M.Jr: ... either way.

Daggit: ... either way. If we get an improvement in residential

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construction, it could turn up again.

Steel is favorable.

H.M.Jr: Well, this is interesting because it's so fresh - I mean it's so close up. I think that's very well done.

Haas: I think it's tentative, but ...

H.M.Jr: Has Mr. Taylor seen it?

Taylor: No. It sounds like a grand chart.

H.M.Jr: It is.

Daggit: It's a new approach. In the preliminary stages.

H.M.Jr: Show that to Mr. Taylor. I tell you, if you don't mind, would you let him go to your office when convenient?

Taylor: Oh yes.

H.M.Jr: I mean just the same - I mean if you want it, huh?
Let me keep that one and give Mr. Taylor another one, see? You have more than one?

Daggit: Yes, we have more.

Haas: It's a print.

H.M.Jr: What?

Haas: It's a print.

Just one thing to keep in mind: we're still working on it, so we may change it in some way.

H.M.Jr: I understand. What else you got, George?

Haas: We're - I've picked - I think some figures just came in on construction which Daggit hasn't seen yet. They've just come in.

(Haas brings material to Secretary's desk)

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For the first 15 days of January, the total is up, you see.

H.M.Jr: Say it so they all ...

Haas: The total for construction - contracts awarded - for the first 15 days of January, 1938, as compared with the first 15 days of January, 1937, is up from \$101,000,000 to \$128,000,000. There's been a decline in residential and decline in non-residential, and an increase in public works and an increase in utilities; a sharp increase in utilities from ten million to 45 million, which is a result of utility construction in New York metropolitan and northern New Jersey districts, which rose to 34 million from 6 million.

Daggit: May I mention there that Dr. Lubin says that the big increase in the New York district was partly due to a change in building codes which went into effect on January 1.

H.M.Jr: I see.

Haas: These are just the figures put on the charts, just the starting - the total is up in

H.M.Jr: All right, what else you got?

Haas: We're doing another experimental job. Probably have it in in a couple days. Situation I spoke to you about. Involves a question of all the governmentally-controlled instruments which have inflationary or deflationary effect on the economy. And we have done quite a little work - different members of the staff. Henry Murphy is doing most of it, and Daggit and Harry White, and so on. We expect to have it in a couple days. That might be interesting.

I suggest now you might go around the room, let Harry talk about the international situation.

H.M.Jr: All right.

White: I should say on the whole the international situation is tending to hold us up. It hasn't yet become a

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depressive factor.

H.M.Jr: What do you mean, to hold us up? To retard us?

White: No, to prevent us from going down lower. But that it's becoming a little weaker in that direction than it has been.

The Latin American situation is bad; it's turned bad, and for next year, irrespective almost of what happens here, unless there is a very substantial improvement the world over, it will be a force tending to drag us down, on the whole. I could go through the various countries, but that would take too long; that's the general situation in Latin America.

The Scandinavian countries are holding up very well. England, notwithstanding some evidence which points to a downturn, or to a probable downturn, in the beginning is not sufficiently changed so that you can say it is in any sense a depressive factor; still remains one of the very strong points in Europe. Germany has improved very substantially and is apparently maintaining at a very high level.

The Orient you are familiar with.

South America and India - I mean South Africa and India, and those countries, are holding up well, so that on the whole they are adding an optimistic tone to the world situation.

And that shows in our foreign trade, too. That is, our exports are holding up remarkably well; in fact, they have increased substantially from the first indications. We know they increased in November, and the first preliminary data show they are very high in December.

The imports, of course, reflect our situation, and our imports are dropping heavily; reached a much lower level, partly due to the economic situation and in part due to different agricultural drought situations.

So I think one can conclude, on the whole, that the feeling which is held by foreign writers - that the crucial situation is the United States; if the United

States turns upward, it will in the main postpone any recession that may take place in Europe. If on the other hand, we don't turn upward, some of the countries that are just teetering - some of the important countries will join us and be a depressive factor in the next four, five, six months.

H.M.Jr: I'll come back to that.

Would you (Haas) contact - I think his name is Fisher, the statistician over at F.H.A. Ask him if he'd write me a memorandum how he feels about the building situation from now until the first of July. If that isn't asking too much, how he looks at it from now... They say he's a very good man. What do you think?

Haas: I know him.

H.M.Jr: What?

Haas: I know him some.

H.M.Jr: Ask him if he'd give you a memorandum for me, how he feels about the building situation from now until the first of July.

Haas: Yes, sir.

H.M.Jr: What?

Haas: Yes, sir.

H.M.Jr: What effect, if any, they think this new bill will have when it passes, see?

Now, there's some misunderstanding as between White and Haas.

White: We cleared it up. We were talking about Latin America. I thought that you had reference to something that you had asked him about recently.

H.M.Jr: Well, when am I going to get my United States charts - imports and exports - for the calendar year, or even up to date?

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White: Well, again I misunderstand. I thought you were talking about your trade with Latin America.

H.M.Jr: What do you think I'm asking for?

White: About trade with Latin America.

Haas: And the other important countries.

H.M.Jr: And I asked it for Germany, Italy, and Japan.

White: In relation to Latin?

H.M.Jr: No, the United States. I asked - what I asked for - and check me - I said, "I want the import and export position of the United States with Latin America, and Germany, Italy, and Japan."

Haas: You said "all the other important countries," which includes those.

H.M.Jr: I thought I specifically

White: I thought you meant their position in Latin America compared with ours.

H.M.Jr: No.

White: You'll have that day after tomorrow. Give you Latin America today. The other

H.M.Jr: I won't get a chance to look at it until Monday.

White: We'll surely have it then.

H.M.Jr: I'll try to have another meeting like this Monday, if possible.

Haas: On that question, Harry and myself - about that - I talked about it, but I made one mistake which would check itself long before this. I think you probably told me about it some time, or something, and I didn't put in a card. If there was a job card put in our record, the other people handling the routine would have caught it, so I'm

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H.M.Jr: As long as they get it now.

Harry, as near as I can remember it, England hasn't borrowed any money in a long time. The last money they borrowed, if my memory is right, was just before Chamberlain went out as Chancellor of the Exchequer.

White: Meaning domestically, of course.

H.M.Jr: Yes.

Taylor: That was that loan that went so sour.

H.M.Jr: Yes, and I wonder what's happened.

White: They've been spending more money than they're getting, and I think they've been selling some bills recently. I'll look that up.

H.M.Jr: Look it up. And give me a memo how they do their sterilization.

White: Yes.

H.M.Jr: Will you? I want both of those. Will you?

White: Give them to you today.

H.M.Jr: See? But also on that - I mean I don't understand; I mean either they must have increased the amount of bills outstanding considerably, because they haven't gone into the capital market now - must be a year. I mean I may be wrong, but that's what I think.

White: I think less than a year.

H.M.Jr: Well, look it up.

White: Yes, I'll do that.

H.M.Jr: What I'm going to try to do - I'm going to have these once a week. And if George has got something special, we'll do it twice a week. But if we do it once a week, it'll give you fellows a chance.

Murphy?

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- Murphy: I hadn't contemplated being called upon to make a talk. If you desire to have some account of the Government bond market and bank holdings of Government securities
- H.M.Jr: No, I just got a most complete memorandum, which I never received before, from Dr. Burgess. Did I send that back to you?
- Haas: I don't think you did.
- H.M.Jr: Well, I never got one of those before. I mean they make a memorandum that goes into their whole operations and everything else, for themselves and for us, and I asked him last night and he said, "Oh, we do that once a month."
- I said, "I never got that."
- Haas: Oh, I get that.
- H.M.Jr: Oh, do you? A complete analysis, a bulletin?
- Haas: No, I get something which comes - gets in daily.
- H.M.Jr: No, this is monthly. I've never seen it before. And it just came in. Harris may have it.
- And then, Harris just did me a very good job on our own situation. Have you seen that?
- Murphy: No, I haven't.
- H.M.Jr: You fellows better all get together. Harris just did me an excellent job from what they've been doing. Why don't you have a talk with him and then find out what the Fed in New York does, and let's tie them all in together, huh?
- Murphy: Yes.
- H.M.Jr: I just read Harris and I just read Burgess, and I'm up to here on bonds.
- Murphy: The reason I said that - I didn't want to duplicate anything you had just gotten otherwise.

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H.M.Jr: But I think that needs a little co-ordination.

Haas: Yes. I'll take care of that.

H.M.Jr: What?

Haas: I'll see to it.

H.M.Jr: Because this is the best job I've ever seen the Fed turn out. I don't think - I asked Burgess; he said it's monthly. I don't know whether it's new. It gives a very complete picture.

And incidentally, or confidentially, Burgess told me that Saturday he told the bond fellows that he thought that they were - their portfolios were a little heavy; to ease them up a little bit. And that's why the thing sluffed off. But he told me he thought their portfolios were a little heavy.

As a matter of fact, if Murphy is going to follow this thing, he ought to go up and spend a day or two with whoever the statistician is in New York in the Fed - their statistician on bonds, etc., and get familiar with it. I'd send him up there and let him spend a couple days. I mean if they're doing a good job and have a big staff, there's no use our duplicating that, huh?

Taylor: I think they do a very good job.

H.M.Jr: What?

Taylor: I think they do a very good job.

H.M.Jr: An excellent job. Just a question of interpreting. As a matter of fact, not much to interpret by the time they get through. But I mean I'd go up there and spend a couple days and see.

Murphy: Be glad to do that.

H.M.Jr: Want to say anything, Wayne?

Taylor: I just wondered, have you got anything on Russia at all that shows up anything?

White: I think I can give you a very good description of events there. Any specific aspects of it?

Taylor: No, just thinking about the figures - if they showed anything.

White: They showed - as far as their industrial production is concerned, they showed a much lower increase in production than was both spoken of and anticipated. Figures vary, but somewhere between - instead of the 29 percent, 27 percent increase which they talked about for industrial production, it apparently is closer to 10, between 10 and 15. And the production which they are setting for the next year, which was supposed to have been 30 percent, is 10.

Want me to go on with that particularly - more than that?

H.M.Jr: It's all right, go ahead.

White: So that this is the first time in their series of plans that they have set for their program of the next year as low a rate as this 10 to 12 percent in increase. Which indicates two factors. One, that increases are becoming more difficult because they are going to higher levels. Two, they are more realistic and are not going to accept the kind of figures which they accepted before, and which involved a great deal of manipulation, and almost false reporting.

Thirdly, their exports and imports are in what we would call - what they would call good shape. Their foreign credits are very excellent. They can borrow pretty near as much as they want on short-term credits if they want to pay the four or five or six percent; but they are trying to reduce the cost of their borrowing. But their foreign credit situation is not an important consideration with them at all.

What dominates them even more than ever is the - I won't say almost certainly, I'll put it further - I'll say the certainty that war will break out, they think, this year, in their opinion; and every effort is being bent to that. That is one of the explanations that has been offered recently for the purge,

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which went to very great lengths, and then the withdrawal from the purge now to restimulate a certain amount of confidence, hoping to get industry started again, because they had everybody scared to death among the leaders so that nobody dared make a decision for fear it might result in his being arrested. And they are preparing to help Japan a very great deal with arms and so on.

Taylor: You mean China.

White: China, I mean. They are already reported to have one hundred aviators and planes in one spot; they're building an important highway and a railroad which will provide a route through Russian Turkestan.

So their whole psychology is more than ever a war one and geared to expectation and conduct of a war in the near future.

Business on the whole is good in Russia - I mean better than it has been.

H.M.Jr: Miss Michener?

Michener: I have nothing.

H.M.Jr: I'm going to come to you (Lonigan). I'll come to you last, if you don't mind.

How's your (O'Donnell) revenue?

O'Donnell: I think revenues are meeting our expectations. We had one situation, with which you may be familiar, in the daily Treasury statement last month. Because of the particular interest in Social Security, it concerned us a little bit. We had anticipated collections of about 50 million dollars from Social Security

H.M.Jr: What month?

O'Donnell: ... in the month of December. And the daily Treasury statement showed in excess of 70 million dollars. On the other hand, we had anticipated the accumulated collections from Railroad Retirement Act in respect to the first nine months, which was due at the end of

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November, to amount to 92 million dollars, and that fell substantially short, according to the daily Treasury statement, by about the amount that the Social Security was over. I called that to the attention of the Accounts and Deposits Unit and the Internal Revenue people, and we reached the conclusion that the people in the field had been incorrectly designating the warrants in allocating the funds to Social Security and they really belonged to Railroad Retirement.

Just yesterday I received the collection sheet from the Bureau of Internal Revenue, where the Collectors have actually allocated from the assessment lists, so that we have the correct designation. And I was pleased to learn that the collections from November and December came out to about 91.8 millions against our estimate of 92, and correspondingly the Social Security was within two millions of our estimate. So that the daily Treasury will have to make an adjustment, and I believe that that is now in process of investigation. But that has come to the attention of some people who watched Social Security very closely, and I bring it up only that

- H.M.Jr: Well, somebody was awfully dumb on that.
- Haas: Vandenberg wrote in on that.
- O'Donnell: I merely bring it up because it may be brought to your attention, and that is the explanation. It will be corrected on the daily Treasury.
- H.M.Jr: And the rest - everything else is all right?
- O'Donnell: Everything's all right thus far. In fact, very good.
- H.M.Jr: I mean so - let's see, the last figure we gave the President
- O'Donnell: Those figures seem to be borne out. Of course, our next big test will come on the March 15 collections, because it is there that we get into a new situation on the base for the income tax collections.
- H.M.Jr: But I mean it's no worse than what we gave.

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O'Donnell: No worse at all. And the business picture which Mr. Daggit has so adequately given is just about what we expected. It hasn't turned up as fast, but it's not going down.

H.M.Jr: I forget what you did figure.

O'Donnell: In fact, it is just about what we figured for the month of January, but it went lower in December.

H.M.Jr: Yes, lower in December.

O'Donnell: That's right.

H.M.Jr: All right.

Now Miss Lonigan. You say you got back Sunday?

Lonigan: Yes, sir.

H.M.Jr: When would I get your report on New York State?

Lonigan: Mr. Haas had it yesterday, Mr. Secretary.

Haas: I think it's in there.

Michener: It went in yesterday.

H.M.Jr: Where?

Michener: To Miss Chauncey.

H.M.Jr: Miss Chauncey is due here at ten, so she'll bring it in here.

Could you be as concentrated as some of these people on what the employment situation looks like in New York?

Lonigan: The striking situation - I was in Texas the first week in January, in New York the third week in January, and the most striking thing was the remarkable improvement in sentiment.

H.M.Jr: Where?

Lonigan: In New York. I mean separating the geographical differences, from the first to the third week there

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has been a remarkable improvement in sentiment. There's been a definite turn in placements. Placements have begun. Returns of Social Security applications for compensation have begun. They are being withdrawn - back to work before the four weeks were up. There is a turn in the Social Security. You will begin to have voluntary withdrawals of applications because the men have gone back to work.

H.M.Jr: May I interrupt you? The estimate that they gave us was 800,000 people in New York would get unemployment insurance, and the last figures I saw in the paper were 480,000.

Lonigan: Well, the 480 is much nearer right. I didn't submit an estimate because I got so many variants and I thought they didn't include the variants. But the 800,000 is out. That's what they originally said.

H.M.Jr: Did you see Mrs. Rosenberg up there?

Lonigan: No.

H.M.Jr: If you ever go to New York again, see her. She's the head of the Social Security in the state.

Lonigan: I saw the state - no Federal.

H.M.Jr: Yes.

Lonigan: That is very marked, and it is reported that it is showing up in the reports of salesmen, that they are finding empty shelves - this general feeling that the turn has come. On unemployment the lay-offs apparently have greatly receded, if not stopped, and at the present time we are not in a period of mass lay-offs, and we are hardly in the period of small lay-offs.

H.M.Jr: My God, this is the first time I've even heard you a tiny bit enthusiastic.

Lonigan: I'm talking about flickers, I'm not talking about mass. The mass is still there, with heavy weight on the unemployment compensation people. They're working seven days a week - Saturdays, Sundays.

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They worked New Years, Christmas - the unemployment compensation people - to get this mass of applications out. But there are not mass additions to those applications; they are very few. And there are withdrawals.

On relief I have no clear picture.

Oh, I might add in connection with that figure that New York is usually flat in January. New York's Christmas trade and everything is sort of closed out in January - retail trade, manufacturing, everything - so that a turn-up in January in New York City is very remarkable. If you want my guesses as to why it is

H.M.Jr: Just a minute.

(On phone) Get Colonel Harrington on the phone, please.

Lonigan: I do think it must be largely ascribed to those meetings in Washington. They seem to have reduced people's fear. It's amazing. That's my guess, my hunch - that people are less jittery.

H.M.Jr: Really?

Lonigan: Yes, sir. It's very encouraging. So that sentiment is better. Employment - mass lay-offs have ceased; and small lay-offs - small returns.

On the relief picture, there isn't anything clear and simple to be said. There is need. There is a rising jitteriness on the part of relief officials which I think is very unhealthy. And there is the good old group of people who say, "Now there is a lot of money for relief, we might just as well ask all over again."

On the technical side, relief administrations are still unable to cope with their problem. On the administration, they can't cope with it, don't know the game. And on W.P.A., the increases in quota which you arranged for W.P.A. have been sent out to the states, but when the states try to pull the people off the state relief lists, the so-called mass of

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employables on the state relief lists being supported by the city and county and state, are not existent.

H.M.Jr: (On phone) Hello. - Well, tell his office that if it is convenient I'd like him to come over and see me at 11 o'clock on Thursday - on Friday. - Yes. And what I want - I'd like him to give me a picture of the relief situation as it is at present. I'd like to get a picture of the relief situation from him, and if he'd come over at 11 o'clock Friday, and if he can, tell Mr. Bell I want him here at that time - 11 o'clock Friday.

What were you saying, Miss Lonigan?

Lonigan: - You raised the quotas for W.P.A. They got additional quotas. They wired out to their states immediately to draw all the employables off the relief rolls, and they couldn't draw them off, you see - the cities and the mayors.

H.M.Jr: Why should they draw them off the relief rolls? You mean to add them.

Lonigan: No, sir. I'm distinguishing - W.P.A. isn't relief rolls.

H.M.Jr: What?

Lonigan: W.P.A. isn't relief rolls.

H.M.Jr: Oh, I see.

Lonigan: They wired the W.P.A. state administrations to take this group of employables off the relief rolls that the Mayors Conference did so much talking about - that they're supporting this mass of employables. They tried to take them off and couldn't take them off, for two reasons. One was they mostly weren't there; the second one is, W.P.A. can only take off a group of people that can work on plant maintenance plus a few sewing rooms. I mean W.P.A. doesn't have the type of projects which can take off all the unemployed. But this mass of employables that are supposed to be on the city government relief rolls - as soon as you try to take them off, they aren't there. I don't think

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it is dishonesty - I'm not implying that at all.
It's just that the relief

H.M.Jr: Well, you're getting in now, if you don't mind
I'll read this stuff. Just one thing while you're
here: I'd like you to leave next Sunday night. I'll
give you a week here.

Lonigan: I need it.

H.M.Jr: Well, I'll give you a week.

Lonigan: My clothes need it.

H.M.Jr: What?

Lonigan: My clothes need it, if I don't.

H.M.Jr: I'm going to send you out to Illinois next.

Lonigan: Illinois?

H.M.Jr: Yes. And I want you also to do downstate just as
you did upstate New York. And I think you better
take plenty of time. I should think it would be
worth at least a week - Chicago and downstate.

Lonigan: It takes a great deal more time to do the rural
areas.

H.M.Jr: I mean I want you to go downstate to the capital,
Springfield; then get down into some of the badlands
of Illinois on the border there, as the soil peters
out as you go south.

And I'm sending for - who's the fellow in Farm
Credit?

Haas: Oh, Garwood.

H.M.Jr: I'm going to speak to Garwood - Steve Garwood and
find out what he knows about how Resettlement handles
their loans; he'd know, because their people would be
rubbing elbows.

Lonigan: In Illinois?

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- H.M.Jr: Everywhere.
- Lonigan: Well, you got that memorandum.
- H.M.Jr: Yes. I'm going to look into that. Terrible.
- Lonigan: The sentiment was terrible.
- H.M.Jr: What?
- Lonigan: The feeling against Resettlement.
- H.M.Jr: Yes.
- Lonigan: And I was thinking there was a possibility the Budget Bureau might be blamed for it, wrongly.
- H.M.Jr: And you'll be amused at this. The President sent back a memorandum to me on the Texas thing. He said, "Show this to the Vice President. I haven't got enough nerve to show it to him." So I just buried it. If the President thinks - the Vice President doesn't check with what you said about Texas - "I don't have courage enough, so somebody else will have to tell him about his dear Texas and his people."
- Lonigan: Well, that Texas report was not an argument for big spending. It could be interpreted ...
- H.M.Jr: No, no, it's the conditions. The President has been talking about wages and hours and roads, and the Vice President maintains that everything in Texas is lovely, see? And he says the wages are the highest, the schools are the best, roads are the best.
- Lonigan: Oh, that's inadequate.
- H.M.Jr: And this memorandum of yours sort of changed it. But I'm perfectly frank; I don't mind sending anything to the President, but I wouldn't have the nerve to send it to the Vice President.
- Lonigan: On the New York situation, may I add a sentence before I finish. I know from my New York experience that the New York situation, which is the biggest

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industrial pulse in the country, swings absolutely on February and March; in other words, if it is on an upgrade through February and March, if that is maintained through March, it will run through August. It swings - it's a pivot in there - February and March are a pivot. If it keeps up, if it is nursed through February and March, it can swing right through August, we can be pretty sure that this whole thing will swing right along.

H.M.Jr: Well, isn't Chicago, Illinois, pretty important too?

Lonigan: Oh yes. I just wanted to emphasize that right at this moment, this end of January - February and March will carry us for six months if we can go

H.M.Jr: Do you really think so?

Lonigan: Yes, I'm sure of it.

H.M.Jr: Well, I was going to say this when I started the meeting - that I feel less happy about the situation today than I did two weeks ago; but what you people say doesn't necessarily bear it out. But my elbow doesn't feel as good as it did two weeks ago.

Haas: You probably feel ...

H.M.Jr: What?

Haas: I mean you've been watching the market so long that when everybody gets a little happy, it's a good idea to cross your fingers; and that's all to the good.

H.M.Jr: If you thought what I thought - I'm telling you I don't feel as - I mean that spurt we got there right after the first of the year, the retail thing, the fact they seemed to clean up - the thing between Christmas and New Years was awfully good - I mean the way those people cleaned up their shelves and everything else. But then, right after that there seemed to be kind of a letdown again.

Haas: A complete letdown right after.

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H.M.Jr: And then the figures that you sent me in on these businesses, with the exception of a few chain retail stores, are - they're all doing very badly.

Haas: That's right. The only thing is steel and textiles. And we don't have the textile companies' report. Steel is better.

H.M.Jr: What's a good textile company that does big business?

Haas: Oh, Cannon.

Daggit: Cannon Mills.

H.M.Jr: Ask Mr. Cannon if he'll send you the sales from now on.

Haas: Yes.

H.M.Jr: Ask Cannon. Why don't you get a big gasoline company too? I tell you, if you ask

Haas: New Jersey.

H.M.Jr: They'll give it to us.

O'Donnell: Teagle?

H.M.Jr: What?

O'Donnell: Teagle?

H.M.Jr: No, Jay Crane. He's the Treasurer now.

Haas: He's a banker too.

White: Isn't Cannon a little too good to be representative of the whole industry? They're a pretty good - they may not be typical. Maybe Cannon and somebody else would be better. They do well when others frequently don't.

O'Donnell: Because of their international business.

H.M.Jr: Well, think about it. But get Standard Oil of New Jersey, see?

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Murphy: Jersey is rather regional. That is, you haven't got the complete.....

H.M.Jr: No, they've spread out, you know.

O'Donnell: The local company that is most diversified is Texas. It is an independent, but it has retail outlets in every state.

H.M.Jr: All right, take

O'Donnell: Also production and refining unit.

H.M.Jr: Why not take two? Take Texas. Texas has a national distribution. What?

Haas: Yes.

O'Donnell: Every state.

H.M.Jr: Well, leave out Standard of New Jersey. Let's take Texas.

Haas: Standard of New Jersey has got other products which correlate business conditions.

H.M.Jr: All right, let's get Standard of New Jersey and Texas, and then get a couple of - a textile and a woolen.

Haas: Uh-huh.

H.M.Jr: Take Cannon and take a woolen.

Haas: All right.

Daggit: I might try some large cotton merchants' organizations.

H.M.Jr: Well, think about it. Think about it.

Haas: All right.

H.M.Jr: That isn't crowding you too much, if you (Lonigan) leave Sunday night for Illinois? Gives you a week off.

Lonigan: Monday night would be better for me. Monday night would be better for me personally.

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H.M.Jr: Monday night.

Lonigan: I must get some winter clothes. I don't have any clothes.

H.M.Jr: I thought you had overalls on when you went out on this job.

RE PROPOSED INCOME TAX SETTLEMENT
GROUP

January 26, 1938.
10:30 a.m.

Present: Mr. Magill
Mr. McReynolds
Mr. Helvering
Mr. Graves
Mr. Gaston

Graves: I submitted to Mr. Helvering a suggestion along the lines of our previous conferences for an experiment in the Los Angeles division, in which we would set up for that division a group to be under the technical staff. That was my proposition. That group would exercise for the Commissioner complete jurisdiction over the settlement of all cases originating in that division.

The proposition as I made it was that the present jurisdiction of the Revenue Agent in Charge in that division would be left unimpaired, but that at the stage where he decides that there is no hope of his reaching an agreement with the taxpayer - at the point, in other words, where he now would send the case to Washington for consideration by the Bureau, he would send the case to this division of the technical staff, who would have all of the authority which is now exercised by the Bureau with reference to the settlement of that case; and that would mean that the authority of the settlement group would be applied in cases prior to the issuance of the statutory notice of deficiency, as well as after.

Mr. Helvering has some objections to the application of that plan with reference to cases before they reach the statutory notice of deficiency, and he has stated them in a memorandum to me. Since that memorandum was given me by Mr. Helvering, I have had further conferences with Mr. Marrs, of the technical staff, and Mr. Sherwood of the Income Tax Unit; and I understood them to say that, while they had misgivings as to the ultimate success of the plan as I proposed it, yet they feel there would be no material objection to its being tried as I proposed it. And I think that we have come into substantial accord, as far as Mr. Marrs and Mr. Sherwood and myself are concerned, as to the proposal to make the trial.

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- H.M.Jr: Well now, let me just get this thing. You're talking a little bit too technical for me, see? What I have been hoping that some day we'd be able to do, and that's what I thought we were going to do and still hope we're going to do in Los Angeles, is, if my income tax has been examined and I am in disagreement with the agent, then I can go to some place in the city of Los Angeles and come to a definite understanding with every representative of the Treasury as to what my tax is. If I can't come to an understanding, then the only - the next jump from the group that I meet with would be the Board of Tax Appeals. There would be no in-between. Either I'm in agreement with the representatives of Internal Revenue or if I'm not - if I can't come to an agreement with them, then my only appeal would be the Board of Tax Appeals.
- Now, that's the way - the way I was talking with you people the other day.
- Magill: Well, that is essentially this idea.
- H.M.Jr: Well, you say "essentially," which is a qualification. He (Graves) used a qualifying word.
- Graves: Well, I'd like to strike out the "essentially."
- Magill: I think you could.
- H.M.Jr: The reason I make this little statement - you both used some qualifying adjective. I mean is there anything ...
- Graves: There is no other recourse.
- Magill: I'm trying to be cautious. I think you can strike "essentially" and say "exactly."
- H.M.Jr: All right.
- Magill: Now, let's see
- McR: That's what Harold is trying to do. He's trying to set up a settlement group that would do specifically that thing.

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- H.M.Jr: I mean have I - as I understand, from a layman's viewpoint, is that what you fellows are going to do? And no "essentially" or "maybe" or "almost" in between.
- Magill: No, that's what it is. Let me
- Helvering: Go ahead.
- Magill: What will happen is this. Let's trace through your return; that's the easiest way to see it. You make your return. A revenue agent goes over it and compares it with your books, etc., and he says, "We have come to the conclusion you owe an additional thousand dollars of income taxes for 1936." You have a conference with him, protest that determination, and you can come to no agreement. He insists that you owe the thousand; you insist you don't.
- Now the next step, under this plan, is that you may then go to this settlement group in Los Angeles and discuss the matter with them. If after a discussion you come to the conclusion that it is five hundred dollars instead of a thousand, and you're willing to settle on that basis, all right, she's settled then and there. If you still insist that you don't owe anything more and the settlement group concludes that you owe a thousand or seven fifty or some other amount in addition, then the proposal is that immediately a deficiency letter should issue, which gives you then a right of appeal to the Board of Tax Appeals.
- H.M.Jr: Well, haven't I - isn't that saying what I said? You're saying it technically and I said it in my particular - peculiar way.
- Magill: I think that's true.
- H.M.Jr: Now, are you (Helvering) willing to have us try this?
- Helvering: Oh yes. Yes, it's for the experiment, with very heavy underscoring of "experiment," for this reason, and I thought you ought to know and think about it. I can't help but think - when I studied chemistry, they told me, "Don't mix acacia and sugar together and try to compound them in a mortar, because you'd have an

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explosion." Now, I want to visualize this in just a little different way - not, as you (Graves) said, by objections. Those were just suggestions; I didn't mean them as objections.

Now, we'll take the same illustration, Mr. Magill used. You're the taxpayer and the agent has said to you that you owe a thousand dollars more. You're not in agreement with that at all. The taxpayer goes over to this settlement group. The settlement group either agrees or doesn't agree with the agent. If it agrees with him, after this hearing is had a 90-day letter is issued. Now, after the 90-day letter is issued there is only one thing for him to do, try to settle it with the settlement group or, finally, try it before the Board.

Now, you're the taxpayer and Mac's the Agent in Charge and we're the settlement group. Now, you've gone to the extent you can with the Agent in Charge. The settlement group - you've talked to them; and the 90-day letter is issued on what you know is the consensus of the settlement board and the agent; and it takes away from you a new hearing before a strictly settlement group before you finally go to trial, because you would say, naturally, "Well, I've been before those fellows; they've objected and sent me this 90-day. No use my going back to them."

H.M.Jr: Well, that's just what we want.

Helvering: If that's what you want

H.M.Jr: We don't want these fellows coming back to Washington. We don't want them hiring Washington lawyers. This is just exactly what I want. This fellow knows he can either settle with the settlement group or go to the Board of Tax Appeals. This group is there. That's his last resort, as far as the Treasury is concerned. That's exactly what I want.

Helvering: Well, of course, we'd have to change that procedure a little on that.

H.M.Jr: I mean either - this is a little court that we set up

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representing everybody. They sit down with the taxpayer. And we're putting it in his backyard so that he doesn't have to go to all the expense and inconvenience

Helvering: Have you (Graves) your memorandum there?

H.M.Jr: ... and all the business back and forth. And he knows that when he gets his 90-day letter that is the final expression of opinion of the complete Treasury - Chief Counsel, General Counsel, Under Secretary, Secretary, Commissioner of Internal Revenue, and every other god-damn so-and-so.

Gaston: Guy, would it improve the set-up from your standpoint if he did not have access to the settlement group until after the 90-day letter had issued; in other words, to preserve the authority of the agent up to that point?

Helvering: Well, that's what I was thinking about under this particular procedure. Now, the Secretary has put a little different slant on that.

H.M.Jr: No, I - look here; now, look. This thing isn't rigid in the sense Harold wanted to try it in New York. I said, "No, it's too important. Let's get the bugs out of it. Let's try it this way and let's run it along for a while." I mean this fellow goes in and he sees this group and he knows if he can't - the whole pressure - the whole idea, as I get it, is that he's got to settle it with this group or he gets a 90-day. And there is no other place, but this is the one and only group. What's the sense of having two boards - I mean twice. He gets in there; these fellows should be patient, they should be fair, they should be just. They should listen to him and try to meet him, try to settle it. Now, if they can't settle it - "All right, Mr. Jones, there's no other place, as far as the Treasury is concerned, for you to go, and if you don't agree you get your 90-day letter."

Now, to give them another thing and another loophole - it just spoils the whole thing.

Helvering: Now, will you read this paragraph?

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H.M.Jr: And you and I and everybody here have got the right to pick flaws in it after she's going for a while.

Which? "Functions of Settlement Group"?

Helvering: Yes. You read that. If that's your idea, why then, I'm perfectly in agreement.

H.M.Jr: "Functions of Settlement Group.-- The proposed settlement group" - let me read back ahead of that. Shall I?

"The settlement group should be composed of the best settlement men available (probably not fewer than ten at the beginning), chosen from the Technical Staff, the Conference Division, and the Engineering and Valuation Division. It should have an ample corps of auditors and clerks. It should be headed by a member of the Technical Staff or a conferee who has shown outstanding ability in the direction of settlement work. It is my opinion that for the duration of the experimental period this officer should report to, and be subject to the direction of, the head of the Technical Staff in Washington.

"Functions of Settlement Group.-- The proposed settlement group should (a) grant a hearing to every taxpayer who after full discussion of his case in the office of the revenue agent in charge, still protests the agent's findings; (b) make on behalf of the Commissioner a final administrative determination of the deficiency or overassessment, and endeavor to secure the taxpayer's agreement thereto; (c) send the case back to the revenue agent in charge for such action as may be required to carry out the determination, including the issuance of a statutory notice of deficiency when necessary; and (d) negotiate settlement after the issuance of the statutory notice whenever it seems advisable."

Now, I don't understand

Graves: Well, after the taxpayer has received his notice of deficiency and if he wants to come in

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H.M.Jr: Oh, he still has a chance?

Graves: With the same body.

H.M.Jr: Oh, you mean after he gets the 90-day letter he can still come back.

Graves: Yes.

H.M.Jr: Would they change their opinion?

Magill: They might.

Graves: He has the opportunity to dis-- come in and discuss the case, but with the same body.

Magill: That's a very important thing.

H.M.Jr: That's a new wrinkle to it.

At the present time they appeal to the Board of Tax Appeals each year somewhere around 4500 cases - isn't it?

Helvering: Where?

H.A.Jr: The Board of Tax Appeals - about 4500 appeals filed per annum?

Helvering: Little more than that.

Magill: The Board actually hears and determines, of those, only somewhere around a thousand. The other 3500, and in fact more than that, are settled by this Technical Staff down here or by the General Counsel's office.

H.M.Jr: Well, I think this is even still fairer. This gives the fellow - after he gets a 90-day letter he can still come back to this group. He gets the 90-day letter and after sleeping over it he says, "Maybe I do want to settle." He can still come back to this same group. Sounds all right to me. But this is in addition.

Graves: No, that was in the original plan.

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McR: Just throws everything that now exists any place else into that group.

H.M.Jr: That's what I'm trying to do. Maybe it's all wrong. I think it's worth trying.

"Legal Staff.--A picked group of attorneys from the Chief Counsel's office should be assigned to duty with the proposed settlement group, to (a) advise the settlement group on request with respect to legal questions arising in the consideration of taxpayers' protests; (b) examine cases in which statutory notices of deficiency are to be issued and advise whether the proposed determination can be successfully defended on appeal; and (c) represent the Commissioner in the trial of appealed cases before the Board of Tax Appeals. The legal staff should have no authority to settle cases independently of the administrative settlement group."

Check on that.

"Board of Tax Appeals.--The cooperation of the Board of Tax Appeals should be obtained in arranging for early hearings in Los Angeles on appeals growing out of the determinations made by the proposed settlement group. The cooperation of the Board should be sought also with a view to insuring that all such appeals should be set for trial on the Board's field calendar, except in instances where assignment to the Washington calendar is agreed to by the Government.

"Revenue Agent's Office.--The present authority and responsibility of the agent in charge at Los Angeles for the examination and settlement of income-tax cases should be continued without curtailment."

The only thing is this legal staff. Is this another staff in addition to the Technical Staff?

Graves: It would be part of this same settlement group.

Magill: Again your idea of trying to get one body to do all the settling.

H.M.Jr: But the authority flows through the Revenue Agent's office to the Commissioner. Is that right?

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- Magill: That's right.
- H.M.Jr: And it doesn't - it really flows through - this whole group is responsible through the Revenue Agent to the Commissioner and there is no divided authority where some of these lawyers go to Oliphant and some of them go to the Commissioner; but the whole thing - this group is responsible through the Revenue Agent's office to the Commissioner.
- Graves: Well, not through the Revenue Agent. Responsible directly to the Commissioner.
- H.M.Jr: I mean the responsibility is to him?
- Graves: Yes.
- H.M.Jr: So there is no
- Graves: Mr. Helvering himself made this suggestion, and I certainly concur in it; that after - that is, it bears on... - that after the petition is filed with the Board of Tax Appeals, if the representative of Chief Counsel who is attached to this group feels that the case should be tried and the head of this settlement group feels it should not be tried - in such a case he feels, and I feel too, that it should be tried. In other words, after the petition is filed the concurrence of both the chief settlement man and the Chief Counsel's representative would be necessary if there is to be any settlement.
- Gaston: Necessary for a settlement. If they don't agree, it's to be tried.
- McR: I think that's basic. I don't think you can duck that. If either one of them feel that the thing ought to be tried before the Board of Tax Appeals rather than a compromise settlement made, I think it ought to go to trial. That's the only safe way to handle it.
- Helvering: Many times the equity of the case would appeal to a person in settlement when the legal phases of the case could absolutely be defended.
- H.M.Jr: Has Oliphant seen this?

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- Magill: Not that I know of.
- H.M.Jr: You ought to see him.
- Magill: I should think so. It's essentially a matter within the
- H.M.Jr: Well, you're going to draw on him for lawyers, aren't you? Take this very thing you're discussing now.
- Magill: Have you (Graves) got lawyers in Los Angeles now?
- Graves: Yes, but I doubt that we'll use them on this. I think the settlement group - these lawyers would come from the Appeals Division of the Chief Counsel's office.
- Magill: Well then, we certainly ought to discuss it with him.
- H.M.Jr: What?
- Magill: We ought to discuss it with him.
- H.M.Jr: Now just one thing I want done. Could it be possible for the Treasury to supply the taxpayer with counsel?
- McR: No! Absolutely not. I've seen that tried - veteran's counsel and things of that sort. You can't be on two sides. Your settlement man is interested; the Commissioner of Internal Revenue is interested, in giving him what he's entitled to. You're not trying to collect something that isn't due under the law. You make the determination that it is due under the law. And if you try to assign Government employees to represent the taxpayer's interest as against the Government's interest, I think you just get your issues all mixed, and you'd find those fellows as you did - see, the veteran's counsel was furnished by Veterans Bureau ...
- H.M.Jr: All right, forget it. All right. O.K., you've said enough.
- Gaston: Just one thought. I'd like to say in that connection it seems to me that this settlement board ought to be so operated that a man will get as good or better

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results without counsel before that board than he would with counsel.

McR: Not necessarily better. I don't see how it could be better. Ought not to be a particle of difference.

H.M.Jr: I brought out the point I wanted to make.

Now, when you going to start this?

Graves: Well, I've talked that over with the people in - Mr. Helvering's associates in the Bureau, and I feel that if we get right at this thing and make our plans and pick our personnel and rent our space, which we'd have to do out there because there's no Federal building available - that we could get going on this thing first of March.

H.M.Jr: Well, not later. Not later; that's the deadline.

Graves: All right. Does that strike you

Helvering: Yes, I think we can get it done.

H.M.Jr: Well, that's the deadline.

Now, do we want to announce anything about this in advance or do we just want to go ahead and try to do it?

Graves: I would prefer not to have any announcement, at least until we have crystallized our set-up much ...

Magill: Oh, I think that's true. When you have actually got your personnel together and they are going to do it, I think then an announcement would be desirable.

Graves: After we do it.

McR: Wouldn't it be better to have your announcement a local announcement covering the territory - particularly heading into the territory where you're going to operate?

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- Gaston: I think for two reasons - one is that when this group get out there started to going, why, somebody will learn, there will be some stories about it there, somebody will learn you are out there - then there ought to be a frank statement about what you are doing locally.
- H.M.Jr: Well, I'll tell you what I had in mind; you people can think about it. I thought that just before Harold started out we might get the people together who are interested in writing this thing and explain to them just what our objective is, so we can get a decent story.
- Helvering: You mean the local - the Treasury man just before he starts out there.
- Magill: I think that's fair enough, because they're going
- H.M.Jr: And sit down and take an hour - special meeting - and go into greatest detail and explain this thing to them.
- Helvering: The experience when we established these others - now, this is very much better, and when we set up these others, I think - well, it goes farther, in the first place.
- McR: Well, it's a development. You're learning, you're getting something from experience.
- Helvering: I have in my files a great many clippings from the Ohio - the Cleveland and Toledo papers - a great deal, and ...
- H.M.Jr: Well, this is so much further, it's so close to my heart - I'm not saying this is the way it should be done, but I'd like Gaston to think about it, and the rest of us. I think just before we open up on the first of March - I think on the first of March the thing should be explained here. I think this is of national importance.
- Magill: I think so too. Furthermore, if you don't do that, rumors are going to seep out and the thing gets out in twisted form.

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- McR: You can't avoid it. I think the boss is probably right on that. If you don't give them a correct story, you'll get an incorrect story.
- Magill: I think you'll have to do it before the first of March, as a matter of fact, because you'll be talking to some of these fellows down in the Unit about going out there and so on, and the thing will gradually get out.
- H.M.Jr: Now, you (Helvering) are willing to try it?
- Helvering: (Nods yes)
- H.M.Jr: The great trouble is, everybody around here wants to be detailed for the month of March to Los Angeles, so they can watch this thing. I think I'll have to go out myself.
- McR: (Laughs)
- H.M.Jr: All right.
- Helvering: Of course, I don't want to be accused of being Scotch on this.
- H.M.Jr: But
- Helvering: But it's going to be a very expensive operation. When it is all set, if this is a success and we take it over the United States, it is going to be a much more expensive operation than we have now.
- H.M.Jr: I don't think so, after you get it started, because I think the three hundred men that you've got doing this thing - I think you'll find you'll be able to cut them down to two hundred.
- McR: Guy, you're
- H.M.Jr: I think you're going to save money.
- McR: Of course, your second step on this, if it goes and you approve it, will be to extend this settlement group's jurisdiction over all your West Coast districts, so that you won't be creating more settlement

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groups, but you'll be merely expanding this settlement group.

Helvering: Have 11 in the United States, I understand.

H.M.Jr: But you've got how many men doing this reviewing, about three hundred?

Graves: About three hundred, including the Appeals Division of the Chief Counsel's office, doing settlement work.

H.M.Jr: I think you're going to cut down that staff by a third - where you're going to save money. I'll be disappointed if you don't.

Helvering: Well, of course

McR: Guy still says it's an experiment and we'll find

H.M.Jr: I'd say it's an experiment.

McR: The boss is the one that insists it be an experiment.

H.M.Jr: Well, if I had followed this fellow (Graves) - he was going to shoot the whole works in five counties in the great city of New York. But I said - they said they've got 1300 cases in Los Angeles - "Let's try it there; at least I want to watch it."

Helvering: The reason I said it will be more expensive, Mr. Secretary, is that you are providing a medium whereby every little taxpayer will come in, which is all right; he's entitled to it just the same as anybody else. But of the 16,000 deficiency letters we now issue a year, there's only 5,000 ever come to any

H.M.Jr: Well, you don't know. Now, I broadcast after Professor Will Starr Myers said that Mr. Herbert Hoover was being persecuted that I would see anybody and hear anybody that was being persecuted; and I didn't have to see a fellow. One fellow was going to show up from Boston, and somebody tipped him off not to come, because he realized he was a bad boy. And I never did have to see anybody.

McR: Well, of course, Guy's signing a memorandum with

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respect to all of those cases that come in, and of course there isn't a single one of them that isn't lousy.

H.M.Jr: Well, let's try this thing, and we all have our fingers crossed.

Helvering: Don't get the idea that I'm opposing this. Remember, I was quite energetic in proposing the Cleveland thing. Now, that didn't work out as good as this will.

H.M.Jr: Well, let's try it. We're hoping. But this is something I'm very much interested in.

Magill: Well, we better see Mr. Oliphant at once.

H.M.Jr: Yes. But now, listen, gentlemen. This starts to roll the first of March. No excuses accepted.

January 12, 1936.

MEMORANDUM FOR MR. HELVERING:

I have discussed with Mr. Russell and Mr. Sherwood, and with Mr. Harre, a plan, alternative to the Cleveland plan, for the final settlement of income-tax cases in the field. Under this alternative plan, regional divisions of the Bureau's settlement staff would be established in the various sections of the country, with final and exclusive authority, for the Commissioner, to consider and settle tax deficiencies and over-assessments, whether before or after the issuance of statutory notices, in instances in which the revenue agents in charge have been unable to obtain agreements. Under such a plan, the regional settlement divisions would be directly responsible to a chief settlement officer in the Bureau, appointed or designated for the purpose by the Commissioner.

I believe that such a plan would have a number of advantages over the Cleveland plan, assuming the application of one or the other to the whole service. It would be easier to manage and supervise. It would insure a higher degree of uniformity in settlements. It would afford less opportunity for the exercise of improper local influences upon settlements. In fact, if the personnel of the field settlement divisions were members of the staff of a chief settlement officer in the Bureau, not only subject to his technical direction but also subject to his authority with respect to assignments, salaries, and like matters, there

Is no reason to suppose that the Bureau's control over settlement work should be any less effective than under the present centralized system of management.

The proposed plan would seem to be superior to the Cleveland plan from the point of view of the taxpayer also. It would afford him the opportunity to have his case reviewed by an administrative agency independent of and superior to that which made the investigation and asserted the tax liability in the first instance. Under the Cleveland plan he has no such recourse; if not satisfied with the administrative finding, he can only carry his case to the Board of Tax Appeals. Obviously, some method must be available for disposing of the bulk of tax controversies administratively. It is believed that the proposed plan would provide the best possible machinery to this end, without of course depriving the taxpayer of the privilege of a final review by an agency independent of the administrative authorities.

By comparison with the settlement system now generally in effect, the proposed plan would have the distinct advantage of eliminating all stages in the administrative settlement of tax disputes, except one (leaving out of consideration the settlement work done by revenue agents, which would remain undisturbed). It would consolidate all groups now participating in settlement work, and leave only a single authority to deal administratively with tax controversies, in whatever stage. I believe that it would expedite the closing of cases and would tend to cut down the number of appeals to the Board.

The extent to which these results could be realized would of course

depend in large measure upon the personnel assigned to the respective settlement divisions. I believe, however, that settlement officers of ample ability to insure the successful functioning of the plan can be found without great difficulty in the personnel of the agencies now engaged in settlement work, including the Technical Staff, the Conference Division of the Income Tax Unit, the Engineering and Valuation Division, and, of course, the Appeals Division of the Chief Counsel's office.

I feel strongly that the proposed plan offers enough promise of solving some of the major problems involved in the settlement of income-tax cases, at least to warrant its trial on an experimental basis. Such a trial might best be made in a single division of average size. Preferably, the selected division should be at some distance from Washington so that the benefits to taxpayers resulting from reduced delays and costs would be fully realized. It would probably be desirable also to select a division that would be roughly comparable with the divisions involved in the Cleveland experiment. In my judgment, the Los Angeles division best meets these requirements. This division has the further advantage that four representatives of the Technical Staff and four engineer revenue agents are now assigned to duty there. These men, or some of them, might serve as a nucleus for the special settlement group which the proposed plan would require. If the experiment should be tried in the Los Angeles division, it would probably be advisable at the outset to confine the work of the new settlement organization to cases originating in that division. After the experimental organization has been functioning for a reasonable period, if the plan seems, on the

whole, to be successful, the jurisdiction of the new settlement group might well be extended to cover also the unagreed cases originating in the San Francisco and Seattle divisions.

I submit below an outline of the proposed plan as it could be applied experimentally to the Los Angeles division:

Settlement Group.—The settlement group should be composed of the best settlement men available (probably not fewer than ten at the beginning), chosen from the Technical Staff, the Conference Division, and the Engineering and Valuation Division. It should have an ample corps of auditors and clerks. It should be headed by a member of the Technical Staff or a conferee who has shown outstanding ability in the direction of settlement work. It is my opinion that for the duration of the experimental period this officer should report to, and be subject to the direction of, the head of the Technical Staff in Washington.

Functions of Settlement Group.—The proposed settlement group should (a) grant a hearing to every taxpayer who after full discussion of his case in the office of the revenue agent in charge, still protests the agent's findings; (b) make on behalf of the Commissioner a final administrative determination of the deficiency or over-assessment, and endeavor to secure the taxpayer's agreement thereto; (c) send the case back to the revenue agent in charge for such action as may be required to carry out the determination, including the issuance of a statutory notice of deficiency when necessary; and (d) negotiate settlement after the issuance of the statutory notice whenever it seems advisable.

Legal Staff.—A picked group of attorneys from the Chief Counsel's office should be assigned to duty with the proposed settlement group, to (a) advise the settlement group on request with respect to legal questions arising in the consideration of taxpayers' protests; (b) examine cases in which statutory notices of deficiency are to be issued and advise whether the proposed determination can be successfully defended on appeal; and (c) represent the Commissioner in the trial of appealed cases before the Board of Tax Appeals. The legal staff should have no authority to settle cases independently of the administrative settlement group.

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Board of Tax Appeals.—The cooperation of the Board of Tax Appeals should be obtained in arranging for early hearings in Los Angeles on appeals growing out of the determinations made by the proposed settlement group. The cooperation of the Board should be sought also with a view to insuring that all such appeals should be set for trial on the Board's field calendar, except in instances where assignment to the Washington calendar is agreed to by the Government.

Revenue Agent's Office.—The present authority and responsibility of the agent in charge at Los Angeles for the examination and settlement of income-tax cases should be continued without curtailment.

I believe that this describes the proposed experiment sufficiently to enable you to give the matter consideration. For obvious reasons, I have made no effort to present the proposal in any finality with respect to details. It does occur to me to say, however, that the Bureau would probably wish, at least for the time being, to have a review by the Technical Staff in Washington of the cases disposed of under the proposed arrangement.

I believe that Mr. Russell and Mr. Marrs are both favorably disposed toward making the experiment, although they may differ from my suggestion for the selection of the Los Angeles Division.

I am furnishing a copy of this memorandum to Mr. Magill.

(Signed) Harold N. Graves

Harold N. Graves
Assistant to the Secretary.

HNG/mff

January 26, 1938.
11:28 a.m.

H.M.Jr: Hello.

Operator: Dr. Feis. Go ahead.

H.M.Jr: Hello.

Dr. Feis: Good morning.

H.M.Jr: Hello Herbert.

F: Did you have a good time?

H.M.Jr: Oh we had a swell rest.

F: Good for you. Did you go to Sea Island again?

H.M.Jr: Yes.

F: Stay in the hotel, or did you have a house?

H.M.Jr: Had a cottage.

F: Oh, that sounds grand. Henry -

H.M.Jr:

F: The Spanish Ambassador has been in to talk about the possibility of selling silver to this Government.

H.M.Jr: Yes.

F: We stated that we believed you'd be willing to discuss it with him.

H.M.Jr: Sure.

F: Could you do that?

H.M.Jr: Sure.

F: He suggested that - he suggested quite politely, I mean, just saying that if by any chance tomorrow morning was convenient for you, it would be a very good time for him.

H.M.Jr: Well, let me just see, I'm seeing the Chinese in a moment. Tomorrow is not a very good time, but tomorrow afternoon would be.

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F: In the afternoon?

H.M.Jr: Yes.

F: All right. What time?

H.M.Jr: Supposing we say three o'clock.

F: All right.

H.M.Jr: Do you want to come over?

F: Right. Suppose I do.

H.M.Jr: I think it would be very nice.

F: All right. Now, we asked him just one question.

H.M.Jr: Yes.

F: Thinking that that's something you'd probably would want to ask him.

H.M.Jr: Yes.

F: Was that silver in Spain or outside of Spain.

H.M.Jr: Yes.

F: And he's finding out.

H.M.Jr: I see.

F: And I expect he'll have that information by tomorrow.

H.M.Jr: All right.

F: Now on the Hungarian thing.

H.M.Jr: Oh, yes.

F: Hearing yesterday afternoon that you were back. That's the first time I had heard it.

H.M.Jr: Yes.

F: I sent a note of reminder down to the Secretary.

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H.M.Jr: O. K.

F: All right. I may have some word on that by tomorrow.

H.M.Jr: All right. Be good.

F: I'll try.

H.M.Jr: What?

F: I'll try. And listen, we've got our troubles over here.

H.M.Jr: I don't know whether you saw Cochran's cable that came in late last night.

F: I think it was an extremely interesting cable.

H.M.Jr: Very good cable.

F: Yes.

H.M.Jr: Please, as soon as you know when Japan's going to declare war let me know.

F: All right. I haven't gone through the Far Eastern yet -

H.M.Jr: Well, I mean if there's anything on that -

F: This morning - if there's anything in this morning's cable, I'll let you know. I haven't started -

H.M.Jr: I mean - because that's terribly important from our standpoint.

F: Right. Have you - by the way, we haven't heard anything more of any new recent gold movements -

H.M.Jr: There aren't any.

F: There have not been any.

H.M.Jr: There haven't been any.

F: No.

H.M.Jr: There haven't been any this year.

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F: That's what I thought.

H.M.Jr: And no notices. And incidentally -

F: Have you got them tied down with a promise that they'll give you advance notice?

H.M.Jr: Oh, yes.

F: You have.

H.M.Jr: Oh, they made them promise to Harrison of the Federal Reserve, the Bank of Japan would notify them in advance.

F: I see.

H.M.Jr: Would notify the Federal Reserve of New York.

F: I see.

H.M.Jr: And incidentally their balances have been standing and they stick right around forty two million dollars, in New York.

F: I know. Damn.

H.M.Jr: What?

F: Sure, these fellows had tremendous stock, see? Then furthermore, as the military reports bring out Henry, they're not using much ammunition in this campaign.

H.M.Jr: That's right.

F: They're using a hell of a lot of oil.

H.M.Jr: I see.

F: But I heard one military man say that probably more ammunition was used up in a single day in the battle of Verdunne than the Japs had used ever since going into China.

H.M.Jr: Well, I'll be glad to see you tomorrow.

F: All right.

H.M.Jr: Goodbye.

F: Goodbye.

EMPLOYMENT ON WPA PROJECTS, BY STATE

UNITED STATES AND TERRITORIES

Weeks Ending January 22 and January 15, 1938

(Partly Estimated - Subject to Revision)

State	Number of Persons Employed		Increase or Decrease (-)
	Week Ending January 22	Week Ending January 15	
<i>Jan 29</i> GRAND TOTAL	1,848,157	1,757,637 <i>A/</i>	+ 68,429
CONTINENTAL UNITED STATES	1,839,192	1,765,170 <i>A/</i>	+ 64,322
Alabama	28,690	27,243	+ 1,442
Arizona	7,612	7,542 <i>A/</i>	+ 100
Arkansas	26,423	24,924	+ 1,499
California - Total	78,430	76,622	+ 1,808
Northern	37,274	37,134	+ 2,140
Southern	39,156	39,488	- 332
Colorado	22,470	21,352	+ 1,118
Connecticut	19,586	18,920	+ 666
Delaware	2,431	2,349	+ 82
District of Columbia	6,816	6,689	+ 127
Florida	27,714	26,875	+ 839
Georgia	32,243	30,347 <i>A/</i>	+ 1,901
Idaho	9,775	8,948	+ 827
Illinois	125,108	117,307	+ 8,101
Indiana	23,083	22,393	+ 2,695
Iowa	20,926	20,469	+ 457
Kansas	29,824	28,019	+ 1,805
Kentucky	41,332	40,631	+ 701
Louisiana	27,233	26,260	+ 973
Maine	7,288	6,535	+ 753
Maryland	10,901	10,754	+ 147
Massachusetts	73,720	78,099	+ 621
Michigan	8,445	55,328	+ 3,317
Minnesota	41,920	40,364	+ 1,556
Mississippi	2,915	21,860	+ 1,085
Missouri	37,264	55,522 <i>A/</i>	+ 1,742
Montana	15,370	13,194	+ 376
Nebraska	22,134	21,744	+ 390
Nevada	2,074	1,975	+ 99
New Hampshire	6,787	6,744	+ 43
New Jersey	64,990	61,469	+ 3,521
New Mexico	7,071	6,652	+ 219
New York City	138,457	138,352 <i>A/</i>	+ 105
New York (Excl. N.Y.C.)	21,474	50,756	+ 718
North Carolina	23,516	21,529	+ 987
North Dakota	13,766	13,669	+ 97
Ohio	110,837	106,378	+ 4,459
Oklahoma	51,883	50,942	+ 946
Oregon	14,154	14,111	+ 343
Pennsylvania	174,037	167,877	+ 6,160
Rhode Island	13,087	13,054	+ 33
South Carolina	24,856	21,860	+ 2,996
South Dakota	15,200	14,973	+ 227
Tennessee	25,353	23,567	+ 1,786
Texas	62,810	60,843 <i>A/</i>	+ 1,967
Utah	7,848	7,644	+ 204
Vermont	4,469	4,226	+ 243
Virginia	19,824	19,382	+ 442
Washington	37,859	35,214	+ 2,645
West Virginia	32,339	31,722	+ 617
Wisconsin	43,744	43,463	+ 281
Wyoming	3,329	3,273	+ 56
Hawaii	2,467	2,467	+ 2

A/ Revised.



Gaston please speak to me.
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AM

TREASURY DEPARTMENT
WASHINGTON

January 26, 1938.

MEMORANDUM FOR THE SECRETARY:

On September 15, 1937, you directed me to assume the duty of coordinating the activities of the Enforcement Agencies of the Treasury Department.

Your coordination program was put into effect during August, 1934, by Mr. Harold N. Graves and under his supervision constructive progress and major changes in enforcement ~~activities~~ were accomplished. At the outset, a Coordinating Committee was formed consisting of the heads of the enforcement agencies at Washington and their assistants, and the periodical meetings with Mr. Graves served as the means of establishing a close relationship between these activities which theretofore had to a very large extent functioned independently. The meetings have furthered the development of coordination by the process of determining the problems of each enforcement agency and dealing with them from the viewpoint of a coordinated group.

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When this plan was commenced, the primary thought was to suppress the tremendous smuggling of alcohol into and between the ports of entry of this country. An information exchange was inaugurated between the Alcohol Tax Unit, Customs Service and Coast Guard whereby intelligence concerning the activities of smugglers was promptly and forcefully acted upon by the consolidated force. The most effective immediate results were obtained on the Gulf and the West Coast. Forty-six defendants were indicted at New Orleans and on the Pacific Coast another group of forty-six violators were indicted, convictions being obtained in most cases.

The problem on the Atlantic Coast was more complicated, as the alcohol smuggling operations were on a much larger scale. This was met by the creation in November, 1935, of a special smuggling committee consisting of representatives of the Alcohol Tax Unit, Bureau of Customs and Coast Guard, with headquarters at New York City. This committee supervised the investigations of all officers of the three services engaged in the enforcement and prevention of smuggling from Maine to Virginia.

The concentrated effort at New York City resulted in the development of cases involving four ships and eighty-four

defendants. Another case related to the seizure of 50,000 gallons of alcohol and a boat when the smugglers attempted unloading at New Jersey. This seizure caused the return of the mother ship "HILFFERN" to Antwerp with the remaining 150,000 gallons of alcohol which they were unable to land.

The coordinated drive against smuggling was most effective and reduced to a minimum alcohol smuggling on all coasts and borders of this country. It is becoming more evident that there is no extensive smuggling of alcohol into this country. However, it is essential that close and constant supervision be maintained in order to avoid a resumption of liquor smuggling, and we are zealously following out every lead along this line. Our program is to make certain that liquor smuggling is kept at an absolute minimum. For example, recent activity indicated attempts of smugglers to bring in alcohol from Europe. Careful investigation developed that the shipments were directed toward Canada. Such work is constantly being done.

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Within the past eighteen months you directed that forceful action be taken against the smuggling of narcotics into this country. The Treasury enforcement services have taken hold vigorously and the problem is of such major importance as to require the concentrated efforts of all agencies to accomplish effective results. You will recall that United States Attorney Hardy of New York City and his assistant, Mr. Martin, called at your office during May of 1936 and complained of the personnel of the Narcotic Service at New York City. Special Agent in Charge Palmer of the Intelligence Unit was assigned to make an investigation of that organization and as a consequence there were eleven removals and transfers, including the Agent in Charge. Picked men from other sections of the country were assigned to New York as replacements and to supply additional personnel, so that there are at this time fifty Narcotic Agents working in New York City. Garland Williams, an experienced and intelligent officer of the Customs Agency employed in Texas, was transferred to the Narcotics Bureau and placed in charge of the New York Division, and ten Border Patrolmen from the Customs Service were assigned to supplement his force. This entire Narcotics personnel is now employed under the direct supervision of Mr. Williams and they are accomplishing excellent results. The narcotic situation at New York City has been acute for several years and the favorable publicity following the enforcement results is most commendable.

On the Pacific Coast there was set up a supervisory narcotic enforcement program during October of 1936, covering the entire West Coast section from the Mexican to the Canadian borders. This

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activity is under the immediate supervision of Customs Agent Malvin L. Hanks.

This past summer I visited each of the important points on the Pacific Coast and numerous agents engaged upon this activity were interviewed. Equipment was inspected and a program outlined. Some arrests and seizures have been made by this organization and they are continuing their work zealously. It is my opinion that the smuggling of narcotics into the Pacific Coast ports is not a serious problem. Various seizures have been made in that area which have been traced back to New York and there is reason to believe that most of the supply of narcotics in the western area does not come in through those coastal ports but is smuggled into the port of New York and shipped or carried to the west coast.

Mr. Barford of the Intelligence Unit and Mr. Shamhart of the Customs Enforcement Unit, were recently directed to make a survey of the narcotic situation on the Pacific Coast to determine whether the continuance of this activity under Customs Agent Hanks was justified. They concluded that the organization should continue its work, and made recommendations for changes which would effect a saving in expense, and, at the same time, not jeopardize the activities of this group. They pointed out in their report that the work had developed into a preventive rather than an enforcement program, undoubtedly due to the very close supervision of all persons suspected of handling narcotics. My personal observations of the situation, gained from the trip last summer, together with information as to the activities and results of this group, indicated to me that the recommendations of these officers were proper, and I concurred in their findings, which have been approved by you and put into effect.

There is no doubt that narcotics are being smuggled into this country, but there is no authentic information as to the amount being brought in. It has been a long time since an intelligent survey of narcotic addiction in the United States was made. If this were known, we could determine the amount of illicit narcotics smuggled into the country. Recently, Mr. Anslinger had his New York agents make a survey of narcotic addiction in fifty-one counties of New York State, outside of New York City, with the following results:

<u>Population</u>	<u>Number of Addicts</u>			<u>Addicts per 10,000</u>		
	<u>Medical</u>	<u>Criminal</u>	<u>Total</u>	<u>Medical</u>	<u>Criminal</u>	<u>Total</u>
5,290,683	778	566	1,344	1.471	1.070	2.540

Although interesting, these figures cannot be applied as a measurement for the entire country, and they are not particularly helpful in determining to what extent non-medical addiction does exist throughout the United States. However, Mr. Anslinger is now causing a survey of non-medical addiction to be made in one State in each of the fifteen Treasury Districts and he is compiling information obtained from State and Municipal authorities with data secured by the Narcotics Bureau. It is our belief that this survey will give a fairly accurate conclusion as to the extent of non-medical addiction.

- - - - -

A recent survey was made of enforcement measures in effect in Puerto Rico, the Dominican Republic, the Virgin Islands, and at the same time inquiry was made in the British, French and Netherlands West Indies, with particular reference to the possibility of smuggling narcotics and alcohol into the mainland of the United States.

The committee was composed of Mr. Thompson, of the Secretary's office, Mr. Gorman, of the Customs Bureau, and Lieutenant Pollio, of the Coast Guard. Their report contains many constructive suggestions and their recommendations with respect to personnel changes and proposed procedure with the objective of maintaining good will with the officials of the West Indies are now being considered.

- - - - -

The foregoing matters are commented upon as they provide an outline of the major accomplishments of the coordination program; however, an important phase of this activity is the maintenance of proper intelligence concerning violators of all laws enforced by the Treasury Department, together with prompt and effective use of such information. A constant liaison and control has been established whereby information is promptly transmitted to the agencies for immediate action. A system of files has been installed to correlate information obtained from all sources. Charts have been prepared for the purpose of visualizing progress in enforcement work, the result of special drives and the proper allocation of personnel. Studies are also being made with a view to the proposed consolidation.

There are numerous other changes which are the result of coordination that will be commented upon briefly, all of which have for their purpose improved methods of investigation and a development of the personnel through instruction.

- 4 -

Treasury training schools have been held throughout the country and have been attended for periods of two weeks by a total of 2,792 persons. Practically the entire personnel of the enforcement units has had this course of training and there is reason to believe that it has assisted materially in improving the efficiency and intelligence of these officers. The Intelligence Unit held schools for a period of two weeks for each of the agents of its organization. The courses in this school related particularly to the work of the Intelligence Unit, such as tax fraud investigations, personnel inquiries, etc., and it is believed that the same good results were obtained from these schools as from the Treasury agency schools. Marksmanship contests have been inaugurated and have been participated in by agents from all over the United States. It is the purpose to continue these contests in this coming year. Revised and up-to-date manuals of instructions have been issued to certain of the agencies and are being prepared for the other agencies, to enable the personnel to have the most up-to-date instruction with respect to their duties.

The supervision of the Customs Border Patrol Service has been transferred from the Collectors of Customs to the Customs Agents with good results; the activities of the patrolmen are more closely allied to those of the Customs Agents than to the administrative work of the personnel under the direction of the Collector of Customs. It will be of interest to note that, prior to coordination, but 25% of the Customs investigative units' activities were devoted to criminal investigations, whereas at the present time approximately 50% of that personnel is so employed.

On December 1, 1936, there was a realignment of the enforcement divisions throughout the country to correspond with the territorial alignments of the Alcohol Tax Unit so that there are now fifteen Treasury Districts. The purpose of this change was to have uniformity in area supervision and to have the headquarters of each agency for the respective districts in the same city to provide closer contact between the supervisory officers. The procedure has been established as a matter of routine whereby the personnel and equipment of one agency is used by another agency, depending upon the immediate need.

The arrangements necessitated by the concentrated drives against smuggling of liquor and narcotics required an analysis and selection of personnel which has provided the coordinated agencies with a mobile and specialized force. They are working together splendidly and there is an esprit de corps that is most encouraging. The periodical meetings at my office of the heads

of the agencies and their assistants are of considerable value in maintaining and developing the entire program and such meetings are being held frequently at division headquarters cities throughout the country.

It is my firm conviction that your action in directing the coordination of these agencies and the whole-hearted support and backing you have given, both to Mr. Graves and myself, in our endeavors to carry out your program, have been responsible for the good results which obviously have been secured--improvement in morale, added efficiency of the personnel, increased production and willing cooperation, all of which have brought the organizations, individually and collectively, to the highest degree of efficiency in their history.

A handwritten signature in dark ink, appearing to be a stylized name with a large initial letter.

MEMORANDUM OF THE DAY'S ACTIVITIES

January 26, 1938

To: Secretary Morgenthau
From: Mr. Magill

1. Tax Bill

Mr. Doughton has asked me to confer with him and the other Democratic members of the Ways and Means Committee tomorrow morning at 9:15; presumably they want to discuss the controversial features of the Subcommittee's recommendations, particularly the proposed tax on closely held corporations.

The draftsmen are making satisfactory progress with the bill. They have reported to Messrs. Doughton and Vinson that the bill will probably be ready within two weeks. It might be delayed after that time if the full Committee wished to insert provisions beyond those agreed to by the Subcommittee.

2. Information from taxpayers with over \$100,000 net income

The Commissioner, Mr. Oliphant, Mr. Wenchel and I discussed the form which the Commissioner sent to the field two months ago, with instructions that taxpayers with over \$100,000 net income should swear to the statement thereon of their assets and liabilities. Mr. Oliphant felt that the necessary information could probably be obtained by the revenue agents in the course of their investigations of income tax returns and that the taxpayer should not be asked to fill out the form unless his accounting records are inadequate. I asked Mr. Helvering to review the proposed form to see whether all the information asked for was essential for our purposes and also whether the information could be secured by the revenue agents without requiring a special statement from the taxpayer.

RM

January 26, 1938

Mr. Eustace Seligman, of Sullivan and Cromwell, called on me representing the Marine Midland Bank and said that he hoped that whatever move we made on bank holding companies would not be of such a nature that it would affect bank holding companies operating solely within State limits and that they were particularly worried about what effect it would have on their stockholders. I asked him could he operate under the laws of the State of New York as a branch bank outfit and he said no; that the State limited them to operating within 100 miles.

I asked him whether he cared to comment on why the Listing Committee of the New York Stock Exchange did not take action against certain bank holding companies which seemed to be conducting their affairs unwisely and he said that the Listing Committee was human, like everybody else, and that what they had to think of was their commissions and if they excepted a company whose stock was active it would be apt to go to the Curb Exchange and they would lose their business. I said that was the trouble and if the Listing Committee had been more strict in the beginning I questioned whether we would ever have had to have the Security Exchange Commission, but the very fact that the Listing Committee was human threw the burden on the Federal Government and that it was up to us to see that the various companies did not operate so that it would be against the best interests of the public.

January 26, 1938

11:30 a. m.

Present:

Chinese Ambassador
Mr. Taylor

Ambassador: I received word from Dr. Kung since assuming President of the Executive Yuan telling me to come and thank you and your Government for the way you have been helping us in accommodating our silver and that way, he is happy to ask me to talk to you, up to the end of December, last year, we have been able to meet all our obligations, domestic as well as foreign, and of course he wishes me to say that your help has been very substantial in enabling us to close the accounts of the year satisfactorily.

Now of course with the General Chiang giving his whole attention to the fighting side of the Government, I think things are getting much more encouraging than they were a couple of months ago. I thought I would come here; make this report to you and convey his thanks to you and to see if you have anything to ask about.

HM, Jr: That's very nice. No. I don't know of anything. I haven't got anything. Anything, Wayne, you want to ask.

Mr. Taylor: No, I don't think so.

HM, Jr: We follow the information in the newspapers very carefully.

Ambassador: Yes.

HM, Jr: And it's very conflicting.

Ambassador: Sometimes very conflicting.

HM, Jr: And it's very difficult to follow. Often the reports are so in conflict.

Mr. Taylor: Getting any customs revenue at all now?

-2-

Ambassador: I think that is one point I have to take up with Mr. Hull, also about Japanese threat or actual attempt to increase or decrease the tariff in the occupied areas. Of course we made very strong protest to Japan on that score because that will mean the breaking up of the customs service which is very important for the credit of the Chinese Government as several foreign loans are being serviced by the customs service which have heretofore always been very satisfactorily met.

The attempt -- I understand; I don't know the details because I have not got it in writing; so far I have got it by wire -- the Popular regime of China have made an attempt to lower the tariff of certain articles imported into China and we can easily surmise what those articles are. They must be articles that come from Japan and of course it's a principle which we cannot admit. Once they can lower those tariffs or raise tariffs of other articles which might have come from this country or Great Britain -- in other words, that will be breaking up of our tariff autonomy.

HM, Jr: Let me ask you this. You may not want to answer it. What would go through the brains of a Japanese which might make him decide that they wanted to declare war on China? How is he thinking, the Japanese? What would make him decide that?

Ambassador: Of course my answer will also be conjecture on my part because I don't think I know the Japanese mind, especially the Japanese military mind which, in my opinion, is not a sane mind. It's easy to conjecture what a sane man is going to do and to know reasons why he does it. It's very difficult to conjecture what an insane man is going to do and my belief is Japanese military is not quite sane.

However, what is holding Japan back, in my private opinion, personal opinion, is fear of complications with Western countries. Now, if they should declare war it would mean that the blockade would follow the international policy of searching ^{neutral} ships and of pre-empting the goods if they are found to be contraband. By the present arrangement, without declaring war on China, they can only ask whether those ships are foreign or Chinese and if satisfied that they are foreign, look over manifest of goods and let

-3-

ships go. So far even they know that there are certain goods on ships that might be easily construed as contraband goods, they have not done anything, up to this moment. Now, if they should declare war actually on China, that would mean all countries that are not warring with Japan would be considered as neutrals and as neutrals they would treat them as such, according to international law. That, I imagine, is what is holding back the Japanese Government.

HM, Jr: I try to put myself in their place. It's very difficult to do that, but putting myself in their place I can't see what they have to gain.

Ambassador: I don't see.

HM, Jr: And they have considerable to lose.

Ambassador: Much! Much!

HM, Jr: You agree with me?

Ambassador: Yes.

HM, Jr: That they have considerable to lose if they should declare war?

Ambassador: Yes. The whole point is this: their Government is not thinking same as their military leaders.

HM, Jr: Are your people getting enough supplies that that might be bothering them?

Ambassador: I suppose, reading between the lines in the statement made by their Government leaders in the Diet recently, I think it was Hiroto who said Japan must now consider carefully about munitions that are coming in and so far, up to this moment, no interference, delay somewhat by their bombing of the Panay, etc., but no interference.

Of course, their greatest problem will be two-fold. One, how to continue getting supplies from foreign countries and, second, how to get them into China. So far both of these problems are not quite acute. They buy, delivery - the forwarding - is delayed, but never interfered with actually. Of course, in course of time we may find it necessary to get other help from your Government and other Gov-

-4-

ernments, but if they should declare war I am afraid they will have to run blockade, but at the same time I wish to impress upon your Government here and my colleagues in the other Capitals, impress upon the British and French Governments, how could they sit down and let Japan run wild in China. That is to say, the Nine-Power Treaty, although they haven't accomplished much in Brussels they certainly laid down principles, and how to uphold those principles will be up to those Governments.

HM, Jr: You tell Dr. Kung I was very pleased to receive his message. I send him my very best wishes.

Ambassador: I will certainly be glad to.

HM, Jr: And I am always glad to see you.

Ambassador: Thank you very much indeed.

oOo-oOo

January 26, 1938.
5:48 p.m.

H.M.Jr: Hello.

Operator: Mr. Jones.

H.M.Jr: Oh, all right. Go ahead.

O: Secretary Morgenthau.

H.M.Jr: Go ahead.

Jesse
Jones: Hello.

H.M.Jr: Hello, Jesse?

J: Yes, how are you?

H.M.Jr: Oh I'm still going all right. They said you wanted to talk to me.

J: I did. Well, I got waylaid and I just wanted to check on -

H.M.Jr: Oh!

J: Things went a little bad today, didn't they?

H.M.Jr: You're telling me. Sure, couldn't have gone any worse.

J: Well, I - it's too bad.

H.M.Jr: Yes. The floor dropped out.

J: The floor dropped out.

H.M.Jr: I say the floor dropped out.

J: Yes.

H.M.Jr: Yes.

J: Well, now I've been - I picked up a mean cold last night, I don't know whether I'll be ready for that thing tomorrow at eleven o'clock or not.

H.M.Jr: Well.

J: I talked to Leo separately and I talked to Marriner

- 2 -

separately, or rather I listened to Marriner.

H.M.Jr:

You did.

J:

Talking. I've got all the information and I'll try to be there.

H.M.Jr:

Well, if you can't. If you're not feeling well, I can postpone it twenty four hours.

J:

All right. Well - well, I'll try to make it, but I'll call you in the morning.

H.M.Jr:

Let me know and the world will still go on.

J:

All right. Fine.

H.M.Jr:

O.K.

J:

Thanks.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 26, 1938, noon

NO.: 143

RUSH

FROM COCHRAN.

This morning when the banks opened sterling was strongly bid. At eleven o'clock I called at the Bank of France. The control had yielded 300,000 pounds by that time. A considerable part of the demand was speculative, although a part of it had been bona fide commercial.

At 11 o'clock the Bank of England reported to the Bank of France that franc-sterling operations were commercial rather than professional in London.

This morning the French control was following the policy of permitting the rate to fluctuate between 153 and 153.80. Three alternatives had been open to it: (1) not to enter the market at all, which would have resulted in a precipitate drop in the franc; (2) to put up a barrier at a firm rate, as has been rather consistently done in the past; (3) to permit a wider fluctuation, and then enter the market rather brutally. The Bank of France's technical staff strongly advised against letting the rate drop precipitately. They felt that the present rate could be defended as well as any rate and that France should avoid a large drop with speculation and possible recovery through a squeeze operation. In view of the fact that the political
and

- 2 -

and social situation is so uncertain, yesterday and today the control has preferred to follow the practice of fairly wide fluctuations in the franc rate rather than adhere to the rigid barrier system previously used.

END SECTION ONE.

BULLITT.

RECEIVED
JAN 28 1933
TREASURY DEPARTMENT
GENERAL INVESTIGATION
DIVISION

PARAPHRASE OF SECTION TWO OF NO. 143 of January 26, 1938, from Paris.

On Tuesday morning when business opened the control had 43,000,000 francs gold and foreign exchange on hand. The operations for Tuesday exceeded that amount by about 100,000,000 francs. The fund had 343,000,000 francs sterling in another account Tuesday morning, which within the next few days will have to be delivered on account of forward dealings. Therefore this amount should not be counted as assets of the fund to cover daily operations. Last night the fund was therefore 100,000,000 francs short on balance. It will have to draw gold from the Bank of France to cover this deficit, and presumably also for operating expenses until there is a turn in the market or until they can make some new arrangement. In my telegram No. 140 of January 25 I indicated that no new operation was planned by the Ministry of Finance. My contacts at the Bank of France are not aware of any new plans or arrangements.

In the present circumstances, technicians of the Bank of France are strongly against any revalorization of gold holdings since if basic problems are not solved the increment would only be spent in vain.

In the opinion of my contacts, nothing new should be

- 2 -

attempted in the monetary field until the immediate labor situation is cleared up. These contacts believe that if Parliament rejects the labor code which is now being submitted to it, the Government would fall; or if the code is passed in its original form, employers may be so strongly opposed to it that a general lookout might result which in turn would bring about a crisis in the Government.

END MESSAGE

BULLITT.

RECEIVED
JAN 30 1951
10:30 AM
100-100000-100000

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 26, 1938, 6 p.m.

NO.: 146

FROM COCHRAN.

At half past five I had a talk with Rueff. The exchange market had relaxed somewhat today, he said, and there was nothing new as regards monetary affairs.

I had a talk with the Bank of France at six o'clock. Today there was not as much buying as yesterday, but there was a constant demand for sterling, which was provided by the control. At the close of the day the control was still giving sterling at 153.30 to 153.50, but there were no large deals.

After the hand grenade explosion in the municipal laboratory of a Paris suburb the atmosphere remained disturbed. The details of the labor code which the Cabinet is to work on at a Thursday morning meeting are awaited.

At present there is an active demand for gold coin for hoarding purposes. Reports from French and Paris-American banks indicate lower balances of francs.

BULLITT.

EA:LWW

RECEIVED
JAN 27 1938
TELETYPE UNIT
U.S. DEPARTMENT OF STATE

TELEGRAM SENT

LMS

GRAY

January 26, 1938

7 p. m.

AMEMBASSY

LONDON (ENGLAND)

31.

Secretary of the Treasury suggests that it would be most useful if Butterworth could go to Paris, say Friday evening, to exchange views and information with the Embassy at Paris in regard to the French monetary situation, particularly with regard to prospects of Dutch financing. This is agreeable to the Department if satisfactory to the Charge. Treasury will pay expenses.

The American Embassy at Paris is being advised.

HULL
(HF)

EA:HF:DJW EU

TELEGRAM SENT

LMS

GRAY

January 26, 1938

7 p. m.

AMEMBASSY

PARIS (FRANCE)

41.

FOR COCHRAN FROM SECRETARY OF THE TREASURY.

At my suggestion the State Department is authorizing Butterworth to come to Paris Friday evening to consult with you in regard to the French monetary situation, particularly regarding prospects of Dutch financing.

Please make all information that you have on the subject available to Butterworth who is being similarly counseled.

HULL
(HF)

EA:HF:DJW EU

JR

GRAY

London

Dated January 26, 1938

Rec'd 2:19 p.m.

Secretary of State,
Washington.

RUSH.

61, January 26, 6 p.m.

FOR SECRETARY MORGENTHAU FROM BUTTERWORTH.

I passed on to Waley last evening the message which you gave me but he was unable to make a reply in the absence of Phillips and the Chancellor who had already left the Treasury.

He has just informed me that a reply will be forthcoming either late tonight or early tomorrow morning.

As to the status of the Dutch credit to France inquiries in the city indicate that the Mendelssohn (is?) group in now placing the third set of 50,000,000 florins of bills. It will be recalled that the original arrangement was for 50,000,000 florins with the Mendelssohn group having an option to take up two further sets of bills amounting to 50,000,000 florins each. The first option was immediately exercised and the

French

-2- #61, January 26, 6 p.m., from London.

French Government therefore initially obtained 100,000,000 florins. The final 50,000,000 florins is now being placed (and the city is receiving offers of such bills with maturity dates different from the original set) and presumably the French Government has or is now getting that additional amount.

The control has had to give a fair amount of sterling today and has operated sporadically keeping the rate around $141\frac{1}{2}$. The undertone continues nervous and the continental demand for gold coin is significantly strong.

JOHNSON

RR:KLP

Mr. Lockheed 75

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE January 27, 1928.

SUBJECT: TELEPHONE CONVERSATION

L. W. Kuke

WITH BANK OF FRANCE

I called Mr. Cariguel at 10:05 this morning. They were not doing so well today, he said; francs were under pressure and up to that hour he had spent about £700,000. All of which indicated that there was no change in the situation.

I inquired as to the reason for the weaker dollar in the London market and Cariguel replied that the President's statement at his press conference had not made a good impression in London.

RECEIVED

LWK:KMC

COMMUNICATIONS SECTION
FEDERAL RESERVE BANK
OF NEW YORK

FRANCE ABLE TO SUPPORT FRANC IN U S MARKET -
U S SEEKING TO FORESTALL EXCHANGE CONTROL
IN FOREIGN COUNTRIES

WASHN - FRANCE HAS AMPLE GOLD AND DOLLAR
BALANCES IN THIS COUNTRY TO CONTINUE SUPPORT
OF THE FRANC IN THE NEW YORK MARKET FOR SOME
TIME IT WAS STATED TODAY ON BEHALF OF
AMERICAN GOVERNMENT

THE TRI-PARTITE MONETARY AGREEMENT STILL
IS IN-FULL OPERATION WITH THE FRENCH STABILIZA-
TION FUND SENDING TO THE U S TREASURY
EACH DAY A RATE AT WHICH THE U S STABILIZATION
FUND ACTING AS AGENT FOR THE FRENCH AUTHORI-
TIES IT TO -TAKE CARE OF THE FRANC- IN
THE AMERICAN MARKET IT WAS SAID OFFICIALLY
TODAY

DEPRECIATION OF THE FRANC TO DATE HAS NOT
BEEN WILFUL NOR FOR THE PURPOSE OF OBTAINING A
COMPETITIVE TRADE ADVANTAGE AND THEREFORE
DOES NOT VIOLATE THE TRI-PARTITE MONETARY
AGREEMENT ACCORDING TO THE OFFICIAL AMERICAN
VIEW - BECAUSE FRENCH BALANCES IN THIS COUNTRY
ARE AMPLE TO TAKE CARE OF THE LIMITED FRANC
TRANSACTIONS IN THIS MARKET AMERICAN OFFICIALS
ARE UNDISTURBED ABOUT THE TECHNICAL ABILITY
OF FRANCE TO CONTINUE FOREIGN EXCHANGE OPERA-
TIONS HERE - THE IMPORTANCE OF THE TRI-
PARTITE MONETARY AGREEMENT IN THE FRANC
SITUATION AND IN THE WORLD GENERALLY IS
FIRST THAT IT HAS DISCOURAGED FOREIGN

EXCHANGE -SHARPSHOOTERS- FROM CONDUCTING
RAIDS ON A COUNTRY LIKE FRANCE WHILE IT IS TRY-
ING TO STRAIGHTEN OUT INTERNAL MATTERS AND
SECOND THAT IT HAS HELPED FRANCE AND OTHER
COUNTRIES IN THEIR FIGHT TO KEEP FROM SLIDING
INTO FOREIGN EXCHANGE RESTRICTIONS OR CONTROL
ACCORDING TO THE WASHINGTON VIEW

FREEDOM OF OTHER NATIONS FROM EXCHANGE
CONTROL IS TREMENDOUSLY IMPORTANT TO THE
AMERICAN ECONOMY AND THEREFORE TO THE AMERICAN
MONETARY POLICY IT WAS ASSERTED - WHEN
FOREIGN NATIONS RESORT TO EXCHANGE RESTRIC-
TIONS IT BECOMES THAT MUCH MORE DIFFICULT FOR
AMERICANS TO DO BUSINESS IN THOSE COUNTRIES
OFFICIALS POINTED OUT- ONE REASON THAT
BUSINESS HAS KEPT UP AS WELL AS IT HAS IS
THE ENORMOUS VOLUME AND GROWTH OF AMERICAN
EXPORTS AND THE BASIS FOR MUCH OF THIS
FOREIGN TRADE HAS BEEN THE ASSURANCE WHICH
THE TRI-PARTITE AGREEMENT HAS GIVEN AMERICAN
BUSINESSMEN THAT IF THEY SELL A MILLION DLS
WORTH OF MERCHANDISE IN NATIONS WITHIN THE
AGREEMENT THEY CAN TAKE THEIR DRAFTS TO BANKS
AND CASH THEM WITHOUT THE ANNOYANCES AND LOSSES
ACCOMPANYING FOREIGN EXCHANGE CONTROLS

PARAPHRASE OF TELEGRAM RECEIVED

NO. 148

FROM: American Embassy, Paris.

DATE: January 27, 1938, 4 p.m.

I had a conversation after luncheon today with Chautemps and the British Ambassador, Sir Eric Phipps. Chautemps said that the present flight of the franc was regarded most seriously by him. He said it was all very well for the British and the Americans to speak of the tripartite monetary agreement and about the desirability of continuing it; however, it was clear that in the face of sales from the United States and Great Britain, especially from Great Britain, ~~xxxx~~ France could not continue to maintain the position of the franc.

He informed Sir Eric that he had his agents listening on the telephone to conversations between London and Paris. The conversations which took place yesterday between Sir Robert Kindersley and distinguished British representatives in Paris had shocked him. In those conversations it had been predicted that early in March a tremendous financial crash was inevitable. Moreover, articles appearing in the British press during the last few days had been calculated to bring about the greatest possible sale of francs. He felt that while it would be possible

-2-

possible for the French Government to continue to defend the franc for a brief period, any prolonged defense would be impossible in the face of this sort of cooperation from Great Britain. He was being compelled, however much he might be opposed to exchange control, to look upon it as the undesirable but the only way out of an impossible situation.

I pointed out to him that selling of francs from the United States had been very small. I also said that I thought Bonnet must have told him of his satisfaction with the cooperation which the American Government had consistently given him, and especially the cooperation of Mr. Morgenthau, the Secretary of the Treasury. He agreed and said that his complaints were indeed directed against London activities.

Sir Eric Phipps promised Chautemps that he would do what he could to influence articles in the newspapers at once; at the same time, however, he pointed out that it was almost impossible for the British Government to prevent British individuals and banks from making sales of francs.

It was added by Chautemps that he felt that at the present moment he had the internal situation well in hand. He believed, moreover, that in the international situation no immediate explosion was to be expected. By continued

sales

-3-

sales of francs, however, the position of the Government might be made impossible within a brief (*), even a few days.

From this conversation I received the impression that Chautemps is gradually becoming convinced that the pressure of events will force establishment of exchange control. (END OF MESSAGE)

BULLITT

(*) Apparent omission.

EA:EB

January 27, 1938.
3:23 p.m.

81

H.M.Jr: Hello.

Operator: Mr. Butterworth.

H.M.Jr: Right.

O: Go ahead.

H.M.Jr: Hello.

Butterworth: Hello, sir.

H.M.Jr: Hello, Butterworth.

B: I thought I should telephone you.

H.M.Jr: Yes.

B: Hello.

H.M.Jr: Go ahead.

B: I thought I should telephone you, to tell you that I've been to the Treasury.

H.M.Jr: Yes.

B: Since I talked to you this afternoon.

H.M.Jr: Yes.

B: And they tell me that the matter which you had me put up to them.

H.M.Jr: Yes.

B: Have involved important issues which have required and are still requiring careful deliberation.

H.M.Jr: Say that again, please.

B: They say - they tell me that the matter that you had me put up to them.

H.M.Jr: Yes.

B: Involves important issues.

H.M.Jr: I see.

- 2 -

B: Which have required and are still requiring careful deliberation.

H.M.Jr: I wonder if I understand, you mean you mean the French loan in Holland?

B: I beg your pardon, I can't hear you.

H.M.Jr: Are you talking about the loan in Holland?

B: No, I'm talking about that question that you asked me to pass on to them, about whether they wanted to get in touch with the French too.

H.M.Jr: I get you. Now I understand. I understand now.

B: And the British Treasury say that they haven't formulated any answer.

H.M.Jr: I see.

B: And when I asked about the timing of a reply.

H.M.Jr: Yes.

B: They said it might not even be possible to give me one before the weekend.

H.M.Jr: I see.

B: Now, naturally I don't know what they have in their mind, exactly, or what the reply will be.

H.M.Jr: Yes.

B: But I wondered whether in the circumstances you thought it wise for me to go to Paris before I got that reply.

H.M.Jr: Yes, I'd - I'd rather get this question of a loan straightened out.

B: Quite.

H.M.Jr: And I think that after all the British weekend, nothing much is apt to happen.

B: That's right.

- 3 -

H.M.Jr: And just think how people would give their left finger here to have a weekend in Paris.

B: I shall go on anyway.

H.M.Jr: What's that?

B: I shall go to Paris then, regardless of that reply.

H.M.Jr: I'm sorry to force a Paris weekend on you, but I'm afraid I'll have to.

B: Oh, that's perfectly all right.

H.M.Jr: All right.

B: You'll make me feel no pain at all.

H.M.Jr: All right. Just a minute, Herbert Feis happens to be here, and he wants to talk to you.

B: All right.

H.M.Jr: Just a minute.

Feis: Wlaton?

B: Hello.

F: Walton?

B: Hello Herbert.

F: How are you?

B: I'm fine, thank you, how are you?

F: Good. Walton, would you tell Mr. Hirschel Johnson about the Van Zeeland, the inquiry from them.

B: I can't hear you.

F: Would you pass this on to Hirschel Johnson?

B: Yes.

F: Their inquiry about what we might have to say or suggest regard to the Van Zeeland report.

- 4 -

B: Yes.

F: We have a note here, from Lindsey.

B: Yes.

F: Putting up the same question.

B: Yes.

F: And in it saying that they realize that we may want a few days to turn it over in our minds.

B: Yes.

F: Well, we do.

B: Yes.

F: So it'll be a few days before anything comes along on that.

B: Well I'll tell you Herbert, I've been carrying out these Van Zeeland discussions with Leith Ross

F: Have you?

B: Yes.

F: All right.

B: And that inquiry was addressed to me in a letter from Leith Ross.

F: Well, you tell him then that it might be a few days, by which I think it'd be about next Monday or Tuesday.

B: Right.

F: Before that would come along.

B: He's right.

F: All right.

B: I'll be sending those telegrams in in the pro-formal way. But, I mean, virtually I've been doing that.

F: All right.

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B: I'll pass that word on to Leith Ross and let Hirschel know too.

F: Would you please let Hirschel know.

B: I will, without failure.

F: Thank you.

B: Right Herbert, it's nice to hear your voice.

F: Grand Walton. I'm passing you back to the Secretary.

B: Right.

H.M.Jr: I have nothing more.

B: I beg your -

H.M.Jr: And you see by going over to Paris, you can get the latest word, what they've told us.

B: Right, sir.

H.M.Jr: And I made quite a long discussion with the newspaper men today on the French, I mean what they call background to what we were trying to do, and it seemed to be well received in New York.

B: Quite.

H.M.Jr: And I - I - we - you see it's so important if they don't get that loan, I really think they're going to be in a bad way.

B: Yes.

H.M.Jr: And if you two men could put your heads together, why maybe we could find out.

B: Quite.

H.M.Jr: And then be ready by Monday to know how to act, but if they don't get that loan I don't see what they can do, and I imagine the English are trying to find out also.

B: I should think so too.

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H.M.Jr: And after they know then they'll give us an answer.
B: Right.
H.M.Jr: All right.
B: Well thank you, Mr. Secretary.
H.M.Jr: Goodbye.
B: Goodbye.

PARAPHRASE OF TELEGRAM RECEIVED

NO. 151

DATE: January 27, 1938, 6 p.m.

FROM: American Embassy, Paris

FROM COCHRAN

When the banks opened this morning, exchange trading began at 153.50. Sterling was in demand immediately. Partial requirements were met by the French control; for example, if a customer asked 10,000, he was given 3,000 pounds and the rate was allowed to slide twenty centimes at a step until it reached 154.90. Then the control began to meet full demands and has continued thus throughout the day. Market observers say that the turnover is ^{that} heavier than it was on Wednesday and/the principal transactions represent flight of capital.

Market sentiment continues gloomy. It is reported this afternoon but not yet confirmed that Algerian Government loan is to be closed and new loan floated shortly for 1,000,000,000 francs, 6% issued at around 89.30. This is expected to be issued in behalf of "Credit National" rather than "City of Paris" as originally planned, since it is felt that funds can be obtained more quickly for the first named government body.

AGENCE ECONOMIQUE today attributed to London a rumor that depreciation of dollar to its lower legal limit and analogous depreciation of pound are being discussed in

Anglo-American

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Anglo-American conversations on trade agreement. This report has disturbed Paris market.

At 12 noon I talked with Rueff. I mentioned the further decline that had taken place in the franc today. He informed me that no new decisions on monetary policy had been taken and that there were no new developments on Dutch banking credit.

At 5:45 I talked with the Bank of France. Today had been worse than yesterday, my friend said. He has absolutely no knowledge that any change in policy is contemplated.

Stockholm Enskilda Bank was big seller of dollars against sterling this morning.

BULLITT

EA:EB

January 27, 1938.
9:55 a.m.

H.M.Jr: Hello.

Operator: Chairman Douglas. Go ahead.

H.M.Jr: Hello.

Chairman Douglas: Good morning, Mr. Secretary.

H.M.Jr: How are you?

D: Fine.

H.M.Jr: Douglas, this meeting which we were going to have at eleven on this bank holding thing has been put off twenty four hours, see?

D: Yes.

H.M.Jr: And I - I want to see you anyway, and I don't - after seeing you, I don't know whether you'd care to sit in on that thing or not.

D: Yes.

H.M.Jr: But I've got something else that's just come from the White House.

D: Yes.

H.M.Jr: And I've been - are you free to talk?

D: Sure.

H.M.Jr: I've been working on this for a long time, and the President is crazy about the idea.

D: Yes.

H.M.Jr: You know we have, I suppose, the biggest receivership department in the Government over in Internal Revenue.

D: Yes.

H.M.Jr: I have dug out a public utility which we more or less control, through receivership, you see?

D: Yes.

H.M.Jr: And the thought that I put up to the President, why

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don't I get together with you people and see if we can't set up a model reorganization, and then if necessary go to public and get the money and do it on the Roosevelt plan.

D: That's swell.

H.M.Jr: And he's crazy about it.

D: Yes.

H.M.Jr: See.

D: Good idea.

H.M.Jr: I said we've also dug up a couple of railroads.

D: Yes.

H.M.Jr: Now if these fellows don't want to do it, let's us do it and show him how to do it.

D: That's right.

H.M.Jr: See?

D: Yes.

H.M.Jr: Now. I want to get together with you people; show us what we've got, and see if we can't work out something. I want to do it just as quickly as possible.

D: Fine.

H.M.Jr: Are you people, by any chance, free for lunch today?

D: I'm not. I'm sorry, I'm tied up with an appointment with a person on from Chicago.

H.M.Jr: Well, are you still free at eleven?

D: I'm free at eleven.

H.M.Jr: Well, why not let's do it at eleven.

D: Yes.

H.M.Jr: If you want to bring anybody with you from your office.

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D: All right, I'll look over and see. I'll - I'll bring one person along with me.

H.M.Jr: Uh-huh.

D: Maybe - well, let me look over -

H.M.Jr: You think it over and you bring along whoever you want and I'll have the stuff ready, see?

D: Swell.

H.M.Jr: And then - don't you think it's a very interesting idea?

D: Oh, swell, it's a -

H.M.Jr: What?

D: It'd be very fine and a pace setter for everything.

H.M.Jr: Yes. And I - I think we've got it, but you may find bugs in it, see?

D: Yes, yes.

H.M.Jr: Well then, I'll see you at eleven.

D: O.K.

H.M.Jr: Right.

D: Thanks very much.

REORGANIZATION OF PUBLIC UTILITIES
HOLDING COMPANIES

January 27, 1938.
11:00 a.m.

Present: Mr. Taylor
Mr. Oliphant
Mr. Opper
Mrs Klotz
Mr. Douglas
Mr. Frank
Mr. Gaston

H.M.Jr: Wayne, you'll pick up the threads as we go along.

Oliphant: I'd like to say this. The thing I suggested in the first memorandum - the picture changes very rapidly, and since we had this up the latter part of November, a couple of the utility companies have paid their tax claims. Second point: the organization of the companies, natures of their liabilities are so complicated that the first stages of the job are that of a group sitting down and very carefully studying to pick out a particular company. We can't pick a company ...

H.M.Jr: You mean we can't just here.

Oliphant: I mean we can't this morning.

H.M.Jr: Oh no, no. What I'd like to do - glad to have a couple minutes - I want to first place.... After all, I got this idea, didn't I?

Oliphant: That's right, it was your idea.

H.M.Jr: I got the idea. Then I asked you people, "Here we've got this big receivership department. What have we got in there which is worth saving, see?" Then this thought of developing the idea of taking - possibly picking up a company, using S.E.C. as the power to take a piece of a tail and a leg and swap it for a head and put it all together, which they have never used. Then, putting together a nice little company - then we'll reorganize it and go to private banking interests and get them to offer its securities to the public, just like the syndicate in Farm Credit.

Oliphant: With the water all squeezed out.

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- H.M.Jr: "ith the water all squeezed out. See?
- Oliphant: That's right.
- H.M.Jr: That's the thought. In other words, instead of sitting around, Wayne, and waiting for these fellows to do it - now, I don't - I mean they don't seem to want to play; all right, let's see if we can't do it, set up a model in a district just the way the President says, make it contiguous, integral, serving an area, and with S.E.C. having the authority to take this and that and the other, putting together a nice little company; and get an agreement with TVA that they'll keep out of there - no municipal plants, anything else; get the rates down at a reasonable rate, squeeze the water out, get a reorganization, offer it to the public and put her on the way.
- Taylor: This is the utility.
- H.M.Jr: Utility first. If it works, then we'll do the railroad.
- Oliphant: Now, the picture on the
- H.M.Jr: See? Now, I think it can be done. Now, the President is so crazy about it, he says, "Bring it right in to me." But I'm not going to. I'm not going to bring it into him until we are satisfied, plus S.E.C., that all the bugs are out. See?
- Taylor: (Nods yes)
- H.M.Jr: Now, I say if we can do it, my God, it would be wonderful, wouldn't it?
- Taylor: (Nods yes)
- H.M.Jr: Yes. And he's given me carte blanche to go ahead. I could talk an hour and I couldn't tell you anything more.
- Taylor: Don't need to tell me any more.
- H.M.Jr: Yes. See? And when I get ready to do it, I want to form a syndicate just like the Farm Credit - land

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banks. That's all. I mean to set the pattern - "This is the way we get the money." See? But make it so attractive and so sweet that they'll fall all over themselves to subscribe.

(Messrs. Douglas and Frank, of S.E.C.,
come in and are introduced)

H.M.Jr: Move closer, won't you? I say come a little closer.

You have no objection to my doing the way I always do. There's only one copy of this, and it's only for me.

Douglas: No.

H.M.Jr: What?

Douglas: Perfectly all right.

H.M.Jr: All right.

This is the idea that I have had, which we've been working on off and on for a couple months. I don't know whether I talked to you about it before or not. And that is this. As you may or may not know, we have a big receivership department over in Internal Revenue - I don't know how many companies that we have that are either busted or will go busted, depending on what we do about their taxes. And as the President and you people have been working along trying to get the public utilities to drink after you get them to the trough, we have been sort of sitting by and waiting, plus also the same thing on the railroads. Well, reading in the paper what happened today, I made up my mind they're not going to drink.

So I went to the President and said to him this morning, "What would you think if we had in our snop, first, a utility which through defaulted taxes, and so forth and so on, we more or less could control. We're the receivers, more or less, or could make ourselves the receivers. We'd force them into receivership. And if we went to Douglas and said, "Now look, here's a territory, or here's a group of utilities. Now, you take your pick. And using the authority that you have to cut off a tail here and a limb here and so forth, let's see if we

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can't put together a public utility along the lines that the President has in mind, which would serve a territory, come to an agreement with TVA and municipal plants and authorities and everything else, squeeze the water out of it, get a decent financial set-up, and then offer, if we have to get new junior capital, a security through a syndicate organized just the way we did Farm Credit and our land banks. In other words, set an example and do it ourselves and demonstrate that the thing can be done."

Now, he's just crazy about it. He's just crazy about it. And he said - and I said, "After we do that, let's do a railroad." So he said, "My God, Henry, all my life I've wanted to do a railroad," and he says, "but I didn't think I could do it until I got out of the White House because I've got to be a little unconstitutional to do one."

He said, "I only was talking to Justice Brandeis last night about how I want to do a railroad." So he says, "Bring me the public utility and I can do it in ten minutes."

Well, what I'd like to do, if you people like this idea, is to try to get all of the bugs out of it that we can see. After all, we know what the President wants, what he's talking about, and I don't think anybody, with all due respect, can do it in ten minutes.

Douglas: No, it's going to be a time job.

H.M.Jr: But if it could be done, Douglas, and we can demonstrate how it can be done and put the thing across, then we can say, "You fellows can't say any more that it can't be done. We've done it."

Douglas: That's a good idea.

H.M.Jr: And everybody's talking about a billion dollars should go to work and so forth. Well, let's see - I don't know anything that I'd rather put my time on than to do this and get this thing started, and get an answer to these people that the thing can be done. See?

Now, having laid down my ideas, see, let Oliphant

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tell you what we've got, and you may know - but let him tell you what we have here, what we can turn up for you fellows to look at, see? And then let's see - I don't know whether Federal Power should have somebody sitting in on this and whether TVA should have somebody. But let's get everybody in the Administration who could block us - I mean getting them on the inside, working with us from the beginning, so they can't say, "Well, I wasn't called in; it's no good," then begin to knife us in the back right from the beginning. I'm more worried about people on the Government's payroll than I am about fellows on the outside.

Douglas: Has Treasury any claim in the Genesee case?

Oliphant: Is Genesee on that list, Oppen? The long list. We started out here, Bill, and took a rather long list and went through and picked out what looked like the most promising things. Now, I can say to you that all of the situations are so complicated that it is not possible to sit here and pick out one, so that what we need to do would be to get around a table and go over these things very carefully.

Oppen: Genesee Valley, is that it?

Frank: It's very small, Bill. It isn't ...

Oppen: I haven't got the details on it, but it's listed Genesee Valley Company in New York.

Douglas: We could crack that one off very fast. We've turned down one plan on that - on a simplification program, not the integration. Simplification program with a whole tier of holding companies.

H.W.Jr: In just the Genesee Valley one?

Douglas: Yes, and we turned down a plan we had before us for approval before it went to the Court, before Judge Caffey, I think, and it's coming up before him tomorrow, I believe. That's a little miniature situation.

Frank: Nice one to do a job on.

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Oliphant: It might very well be when we looked at that from our standpoint, that from our standpoint we might not agree that was the best.

Now, the statement I am about to make won't mean much for the reasons I have stated. That is, as we go all over these, having only our material to look at, the thing that looks the best from our standpoint is Standard Gas and Electric. Now, from your standpoint that might be all sour.

Douglas: Well, it is sour in a certain sense.

H.M.Jr: Well, that's the one you (Oliphant) gave me all the maps on.

Oliphant: Yes.

H.M.Jr: Because there's a question - you've got to go in and use your authority, which I don't think you have used to date, of giving them certain pieces in their territory which they haven't got. That's the one that centers around Indianapolis, isn't it?

Oliphant: No, that's the Pacific Coast one; supplies electric light. Since I gave you that memorandum in November, that one has paid its taxes; but it may still be available, you see, from his standpoint.

H.M.Jr: Because that one, the one that centered around Indianapolis

Douglas: Have you got Utilities Power and Light?

H.M.Jr: You kind of like this idea?

Douglas: Oh, swell.

H.M.Jr: What?

Douglas: I think it's a grand idea.

Frank: Marvelous idea.

Taylor: I wouldn't take one that's too small, for one reason, which is that your second step in this is to have a

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following for the market of that particular security, and if you take too small a one, why, they can say, "Oh well, that's just - anybody could have done that."

Douglas: Yes.

Well, there are two types of problems as I see it. One is a simplification program for capital structures. The second is the geographical integration of the utility properties under the so-called death sentence section of the Utility Act. The Genesee is just a little miniature laboratory one that could be tossed up quickly, say, perhaps as a test of the technique that we might use.

Frank: Got a whole tier of holding companies built entirely on the operation of one little operating company, and that operating company could pay out very nicely and could sell bonds.

Oliphant: Now, to answer your (Douglas) question, that Chicago outfit, we thought, was a very good one.

Frank: Utility Power and Light.

Oliphant: Yes. But since we had this thing up, they've paid their tax. But it still may be available from your standpoint.

Midland Utility Company was another good one, and since we had this up last time they've paid their tax.

H.M.Jr: See, I've only given Herman an hour's notice on that.

Frank: You were on a ten-minute schedule.

Douglas: The first problem is to keep them from paying their tax, if this thing is to work.

Opper: Which isn't what we've been doing up to now.

H.M.Jr: We're going to get somewhere. You've got the idea.

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Frank: What about Associated Gas?

Oliphant: There's a whole string of those Associated Gas companies we had on our first list, and we decided to eliminate them because of the general complication of that whole picture.

Douglas: That's a holy terror.

Oliphant: I think you're right.

Douglas: That's a holy terror.

Frank: Take you a

Douglas: You'll have those fellows tied to the whipping post for ten or twenty years.

H.M.Jr: Douglas, if we could get something we could do within a month or so, it would be awfully good.

Douglas: Well now, this Standard Gas and Electric - they've been nursing along a phony plan with the idea that after they perfected their plan, which was merely a moratorium, not a reorganization - and the company would come out in as bad a shape as it went in - then they would come in and register and submit themselves to the operating table at the S.E.C. That might be

Frank: Associated?

Douglas: No, Standard. That might be a good one.

Oliphant: We have a claim of about eight million tax against them. Now, what that would simmer down to, if nothing is done and we go ahead - may simmer down to about three million dollars. But as it stands at the moment, it is an eight million dollar tax claim.

Opper: Out of probably around 72 million dollars total liabilities of that particular company.

Frank: That's against the top holding company?

Opper: The top company.

Oliphant: Against the top.

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- Opper: We've got claims down the line, but as I recall it they were consolidated statements, so, as I recall it, the claim was against the top one. So we've got eight out of 72.
- Taylor: Is this Standard?
- Opper: Standard.
- H.M.Jr: Douglas, who do you think ought to - do you think that at this stage we need anybody to sit in from any other agency?
- Douglas: I don't think at this stage, because on this problem - we would at a little later stage, but on this holding company aspect I don't think we would.
- (Messenger brings in maps on Standard Gas and Electric)
- Klotz: That's it.
- H.M.Jr: God, I hope it was in your (Oliphant) office.
- Oliphant: I hope it wasn't.
- H.M.Jr: This is a little - just a battle as to where - as between
- Oliphant: Of infallibility.
- H.M.Jr: ... Mrs. Klotz's office and Mr. Oliphant's. It goes on about once a month, as to where the papers are.
- Oliphant: Clerical infallibility, - the issue.
- H.M.Jr: We laid it on his doorstep. God, I hope it was there. Anyway, go ahead.
- Douglas: You haven't - have you sat in on any of the discussions with the committees in that Standard Gas? Have you been consulted on the plan?
- H.M.Jr: Have we?
- Opper: Well, we so far, as I recall it, have concentrated on the amount of tax. That's where the conferences are,

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as far as we're concerned; because theoretically they say they're going to pay whatever tax is finally determined. The result is, as far as the plan is concerned, it won't affect them, because whatever the taxes are they'll pay in cash, as they say now.

- Frank: What is your leverage on them?
- Opper: The leverage is to keep the tax so high - our determination of the tax so high, that they just won't pay it anyhow. They'll refuse to pay it and litigate the tax, which will mean they can't put their plan through.
- H.M.Jr: Well, following up with Mr. Frank, let me ask this question. Take Genesee or any company. Suppose we say, "All right, we pick that company." How can we - how could we force them to time? That's the question. I mean how can we bring this thing to a head?
- Opper: I think we ought to consider
- Oliphant: Of course, it varies so much.
- H.M.Jr: Would we put them through 77-B?
- Douglas: Genesee is in 77-B.
- Oliphant: These cases we're talking about - we typically find them in 77-B, except Standard.
- Douglas: Yes, Standard.
- Oliphant: Now, we haven't done the other thing you may be suggesting, that we go over tax claims and see if there's somebody we could force into 77-B by means of a jeopardy assessment. That's another possibility that might be canvassed.
- Douglas: I think that ought to be canvassed because there are quite a few rocking around that are pretty close to it.
- Oliphant: We could start with your list - a list you might give us, you see, and just go down it from this standpoint.

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- H.M.Jr: Well now, look, would you - I'm so intensely interested, I want to sit in on as much of this as I can myself, because I'm interested in putting people to work. I'm so sick and tired of sitting here and signing papers and saying "No." I'd like to get in on the productive side. I mean I get awfully tired of my job. And this looks to me as though it would put both capital and people to work, and that's what I'm interested in.
- Frank: Of course, on the railroad end you have to work with R.F.C. Now, between you, you could - if those two agencies would get to work - I'm interested in railroads because I've been in a lot of them, and it's just shameful that they have not been put through reorganization in these last four years. And you could force a real reorganization. Because the plans that they've been presenting, if accepted, would put them back in reorganization in a few years.
- H.M.Jr: Well, I think
- Frank: That's not our scope.
- H.M.Jr: Offhand, I'd like to see this thing through so we can either say, "Well, we can do it," or "We're licked, we can't." Now, if you people are ready and would be ready tomorrow evening, I'm free - Mrs. Morgenthau is away - I'm free to devote tomorrow evening, if that isn't pushing you too far.
- Frank: You (Douglas) going to be here?
- Douglas: I'm not sure that I'm going to be here. Let's see, tomorrow evening's Friday.
- H.M.Jr: You're going to be away?
- Douglas: Yes, tomorrow evening.
- H.M.Jr: Tomorrow afternoon is Cabinet. When would you be ready? Be ready Monday morning?
- Douglas: Oh, I could be ready tomorrow morning or Saturday morning.
- H.M.Jr: Oh, you're just away

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Frank: When you going to Chicago?

Douglas: I'm going to Chicago on Sunday night - Sunday afternoon. Be gone until Thursday.

H.M.Jr: Would you be ready Saturday morning?

Douglas: Yes, Saturday.

H.M.Jr: Do you want to come over? Mind coming over here?

Douglas: No, no.

H.M.Jr: Would you be willing to meet, say, ten o'clock Saturday morning?

Douglas: That would be all right.

H.M.Jr: And then that gives everybody a chance, and if somebody wants to meet in between

Oliphant: Isn't it your thought that we better get together in the meantime? It will be necessary, if we're going to be any further along than we are now, that - it will be necessary to get together and look over these companies.

H.M.Jr: Why don't some of you people go over to Douglas's shop? Tomorrow I've got this bank holding thing - I'll meet 11 o'clock.

Douglas: We can do it this afternoon over at our shop; sit down with one or two of our men, go over everything we have, sort them out, take a look at it.

H.M.Jr: And have our people come over

Douglas: ... this afternoon.

H.M.Jr: To you this afternoon?

Douglas: Sure.

Oliphant: About what time?

Douglas: Half past two.

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Oliphant: All right.

Frank: I was wondering whether we'll be far enough along to have anything for you by Saturday.

Douglas: I think we can sort them out and have a general size-up and reduce the choice down to three or four, and get into a consideration by Saturday morning of the various aspects of those three or four, which would be relevant to the decision on this.

H.M.Jr: You see, our fellows here work on a 20-hour basis when they have to, and Oliphant hasn't worked - I mean on a thing like this - it challenges him - now for what, a couple weeks?

Oliphant: I've been down to Key West.

H.M.Jr: So he's all primed to go and he's full of sunshine and fish. And, as I say - so we're all - we're in good shape physically here.

Douglas: Well, we are.

H.M.Jr: I mean physically, individually.

Douglas: We can get together if two or three can come over this afternoon, sit down with our staff, and start this.

Oliphant: 2:30.

Douglas: And start this selective process.

Oliphant: Now, I'd like

Douglas: We can confer with our staff tomorrow morning and then we can have something here for recommendation on Saturday morning.

H.M.Jr: And if you don't mind, if it isn't crowding you, if you can put the thing down so I can see the territory....

Douglas: Sure.

H.M.Jr: I can get it better visually.

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- Douglas: We'll have a picture of capital structures of the three or four companies that we reduce it down to, with perhaps a colored map showing the spread throughout the country, what kind of a job it is, and to what extent it touches us, to what extent it touches Federal Power. We can do that on three or four.
- H.M.Jr: And personally - I know this'll make it a little more difficult, but if it could be in the territory where TVA is - I mean I think it would be very interesting. I don't say that it has to be.
- Frank: Conwell says it is in pretty good shape as far as taxes.
- H.M.Jr: I mean they control the whole section.
- Douglas: No, there's some Associated Gas around there. Those are minor. There's some Electric Bond and Share around the TVA; that's somewhat minor.
- H.M.Jr: I mean just throwing - I don't say you have to do it, and I don't want to make it too hard for us.
- Douglas: Yes.
- Taylor: I think selecting the territory is almost the most important step, because there are all sorts of factors that come into that. You have to have the local people who would be sympathetic in the first place, and see that you don't get mixed up with these local commissions. And my hunch would be to start with a territory where you can get out and concentrate on that and build from there on up.
- Douglas: Yes.
- H.M.Jr: Well, as I say, we want to get all the breaks, and as I say, if we do have to make an offering to the public, I'd want it to be so attractive that it would go - the people would be falling all over each other to subscribe to it.
- Douglas: Think the Secretary might be interested, Jerry, in the possibilities in Alabama, Mississippi, and Georgia?

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Frank: That's what I thought.

Douglas: That TVA area hasn't as yet been, as you know, delimited. Of necessity some delimitation at some time will be necessary, because obviously TVA only has X kilowatts on its present basis and on the basis of what has been authorized and planned. We can start off with the assumption that it is not going to be the entire United States, it is not going to be the entire Southeast. Quite confident of that, in terms of just plain kilowatts. Those are facts.

Oliphant: Kilowatt lines.

Douglas: The line, I think - I talked to Lillienthal a week or so ago, and I think the line is beginning to be drawn - a little indistinctly, but it's beginning to be drawn. That would leave substantial areas - Mississippi, Georgia, Alabama, particularly - that wouldn't be embraced, in all probability.

There has been a suggested proposal that we have discussed at the Commission and that I reviewed with the President the other day, whereby the stock of Georgia Power, Alabama Power - belong to Commonwealth - and the Mississippi Company would be acquired from Commonwealth and Southern and distributed locally in Georgia - Georgia Power stock distributed in Georgia, Alabama Power stock distributed in Alabama, and the Mississippi in Mississippi. In Alabama they would - there are some little isolated properties belonging to other systems that could be picked up and merged so that we'd have an integrated intrastate Alabama system locally owned. The same thing in Mississippi - a few more mergers in Mississippi than in Alabama; we'd have an integrated intrastate Mississippi Company. And the same in Georgia. Get away from this absentee ownership thing, satisfy the requirements of the statute on integration, because it would be purely intrastate; and, looking forward a year or five years or ten years, put that Southern utilities situation in a position where it could be dealt with locally. It would be then not a question of an absentee landlord, not a question of a trade

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across the table with a fellow who had every conceivable thing to throw into the jackpot, who had Michigan to trade against Georgia and Connecticut to trade against Alabama, and all that; but you have a local situation.

Now, Lillienthal dropped a remark to me the other day that was very interesting. He said that he felt that if that Tennessee Electric presently owned by Commonwealth and Southern had been owned locally, they would have arrived long before now to an amicable settlement of the Tennessee problem, because the Tennessee municipalities would be talking to the Tennessee investors and they would decide amicably within the state what the destiny of the state was going to be, and they could do it much better.

An operation like that, very confidentially, just within this room, has been proposed by Harrison Williams, of North American. Now, Harrison Williams doesn't want to do it, believe it or not, at a profit to Harrison Williams. He wants to do it "ex" profit. As a matter of fact, he would prefer, I believe, to have the Government do it rather than to have him do it. He has the formula and he has made a study over the period of the last nine months of how to do it. But savings in fixed interest charges on those properties could be made by a refinancing, with a settlement of the TVA boundaries, and so on, with the sale of the securities locally, whereby a refunding operation of the bonds could be conducted, reducing interest from six percent, say, to four and a half percent.

Our staff is working on that problem at the present time informally. No application has been filed. It is distinctly within the realm of possibility. Whether or not it would be possible of attainment would depend, of course, upon Willkie, what he would be willing to do. But it is moving pretty fast; it has great possibilities of just settling the whole utility problem in the southern part of the country, by doing two things: breaking up those companies and having them wholly intrastate, with the securities held

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locally; secondly, a line around TVA, that line to be determined by the hard facts of kilowatts. And with that Chinese dragon then out of the way, I think it would be a settling influence over the whole utility situation in the entire country.

- H.M.Jr: Well now, who's driving - the driving force on the Government side?
- Douglas: On the Government? That just came into our shop the other day. Harrison Williams presented it, we discussed it with the Commission, I talked it over with the President, and I was about to approach Jesse Jones to see if he'd be interested.
- H.M.Jr: Where would he come in?
- Douglas: On the possibility of R.F.C. financing it.
- H.M.Jr: Has he got the money, Wayne?
- Douglas: I don't know.
- Taylor: He hasn't got the authority.
- Oliphant: Let's see, Bill, if you got the securities and sold them locally, you'd have to squeeze the water out of them before you sold them.
- Douglas: That's right.
- Oliphant: Who would take that slack up? Where would the money come from to take up that slack?
- Douglas: What we'd have to do - S.E.C. would be passing upon the consideration to be received by Commonwealth and Southern. And we are well into our analysis of those companies, showing the amount of write-ups and what not that are in there, and what the fair value of those securities, based upon a prudent investment theory, would amount to.
- Oliphant: The idea would be that Commonwealth and Southern would take the loss through the squeezing out of the water.
- Douglas: Yes.

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- Frank: Yes. That is, to
- Oliphant: ... merely reflect the market realities of the stock.
- Douglas: Reflect the market realities of the stock. How much it would be, I don't know. By the cry of "Wolf, wolf" these big absentee landlords, so to speak, in the utility field have been very successful in scaring a hell of a lot of investors.
- H.M.Jr: Well, it's an interesting idea. It would help a lot.
- Douglas: Well, I just throw that out as another angle on this thing that doesn't - it's a variation from the thing we started talking about. Whether or not
- H.M.Jr: But it's on the fire, so to speak.
- Douglas: It's on the fire. Now, whether or not - I mentioned it just apropos of your
- H.M.Jr: I'm glad to get it, because I get - in other words, I want to be up-to-date on this thing, what it is, what's going on.
- Douglas: That's a distinct possibility, and I think that - I think it's worth exploring.
- H.M.Jr: Yes.
- Douglas: And I think that if it could be handled by the Government, there is a possibility of a very profitable operation at present.
- Frank: Wayne, do you think the Federal Reserve under its statute could do the job?
- Taylor: I don't think it could do it the way it should be done, Jerry. You see, it all has to be in the form of loans - I mean under either of them. That's the thing; that's the trouble. I'd say in Jesse's Act, why, there are certain types of operations which - this would certainly be one of them - that unless you can get a definition of a loan which isn't the definition that he has now, I don't think you could do it.
- Douglas: Couldn't you do it - make a loan with the stock as collateral?

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Taylor: Well, it's

Douglas: To a syndicate that would distribute.

Taylor: It was in another connection that I talked to him last week about underwriting and one thing or another; this would come in that general field. And I think he's pretty satisfied that he hasn't got the authority at the present time to be able to do this type of thing.

Now, you could - I mean the way you would get that amendment if you wanted to have it, why - I don't think it would be too difficult; but in order to do this kind of a job, you'd have to have a relationship to the junior capital which would permit a carrying while you were doing your placing locally, and that's always been the bug in those things, that you couldn't get a carry for your junior capital. And somebody has to do it; otherwise it won't go.

H.M.Jr: Well, I think if you people would start now - and they're coming over to you; then we'll meet again, and just push as hard as we can. Meet here at ten. I just want to say - I can't help it, these newspapermen are around our halls all the time, and if they ask us what you're doing here, we simply say that we have no comment to make.

Douglas: Sure.

H.M.Jr: I mean if they should see you coming in and out, I can't help it; they patrol my door. But there are never any leaks out of this office. I mean there are never any leaks out of here.

Frank: There is one word of caution, Mr. Secretary. As far as I think we're concerned, it would be unwise to indicate we're going to do any kind of such job under the Holding Company Act until the Supreme Court has decided the Electric Bond and Share case.

Douglas: Well, our role in it is obviously this, I think. We have a job to do under the statute - two main jobs. Our biggest job is simplification; second, integration.

H.M.Jr: Second, what?

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- Douglas: Integration - geographical integration of these companies.
- H.M.Jr: Yes.
- Douglas: And the people who are working on those plans for Utility Power and Light are in our office every day. We are consulting with them and advising and steering them this way and that way, saying "Yes" and saying "No" in an informal way. It's the only way. We can't run it on a formal, legalistic procedure basis. So in this connection, if the Treasury is the moving party either extensively or in an undisclosed way in a plan, our function doesn't change at all. I ~~was~~ we sit there advising and consulting and helping the moving parties satisfy the requirements of the statute.
- Oliphant: Well, your power would have to be used in a pretty decisive way, because it would always be possible to oust us by coming in and paying the taxes we claim. So you'd have to be able to take hold of it.
- Douglas: The thing Jerry mentions is, suppose under the motive power as supplied by Treasury a particular plan is produced, and in order to get rid of that motive power the Treasury's claim is paid, so Treasury is out. Then the problem is left for us to deal with not in a voluntary way, in cooperation with the parties, but involuntarily. Now, we are committed by the Attorney General
- H.M.Jr: I see.
- Douglas: ... and by ourselves to a policy of not forcing things.
- H.M.Jr: I see.
- Douglas: Until the Supreme Court decides the Electric Bond and Share case.
- Frank: Which will be argued the 7th of February; that'll be out of the way in a month.
- H.M.Jr: Well, this idea I have is that we can force them through the unpaid taxes. Now, if we can't force

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them and they pay their taxes, well then, the thought that I had - we just drop out of the picture anyway. So the thing that you raised doesn't really come up.

Douglas: This is a voluntary procedure from the point of view of the company.

H.M.Jr: Yes, and either this thing - the unpaid taxes is a big enough stick to whip them into line - and if it isn't, then we have no usefulness in this picture and we drop by the wayside. So that thing you raised - I'm not going to say, "Well, if we can't do it, you force them." I'm only interested as long as we with our unpaid taxes are useful agents. So I don't think that that will come up. Huh?

Frank: No, I don't think so, except what Herman mentions, that if they in order to pay the tax had to put through a plan or dispose of property, they'd have to come to us. That's what you have in mind. And then if they were doing it on ...

Oliphant: Something else. When we sit around a table and try to pick a company, one of the things we have to keep in mind is, do we between us have enough hold on them that we can take them and hold them long enough to operate on them, or will they climb off the table?

Frank: Well, I think we do where they have to do some financing and keep - pay their taxes; between those, we

Opper: I'd like to mention one other thing, get the reaction on it. I can understand that you want to wait until after the Electric Bond and Share case is decided to do anything.

Frank: To announce it publicly.

Douglas: No, not to do anything. To force companies by an action of the Commission, such as application to a court for an order to do something.

Opper: Well then, whether or not this runs across that, I don't know; but as I recall the Public Utility Holding Company Act, you also have the power in a receivership

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to negative any plan.

- Frank: That's right.
- Douglas: And we're doing that right along.
- Opper: Now, our only power is the same thing. We can negative the plan. They can get us out from under by paying the tax. But if it was agreed that if we negated the plan and they paid the tax, and then you'd come along and negative the plan on the same basis, then I don't think they could get away, and if they knew that
- Frank: And when in court they can't pay their tax in any manner which would hurt other security holders, and that's where we can negative it.
- Douglas: And that's the technique in the Genesee case. They came to us with their plan and said, "Please approve it." We said, "Nothing doing. We can do that - that is, only consistent with the Electric Bond and Share."
- Oliphant: While we're here now all together, there is one thing I'd like to mention, to be sure we're not overlooking anything. I wish you (Opper) would read off that thin list, that list of companies that we marked out. There is a class that we just marked out. I.R.T. is the type. Just read that list.
- Opper: Atlas Pipe Line; Hudson River Navigation Company; Interborough Rapid Transit Company; Manhattan Railway Company; Postal Telegraph and Cable Corporation; Tallulah Falls Railway Company.
- Douglas: Those are all out as far as we're concerned.
- Oliphant: I just wanted to be sure that we weren't interested in that field.
- Frank: Well, Postal - I happen to know a little about the Communications Commission; might work with them on it. They have - they're in 77-B.
- H.M.Jr: Well, I don't want to say we're not interested in railroads, but this - this is so important, I just want to concentrate on this. Now, if we're

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successful, and I sincerely hope so, then we can sit down with the other boys on the railroad thing, if this device, using the Treasury, works. I mean don't - I mentioned railroads to the President, but I just want to do the one thing at a time, because it's so big. If this pattern works, swell; then we'll take one railroad.

Oliphant: You see, at one extreme you have the electric company; at the other extreme, you have the railroad. Then in between we have these middle companies that we just dropped out, assuming what you wanted was a typical electric company.

H.M.Jr: I think this'll be fun.

Douglas: Swell fun.

REPORT OF SECRETARY MORGENTHAU'S
PRESS CONFERENCE, JANUARY 27, 1938:

- H.M.Jr.: Well, I'm at your service.
- Q. Can you tell us something about today's meeting of the Interdepartmental Subcommittee?
- A. There isn't going to be any.
- Q. Today?
- A. No, it was put off until tomorrow.
- Q. Tomorrow morning?
- A. They need a little more time. Yes, eleven o'clock tomorrow.
- Q. What was the reason?
- A. They needed a little more time--some of the people did--to do their homework.
- Q. Will Senator Glass be in this meeting?
- A. No, no. I mean - - .
- Q. Have you decided on your suggestions, Mr. Secretary?
- A. No, I'm going to listen.
- Q. Is it fair to assume that out of this meeting there will come some sort of a legislative proposal?
- A. Well, not necessarily, but I don't know what they are going to propose. I don't know how -- when you appoint a committee to make this study it's up to me, as chairman, to listen, and I don't want to

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guess at what will come out of it -- this isn't a rubber-stamp committee. I mean, these fellows are all - - .

Q. Will you discuss any of the bills already proposed?

A. Well, they will go over the whole thing. They have had plenty of time. I mean, these are intelligent people and there will be a full discussion of the whole subject.

Q. Mr. Secretary, around the first of the year you said you were keeping in constant touch with Mr. Hopkins regarding the relief situation; has that changed any?

A. You mean my keeping in touch with them?

Q. No, at that time you said as a result of these contacts - - .

A. No.

Q. There was no change in the picture at the moment.

A. That's still true. I have here their release as of the week ending January 15th and I get the advance figures for the week of January 22nd and there still isn't anything in the picture but what can be taken care of by the money provided for in the Budget.

Q. Money provided by what?

A. By the Budget.

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- Q. Anything new on this French situation, Mr. Morgenthau? I see the franc almost touched an eleven-year low the other day.
- A. Nothing new that I can say about it except that we are watching it very closely, but there's nothing I can say.
- Q. Is the Tripartite monetary understanding still in effect?
- A. Still in effect.
- Q. Mr. Secretary, Reuters had some report that the Van Zeeland report is going to be made public in Washington at the Treasury or White House tomorrow morning.
- A. All I know is we won't release it. My guess is it would come from the State Department.
- Q. Is this the Van Zeeland report from all those trips around that he made?
- A. Well, strictly in the family, it came here late last night and it's about that thick, and I have asked somebody to read it, now, and that somebody hasn't because I gave it to him late last night and I don't think they have waded through it yet. But I greatly question that I will make any comment on it. I imagine it will all be State Department and I would be surprised if the White House did

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anything about it. But this is just amongst us, but my guess would be--a diplomatic document-- it would come out of the State Department.

Q. There are going to be some things on money in it. Will you comment on them? At least, according to what Mr. Van Zeeland said.

A. I've got to wait until this fellow reads it. But you remember, here a month ago, there was a dispatch coming over what they are talking about doing with gold and if that is in the report I think I laid that one to rest, but as long as it's so big I suppose the whole report will be released.

Q. Mr. Secretary, isn't it rather unusual in this current French franc crisis that there have been no actual physical shipments of gold from Paris?

A. No.

Q. Has it been confined to earmarking?

A. No. Use this for background. The dealings in francs in this country are not very heavy, see-- this is for background. And the big play on that is between London and Paris, and when a time like this comes, what they do is more or less just make, more or less--this is for background--just make official transactions in francs the way it is now. I mean, there isn't a free play in the franc right

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now, you see, but the shock of it is mostly on London and again and again when the franc gets these sinking spells, which they have had three or four times, we don't get the full brunt of it and then they have always taken extra good care to treat the United States well and we are fully protected.

- Q. But still it doesn't account, though, why there have been no gold shipments; I still think some metal should have been shipped.
- A. The answer is they've got enough here to take care of the present situation--you can use this for background--but they've got enough gold and dollars to amply take care of the very limited transactions which are taking place, but the big brunt of this thing comes either in London or on the Continent and we don't get it--we never get it; I mean, there's just as little mystery about it as possible and I'm telling you the whole story; there's nothing else to it.
- Q. Has the French Stabilization Fund exhausted its resources? You see constant reports that the Stabilization Fund is not supporting the franc or to a limited extent.
- A. Well, that I can't answer because it's their operation, but I'm simply telling you, as far

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as we are concerned, they are very small operations. They have ample funds on deposit for them. Do you think I'm talking too much, Herbert?

Caston: Not for background; it's all right for background purposes.

Q. Mr. Secretary, if it's true that the French Stabilization Fund isn't supporting the franc, then the Tripartite monetary agreement isn't working.

A. The answer is we do get a rate every day. It's working every single day.

Q. What do you mean by rate?

A. Didn't I explain that the other day? They give us a buying rate for the franc and they give us that every day, after their market closes, they instruct us please to take care of the franc-- buy at such and such a price and sell at such a price, and when the day is over they have enough money in gold or dollars here that they take whatever francs we bought or sold off our hands. In other words, we simply operate for them and we never get stuck. We take darn good care of that. Every single day we get a rate for buying--this is all for background purposes.

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- Q. Mr. Secretary, what happens when their balances here become exhausted?
- A. That is, again, their worry. In other words, as far as the United States Treasury is concerned, we don't take any risk at all, you see. I mean, just as long as we have gold or cash we are more than willing to operate for them at their risk and expense.
- Q. Do you check the amount of gold they have here before you start buying or selling?
- A. I am a very careful fellow. And it goes for all of these people. When I'm operating for the United States Treasury or the United States Government I don't take any chances at all.
- Q. No rubber checks.
- A. No, I'm not taking any chances, whether it's France, or Mexico, or Canada or any other country. When the day is through the United States Treasury is amply protected. This is all background. And at the same time, doing this, why do we do it? Well, we are operating for them--it eliminates the sharpshooter in the foreign exchange market and he can't depreciate or inflate this thing and start a run on the Bank of France. It has always heretofore been handled by these sharpshooters and no flag means anything

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to them and if they can make a profit and in that way start a run--they have always done it. That, really when you get down, is what the Tripartite has done; it keeps this thing regular in times like this. When a country like France is trying to straighten out its internal difficulties and they know they don't have to worry and the American businessman --if he has francs due him-- he knows that he can get francs at a reasonable rate and that's what it does for the importer or exporter. Now you go to any other country outside of, I mean, where they've got this thing shut down--the American businessman can't get his money and that's the great difficulty and that's why--they know what they can continue to buy and sell and import and export--he's taken care of and that's the service we are rendering him.

- Q. Has the Treasury issued any sort of de facto orders asking American banks not to engage gold in France for psychological reasons?
- A. No. They might have on their side, but we haven't.
- Q. Do you know if they have asked?
- A. I don't know; that's their business. As far as I know, anybody can buy or sell--our market is open.

I mean, if any government wants to sell, we will buy. They can take it out or buy it; there's no restriction whatsoever, as far as the United States Government is concerned. It's absolutely free--that is again for background. Now if the French want to do it that is their business and I don't want to talk about it. When you get all through there's no mystery about it, as far as what we are doing other than I don't want to say what I am doing for another client--that's his business. If he says to me "I don't want you to say how much I'm doing" and he has to keep the secret. And if he's my client I should, as a matter of ethics, live up to his request and as long as I do that he trusts us and I think they trust us as much as anybody else in the world, because we keep their confidence; it's no secret as far as what I am doing, but just as far as I am operating for another government.

Q. Purely off the record, don't you think the Tripartite Agreement stays alive on a pretty slim balance, if it depends on French balances in this country?

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- A. Well, yes and no. The fact that they have this agreement has enabled them to keep going and to keep from slipping into exchange control--that's what they don't want and that's why we don't want. If this thing fails, as far as France goes, what happens? They go into exchange control and this present government has again and again--this group starting with Blum--has again and again said they don't want exchange control.
- Q. Can we use this for background?
- A. Sure, and that's one of the economic foundations they stand for; and there's this other party who want exchange control; it's of tremendous interest to this government to keep as many countries from going on exchange control. Why? As soon as they do it makes it that much more difficult for our business men to do business in that country, and just as long as we can keep France open and free it means the chance for world trade is that much better. There's the whole story and if we can keep that it makes it that much easier for Mr. Hull to keep his trade treaties going and keep the world trade going. Every time a country slips back into exchange control it's that much more difficult to do business. This

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thing, when you get me going! There's an awful good reason for all of it.

Q. Can we say free exchange control in your policy in the Treasury is essential for American trade instead of for background?

A. I wouldn't say it was essential, but it's the basis. Herbert, is that too strong? I think it's the basis for trade. What?

Gaston: Yes.

Q. The absence of exchange control is the basis of American trade policy?

H.M.Jr.: Yes.

Q. We can quote you on that?

A. Why not?

Gaston: I think that's all right.

H.M.Jr.: If you want something, let me have a minute.

Q. The absence of exchange control is the basis of the American trade policy?

A. That's a kind of a double negative, isn't it? If you want something--let me just think a minute. I put it something like this: That the Treasury is constantly working--I can't give it to you offhand. It's too important. Let me think about it. I don't mind you using it for background, but just to give you something

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which would stand up around the world--it's too important--I can't do it. You get what our policy and our program is--it's tremendously important that we keep as many countries open, tremendously important, not only for ourselves but for the whole world, and I may point out that one of the reasons that business kept up as well as it had is on account of the very remarkable volume of our import and export trade at the end of '37. I don't think people yet appreciate the tremendous increase in volume of our export and import business for the last quarter of '37 and the basis of that whole thing is that a man, if he sells a million dollars worth of merchandise, knows that he can go to his bank and cash that thing--on the other hand, if he goes up against a country that has exchange control he's got to worry and has to take harmonicas in exchange for oil which they do, and has to send his boat into a country to get it painted in order to get money for his bananas which they do. That's the fight I have made here. I trust you fellows to use it for background.

Gaston: It was very carefully stated in the Tripartite understanding itself, in the last paragraph of the Tripartite understanding; it said these

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nations (I don't remember just the words used) expressed the hope for relaxation of exchange control and other restrictions on trade.

H.M.Jr.: Would you get that for the boys and send it down?

Gaston: Yes.

H.M.Jr.: And that's why we burn the midnight oil time and time again when something is happening in another country, to strain every point and still stay within the spirit of the law--which we do very carefully--to helping a country from slipping into exchange control.

Q. What other countries, Mr. Secretary, have you prevented, besides France, from slipping into exchange control?

A. The most recent one is Mexico; that's the most recent one.

Q. How about Japan?

A. Well, they have a semi-formal exchange control now; there isn't a free flow.

Q. Any other countries besides Mexico?

A. That's the most recent one.

Q. Was your policy towards China with the same view in mind?

A. Partly, yes.

Q. How about Brazil?

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- A. Well, we gave them an agreement last Summer and they never took advantage of it and since December 10th--I think the date is something like that--they have had more or less exchange control. This is all for background.
- Q. Is there any likelihood that France may slip into exchange control?
- A. Well, that's the fight that's going on right now and I hope that they can pull themselves through again. I mean, I sincerely hope that they can, but that's the big fight which is going on there now. All this is for background, but I sincerely hope, and it's a matter which only the Frenchmen can decide.
- Q. Mr. Secretary, would it be accurate to explain, for background, that this country is doing whatever it can to help France avoid exchange control?
- A. Well, that's the whole Tripartite agreement, which is, as long as they are in it, just as long as they can live up to the Tripartite agreement, there won't be exchange control.
- Q. The thing that has troubled all of us is just what are the qualifications for living up to it; just when do they and when don't they?

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A. Well, they live up to it just as long as--say you sell France \$5,000 worth of dollars and you send it over there and you can get paid that minute, and just as long as there isn't any exchange and as long as they don't depreciate their currency in order to get advantages through that depreciation, that is one thing. Because it drops, and we are convinced it drops on account of French capital moving out, that's one thing but just as soon as they decide to depreciate for their advantage, then they wouldn't be living up to that thing. Through that Tripartite agreement we have set this principle--here are three countries who say we won't take competitive advantage by depreciating currencies. We hope the other countries won't either. Since that agreement, no country has done that in order to get trade advantages.

Q. Does that apply to countries outside of the agreement?

A. Here are six countries who have laid down these principles including Holland, Switzerland. Since that agreement, no country has depreciated its currencies in order to get trading advantages;

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they have all had their difficulties but no country has depreciated in order to get trade advantages. We have accomplished that, you see. Again, all this for you fellows, but for background.

Q. . . In the event that the French Stabilization Fund metal reserves were exhausted and its metal resources of earmarked metal, and again the Tripartite agreement hangs in the balance, what would happen to the efforts to continue that Tripartite agreement? You said it was pretty slim.

A. No, I didn't say it was pretty slim. I said they still had plenty of funds available with us here. They can go quite a long time as far as our markets are concerned.

Q. In other words, you are not concerned about the situation, Mr. Secretary?

A. No, I didn't say that. I'm not concerned as far as their operations in our market are concerned, but I also pointed out that their operations in our market are very limited. That's one thing, but what is going on in France is entirely different. But I hope you don't write anything about how concerned I am with how long

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they can go. That would not be fair and would not express what I have said, but I have talked very frankly in order to give this to you people and just let you really know what we are trying to do.

Q. Did you say, Mr. Secretary, that the Tripartite agreement was an essential preliminary to trade negotiations, as with Great Britain--it stated a policy.

A. Well, I think this, and I think that the State Department will agree with me, that having concluded the Tripartite agreement and having handled the work so well and having brought the three countries that much closer together, it makes a trade agreement that much easier--it makes it much easier, very much easier.

Q. Paved the way?

A. I don't think there's any question about it.

Q. Mr. Secretary, back on the record a minute, do you know of any plans being developed to have a Federal agency that would expend small industrial loans or help the market for bond issues of small businessmen?

A. Yes, but I don't want to talk about that. I mean, unfortunately, I always am truthful and it is embarrassing at times. I do, but I can't discuss it.

Q. Thank you, Mr. Secretary.

January 27, 1938

My dear Mr. President:

On Friday, at eleven o'clock, your Interdepartmental Committee on Banking will meet to consider legislation in connection with bank holding companies.

It has been intimated to me that Senator Glass would like to see you and me in connection with his introducing a bill to eliminate bank holding companies. I further understand that he feels it would be helpful to have you send a message to Congress covering this subject. We have ready a draft of a message for you.

I am taking the liberty of suggesting that you invite Senator Glass to come and see you after Cabinet tomorrow and I would appreciate an opportunity to be present.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

*given to HSK by me
12:05
1-28-38*

cc to Mr. McHugh for FDR folder in folder in safe.

1/28/37 - mas

1-28-38

January 27, 1938

Saw the President this morning and asked him to explain to me what he meant about his statement that wages mustn't be lowered. He said it was very important that he make this statement at this time because the steel industries are about to renew their agreement with the labor unions and that Tom Lamont, Edward R. Stettinius, Jr., and Myron C. Taylor are in favor of renewing the present agreement but that Mr. Benjamin F. Fairless, President of the Steel Corporation, wants to reduce wages; that this is a big fight which is going on inside the steel corporation and that if they can renew the present agreement that that will set the pattern for other companies to follow and that he considers it of terrific importance that the steel corporation renew their present agreement and evidently he wanted to throw his weight with the Lamont-Stettinius ex-chairman group.

He says that from '29 to '33 the steel companies and others constantly dropped their wages and maintained their prices with the result of the tremendous depression. He doesn't want a repetition of that at this time and he feels that the steel companies earned enough money last year and were able to put aside enough money that they can continue to pay the present wage scale.

I said, "Mr. President, I am entirely familiar with the economic theory that industries like steel when business becomes too slack they should drop the price in order to get increased business. I am in entire sympathy with that theory by starting with the speech that Robert Jackson made up to and including the statement that you made two days ago, nobody has properly explained this idea."

I said, "Furthermore, in the case of building industries where they pay \$15.00 and \$16.00 to bricklayers a day, if those scales continue you can't expect your new housing bill to be a success". He said, "I explained that I did not include those". I said, "I know you did but that expenditure in regard to this was completely drowned by the newspapers and I can say to you, Mr. President, that nobody understands what you are trying to get at". He said "the people in the industries understand." I said, "Maybe they do and maybe they don't but certainly the man on the street doesn't". He listened very carefully and, much to my surprise, didn't resent in the least my saying this to him but I will say for myself that I said it very quietly and showed no excitement when I said it to him.

I then said, "Mr. President, we have been studying the possibilities of taking a busted utility company and a railroad, which are in the hands of the Receivership Department of Internal Revenue, and reorganizing them along the lines that you have laid down working with SEC. What do you think about it?" He was tremendously enthusiastic. He said, "Can you do that? Have you the power to do that?" He said, "Bring the public utility to me, I have lived and worked with this all of my life. In ten minutes I will show you how to reorganize it". I said, "Mr. President, let us explore the thing and after we have thoroughly explored it I would like to bring it to you".

He said, "Justice and Mrs. Brandeis visited me yesterday and I told him the ambition of my life when I get out of the White House is to reorganize a railroad either on constitutional or unconstitutional laws." He said, "The great trouble is when you start to reorganize a railroad you land into the Inter-state Commerce Commission and the Governor of a State will tell you that you can't drop this railroad station or that station. Under the law, you have to give the money to the first bondholder and by the time you get through there is nothing left for the common stockholder." He said, "I have always wanted to reorganize a railroad". So I said, "Let me develop it for you". I have seldom seen him so enthusiastic about an idea.

If I could prepare and develop, in all its details, the reorganizing and refinancing of public utilities and demonstrate that it could be done, I don't know of anything that would be more helpful at this time and then if we could also do a railroad I think it would be a real help towards putting the country back on its feet because there are three things the public is talking about - Public Utilities, Railroads and Housing and, if we can get this started, it will go a long way toward putting the recovery machinery into gear.

I showed this chart to the President, explained it to him and he was tremendously interested.

* * * * *

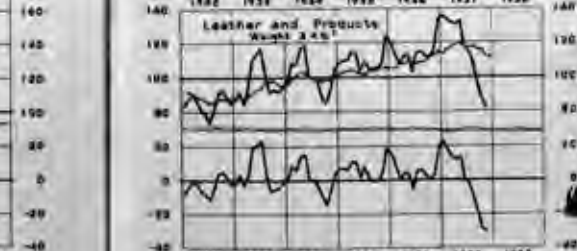
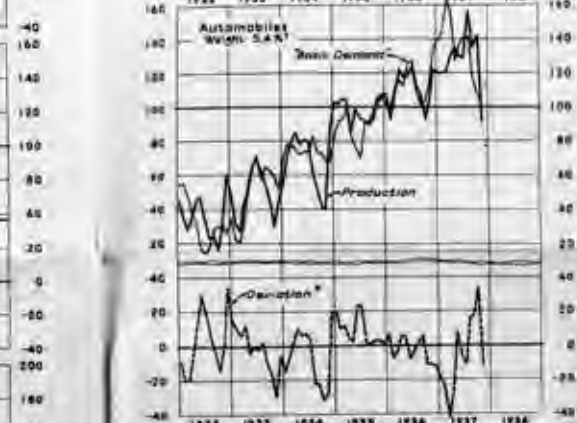
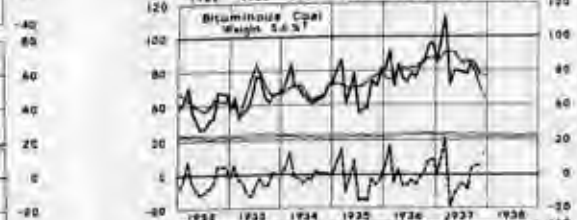
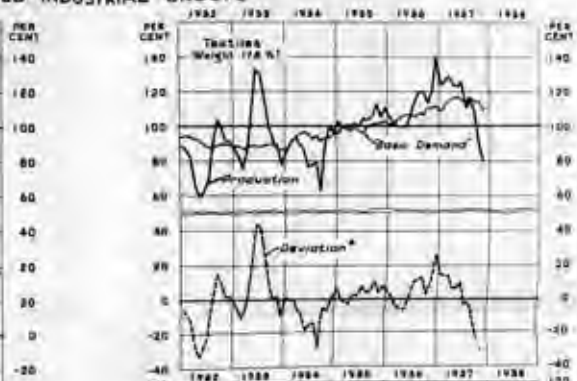
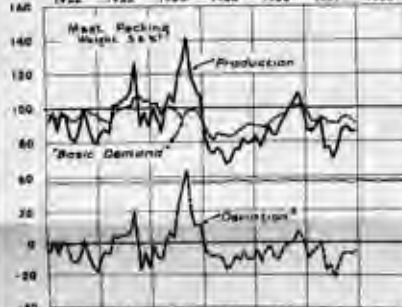
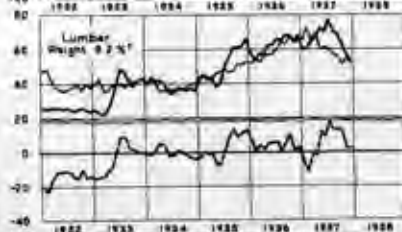
I checked with the President about purchasing the silver from Spain and he approved.

ESTIMATED BASIC DEMAND COMPARED WITH PRODUCTION, BY INDUSTRIES

1923-29 = 100



SELECTED INDUSTRIAL GROUPS



Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JAN 27 1938

TO Secretary Morgenthau

FROM Herman Oliphant

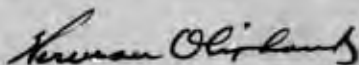


The conference at the Securities and Exchange Commission this afternoon was attended by Opper, Foley, Hill, and Crossley for the Treasury and Jerome Frank, C. S. Guthrie, Roy Smith, George Spencer, and Roger Foster for the S.E.C.

The conferees went over a complete list of all utilities that are in reorganization, bankruptcy, or receivership in the Treasury. Of the entire list there was but one company that seemed to answer the requirements—namely, the one mentioned in your office this morning, Standard Gas and Electric, which has operating properties scattered all over the United States except in the Southeast, which means that this company would not draw in the T.V.A. but might the Bonneville project in Oregon.

By noon tomorrow we will have S.E.C.'s list of registered holding and subholding utility companies that are financially shaky which we will check against our list of tax claims. This should give us by Saturday morning any registered holding or subholding utility company which could be used.

It will take a week or more to make a similar check for possibilities among nonregistered holding companies and all operating companies.



January 27, 1938.
2:24 p.m.

Operator: Go ahead.

H.M.Jr: Hello.

Admiral Leahy: Mr. Morgenthau.

H.M.Jr: Talking.

L: Admiral Leahy, sir.

H.M.Jr: Go ahead.

L: I had sent over to the President, this morning, some information that I got, and it came back to me, with a note on it, "Please inform the Secretary of the Treasury of this at once."

H.M.Jr: Yes.

L: I'm sending it over to you, with one of my agents - on his way over now - should be there in five minutes.

H.M.Jr: Right.

L: And I'd like to have it back, if I may, because it's a source of information and ought not to be compromised in any way.

H.M.Jr: I understand.

L: Yes, sir.

H.M.Jr: Will he - I'll leave word when he comes that I'll receive him.

L: Just so that you see it, Mr. Secretary, that's all.

H.M.Jr: What's that?

L: Just if you'll see it, that's all.

H.M.Jr: I'll do that.

L: I mean, we already had the information, but it looked very realistic to me, and it's correct. The source is perfectly reliable.

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H.M.Jr:

Thank you.

L:

Goodbye.

January 27, 1938

3 p. m.

Present:

Ambassador Fernando de los Rios, of Spain
Dr. Feis
Mr. Taylor
Dr. White

Mr. Rios: I wish to present to you the possibility on behalf of my Government to sell certain quantity, which at this moment we cannot fix in ounces, of silver and to know in principle if you are ready to acquire that. We have the silver in Cartegena.

HM, Jr: Where is that in relation to Barcelona?

Mr. Rios: It is south. If you have here a map I can indicate to you the location.

HM, Jr: Cartegena?

Mr. Rios: Yes. It is the most important fortress we have had for several centuries. When I spoke to Mr. Welles yesterday I said that the silver was in Cartagena, but of course it would be important to know if that is for you enough title, if that can be considered a difficulty for you.

HM, Jr: What we do is this, Mr. Ambassador. If a country wants to sell us silver or gold, the normal way would be that after they indicate they accept our bid for a specified amount of gold or silver, your National Bank would send word to the Federal Reserve Bank of New York, who are our agents, that they are shipping so much silver or gold, delivered New York.

Mr. Rios: Don't do it for anybody?

HM, Jr: Nobody.

Mr. Rios: Even in another part of Europe you cannot take it?

-2-

HM, Jr: No. We have been all through that with other countries who are at peace -- if you want to call it that -- shifting from one country to another. We have established the practice here that we only will accept the silver and pay for it after it has arrived at New York because naturally it would be New York, and then we pay 98% or 99% subject to test. Isn't that it, Harry?

Dr. White: It's over 95%.

HM, Jr: We pay the same -- I can get you the formula and give you blank documents similar to what we do for other countries to show you how we handle it for other countries.

Mr. Rios: Yes, it would be very interesting for me to know how.

HM, Jr: How we handle for Mexico, for instance, is on arrival at the Federal Reserve in New York, and we pay on arrival, and depending upon how much, etc. We make a price every day.

Mr. Rios: You make a price?

HM, Jr: Each day, at noon, we make a price.

Mr. Rios: Which is, today?

HM, Jr: Today's price, 45 cents delivered New York; 45 cents.

Ambassador: That is, the principle, interesting for me and my Government to know. The condition and all that can be arranged with our representative here, our Commercial representative here, Mr. Echevarria.

HM, Jr: The details are very simple and we fix the price each day and the price is 45 cents today, New York.

Mr. Rios: Yes, but to put silver in New York it must be, it will be necessary to have it fixed price; otherwise, nobody is sure.

HM, Jr: When you are ready, you say: Mr. Morgenthau, I want to offer you today so much silver, and I will say yes or no and give you a price. As simple as that! You just

-3-

say to me now -- are you prepared to say now?

Mr. Rios: No. No. I am not prepared. But it is absolutely necessary to know if you, in principle, if you are ready to buy.

HM, Jr: Yes!

Mr. Rios: This is what my Government is anxious to know.

HM, Jr: The answer is yes.

Mr. Rios: All right. That is enough at the moment.

Dr. Feis: May I say, if you agree -- you may tell me I am wrong in throwing out this suggestion -- that the transactions can probably be better handled through the Embassy here than by Mr. Echevarria as most of those discussions on silver purchases have been carried on through the diplomatic missions, have they not?

HM, Jr: That's right.

Dr. White: Through the Treasury.

Dr. Feis: Oh, yes, through the Treasury. We don't come in at all.

HM, Jr: For instance, if Mexico has something the Mexican Ambassador comes to see me or if the Chinese have something the Chinese Ambassador comes to see me.

Mr. Rios: All right. It's much pleasure for me. It would be always better for me.

HM, Jr: For me also.

Mr. Taylor: There is the other thing which I know is in the Ambassador's mind. Very often it is simpler to make your sales or cheaper, or rather it makes out better, to make sales in the London market. Get rid of the shipping charges back and forth. I think you ought to have that in your mind so it isn't a question of feeding out a certain amount. You might do better in the London market than if you came direct here.

-4-

HM, Jr: But don't let him understand -- we don't buy in the London market. The only place he wants to sell to us is New York.

Mr. Rios: Oh, yes, I understand; of course.

Mr. Taylor: He must know the London market exists.

Mr. Rios: Never I have thought it would be possible to buy that through the London market. No. No. No. No. That's perfectly clear and it is clear for my Government, but it is a direct request?

HM, Jr: No. We worked out over several years, under the Silver Purchase Act, a regular procedure and if you care to have us, we will prepare a set of documents, blank, the way that works and we will send it up to the Embassy tomorrow -- just, for instance, the way we handle the Mexican, so you will know what the forms are and how it is done, and if it isn't clear Dr. White will be glad to come up to the Embassy and explain it to you.

Mr. Rios: All right. Thank you very much.

cOo-cOo

January 27, 1938.
3:23 p.m.

143

H.M.Jr: Hello.

Operator: Mr. Butterworth.

H.M.Jr: Right.

O: Go ahead.

H.M.Jr: Hello.

Butterworth: Hello, sir.

H.M.Jr: Hello, Butterworth.

B: I thought I should telephone you.

H.M.Jr: Yes.

B: Hello.

H.M.Jr: Go ahead.

B: I thought I should telephone you, to tell you that I've been to the Treasury.

H.M.Jr: Yes.

B: Since I talked to you this afternoon.

H.M.Jr: Yes.

B: And they tell me that the matter which you had me put up to them.

H.M.Jr: Yes.

B: Have involved important issues which have required and are still requiring careful deliberation.

H.M.Jr: Say that again, please.

B: They say - they tell me that the matter that you had me put up to them.

H.M.Jr: Yes.

B: Involves important issues.

H.M.Jr: I see.

B: Which have required and are still requiring careful deliberation.

H.M.Jr: I wonder if I understand, you mean you mean the French loan in Holland?

B: I beg your pardon, I can't hear you.

H.M.Jr: Are you talking about the loan in Holland?

B: No, I'm talking about that question that you asked me to pass on to them, about whether they wanted to get in touch with the French too.

H.M.Jr: I get you. Now I understand. I understand now.

B: And the British Treasury say that they haven't formulated any answer.

H.M.Jr: I see.

B: And when I asked about the timing of a reply.

H.M.Jr: Yes.

B: They said it might not even be possible to give me one before the weekend.

H.M.Jr: I see.

B: Now, naturally I don't know what they have in their mind, exactly, or what the reply will be.

H.M.Jr: Yes.

B: But I wondered whether in the circumstances you thought it wise for me to go to Paris before I got that reply.

H.M.Jr: Yes, I'd - I'd rather get this question of a loan straightened out.

B: Quite.

H.M.Jr: And I think that after all the British weekend, nothing much is apt to happen.

B: That's right.

- 3 -

H.M.Jr: And just think how people would give their left
finger here to have a weekend in Paris.

B: I shall go on anyway.

H.M.Jr: What's that?

B: I shall go to Paris then, regardless of that reply.

H.M.Jr: I'm sorry to force a Paris weekend on you, but I'm
afraid I'll have to.

B: Oh, that's perfectly all right.

H.M.Jr: All right.

B: You'll make me feel no pain at all.

H.M.Jr: All right. Just a minute, Herbert Feis happens to
be here, and he wants to talk to you.

B: All right.

H.M.Jr: Just a minute.

Feis: Walton?

B: Hello.

F: Walton?

B: Hello Herbert.

F: How are you?

B: I'm fine, thank you, how are you?

F: Good. Walton, would you tell Mr. Hirschel Johnson
about the Van Zeeland, the inquiry from them.

B: I can't hear you.

F: Would you pass this on to Hirschel Johnson?

B: Yes.

F: Their inquiry about what we might have to say or
suggest regard to the Van Zeeland report.

B: Yes.

F: We have a note here, from Lindsey.

B: Yes.

F: Putting up the same question.

B: Yes.

F: And in it saying that they realize that we may want a few days to turn it over in our minds.

B: Yes.

F: ~~Well~~ we do.

B: Yes.

F: So it'll be a few days before anything comes along on that.

B: Well I'll tell you Herbert, I've been carrying out these Van Zeeland discussions with Leith Ross.

B: Have you?

B: Yes.

F: All right.

B: And that inquiry was addressed to me in a letter from Leith Ross.

F: Well, you tell him then that it might be a few days, by which I think it'd be about next Monday or Tuesday.

B: Right.

F: Before that would come along.

B: He's right.

F: All right.

B: I'll be sending those telegrams in in the pro-formal way. But, I mean, virtually I've been doing that.

F: All right.

B: I'll pass that word on to Leith Ross and let Hirschel know too.

F: Would you please let Hirschel know.

B: I will, without failure.

F: Thank you.

B: Right Herbert, it's nice to hear your voice.

G: Grand Walton. I'm passing you back to the Secretary.

B: Right.

H.M.Jr: I have nothing more.

F: I beg your -

H.M.Jr: And you see by going over to Paris, you can get the latest word, what they've told us.

F: Right, sir.

H.M.Jr: And I made quite a long discussion with the newspaper men today on the French, I mean what they call background to what we were trying to do, and it seemed to be well received in New York.

F: Quite.

H.M.Jr: And I - I - we - you see it's so important if they don't get that loan, I really think they're going to be in a bad way.

B: Yes.

H.M.Jr: And if you two men could put your heads together, why maybe we could find out.

B: Quite.

H.M.Jr: And then be ready by Monday to know how to act, but if they don't get that loan I don't see what they can do, and I imagine the English are trying to find out also.

B: I should think so too.

H.M.Jr: And after they know then they'll give us an answer.
B: Right.
H.M.Jr: All right.
B: Well thank you, Mr. Secretary.
H.M.Jr: Goodbye.
B: Goodbye.

MEMORANDUM OF THE DAY'S ACTIVITIES

January 27, 1936

To: Secretary Morgenthau
From: Mr. Magill

1. Tax Bill

I spent about four hours this morning in conference, first with Messrs. Doughton, Vinson and Cooper and then with all the Democrats on the Ways and Means Committee. The subject of the entire discussion was the subcommittee's recommendations for the special tax on closely held corporations. The fight on the provision is being led by McCormack of Massachusetts, who apparently has lined up four or five other Democratic members of the Committee in support of his views. These are Messrs. Lamneck (Ohio), Thompson (Illinois), Robertson (Virginia), and one or two of the following three members: Boehne (Indiana), Fuller (Arkansas) and Dingell (Michigan). The group adjourned to meet again tomorrow morning at ten o'clock and asked me to join them then.

Mr. Doughton is rather lukewarm on the Committee's recommendation. Mr. Vinson and Mr. Cooper are leading the fight for it, in the conviction that the President wants it and will probably veto a tax bill which does not contain such a provision. Mr. Doughton is particularly anxious that the Democratic members of the Committee should present a united front on the floor of the House and hence is talking compromise. Messrs. Vinson and Cooper are opposed to any compromise, at least at this time. They discussed seeing the President again with the view to taking a message from him to the Democratic members and I imagine they will seek a conference within a day or two.

Rm

January 27, 1938

For the Secretary:

Perhaps it would avoid strife and conflict if the Secretary were to listen only at tomorrow's meeting and make no counter proposal, as he has suggested

After all, Mr. Eccles has taken his case to the President, and apparently without success. Why not follow the course of letting Senator Glass introduce his bill, be sent a letter of endorsement by the President (or introduce it following a message by the President) and then have the President ask the Secretary to call the banking agency heads together to inform them that the Glass bill is approved as an Administration measure and that they will be expected to help it along.

If there are some amendments thought necessary to the Glass bill, they can be worked out after the bill has been referred to us for consideration.

Steagall ought to be brought into the picture at some point, perhaps encouraged to introduce the Glass bill the day after Glass introduces it in the Senate. A word from the President that while he does not want to send down a bill for introduction, he has seen the Glass bill and approves it, would get action from Steagall.

Indeed, since Mr. Eccles has carried his case to the White House, there might not be any necessity for a meeting tomorrow at all.

Upm

OFFICE OF
THE SECRETARY OF THE TREASURY

1/29/38

Ribbon copies of the attached memo dated 1/27/38 were mailed to the following, with letters of transmittal signed by the Secretary, today:

The President

The Secretary of State

The Secretary of War - Attention:
Col. Strong (G-2)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 27, 1938

TO Secretary Morgenthau
 FROM Mr. Haas *HAAS*
 Subject: Current United States trade with Japan and China
 (preliminary data)

(1) United States exports to Japan during the first three weeks of January 1938 show a 13 percent increase over the first three weeks of December 1937, and are only slightly lower than during the first three weeks of November 1937.

United States Exports to Japan

	<u>1st week</u>	<u>2nd week</u>	<u>3rd week</u>	<u>Total 3 weeks</u>
Jan. 1938	\$2,726,000	\$3,759,000	\$4,013,000	\$10,498,000
Dec. 1937	1,694,000	5,217,000	2,394,000	9,305,000
Nov. 1937	1,180,000	4,813,000	4,745,000	10,738,000
Oct. 1937	1,727,000	5,746,000	4,492,000	11,965,000

(2) United States imports from Japan during the first three weeks of January 1938 are almost exactly the same as during the first three weeks of December 1937, and are about 27 percent less than the imports from Japan during the first three weeks of November 1937.

United States Imports from Japan

	<u>1st week</u>	<u>2nd week</u>	<u>3rd week</u>	<u>Total 3 weeks</u>
Jan. 1938	\$2,033,000	\$4,185,000	\$2,020,000	\$ 8,238,000
Dec. 1937	2,159,000	3,406,000	2,672,000	8,237,000
Nov. 1937	3,245,000	3,654,000	4,356,000	11,255,000
Oct. 1937	3,328,000	3,984,000	3,419,000	10,731,000

Secretary Morgenthau - 2

(3) The following items show large increases in our exports to Japan during the first three weeks of January 1938 as compared with the first three weeks of December 1937:

	First three weeks of		
	<u>January 1938</u>	<u>December 1937</u>	<u>November 1937</u>
Petroleum products	\$2,925,000	\$2,186,000	\$3,262,000
Raw cotton	2,603,000	854,000	512,000
Industrial machinery	1,229,000	862,000	745,000
Copper	845,000	417,000	1,091,000
Pig iron	242,000	nil	56,000
Ferro-alloys	182,000	51,000	342,000
Pig lead	116,000	75,000	41,000

The following items show sharp decreases in our exports to Japan during the first three weeks of January 1938 as compared with our exports of these items during the first three weeks of December 1937:

	First three weeks of		
	<u>January 1938</u>	<u>December 1937</u>	<u>November 1937</u>
Paper base stocks	\$382,000	\$1,389,000	\$841,000
Scrap iron & steel	277,000	448,000	488,000
Chemicals & related products	207,000	326,000	557,000
Brass, including scrap	1,000	304,000	440,000
Tobacco & manufactures	nil	257,000	nil

(4) Our imports from Japan during the first three weeks of January 1938 remained at the same level as during the first three weeks of December 1937 which was sharply below the level of imports during preceding months. There was no significant shift in the composition of our imports.

<u>First 3 weeks of</u>	<u>Imports of raw silk</u>	<u>Imports other than raw silk</u>	<u>Total</u>
Jan. 1938	\$4,586,000	\$3,652,000	\$ 8,238,000
Dec. 1937	4,487,000	3,750,000	8,237,000
Nov. 1937	6,169,000	5,086,000	11,255,000
Oct. 1937	6,223,000	4,508,000	10,731,000

Secretary Morgenthau - 3

(5) Of the total of \$10,498,000 of our exports to Japan during the first three weeks of January 1938, the following items account for almost all:

Petroleum products	\$ 2,925,000
Raw cotton	2,603,000
Industrial machinery	1,229,000
Copper	845,000
Vehicles, parts and accessories	673,000
Iron and steel semi-manufactures	397,000
Paper base stocks	382,000
Scrap iron and steel	277,000
Pig iron	242,000
Chemicals and related products	207,000
Ferro-alloys	182,000
Pig lead	116,000
Other	<u>420,000</u>
Total	\$10,498,000

Secretary Morgenthau - 4

(6) Of the total of \$8,238,000 of our imports from Japan during the first three weeks of January 1938, the following items account for almost all:

Raw silk	\$4,586,000
Cotton manufactures	494,000
Pyrethrum flowers	255,000
Silk manufactures	248,000
China and porcelain ware	177,000
Tea	145,000
Flax, hemp, ramie and manufactures	133,000
Vegetable food products, except tea	130,000
Fish and fish products	128,000
Dead or creosote oil	114,000
Perilla oil	104,000
Hats and hat materials	99,000
Metals and manufactures	97,000
Wood and manufactures	89,000
Menthol	89,000
Fish meal and scrap	80,000
Toys and parts	76,000
Paper and manufactures	72,000
Earthenware and stoneware	65,000
Rayon and manufactures	65,000
Bristles	63,000
Camphor	51,000
Glass and glass products	45,000
Other	<u>833,000</u>
Total	\$8,238,000

Secretary Morgenthau - 5

United States trade with China during the first
three weeks of January 1938

(1) United States exports to China and Manchuria during the first three weeks of January 1938 declined sharply from the first three weeks of December 1937, and were only slightly lower than during the first three weeks of November 1937.

First three weeks of
January 1938 December 1937 November 1937

United States exports to:

North China & Manchuria	\$1,378,000	\$2,003,000	\$2,083,000
Shanghai, South China and Hong Kong	<u>3,001,000</u>	<u>4,023,000</u>	<u>2,451,000</u>
Total	\$4,379,000	\$6,026,000	\$4,534,000

Whole month of January 1937 \$6,623,000

(2) United States imports from China and Manchuria during the first three weeks of January 1938 were well under the totals for the first three weeks of December and November 1937.

First three weeks of
January 1938 December 1937 November 1937

United States imports from:

North China & Manchuria	\$ 782,000	\$ 864,000	\$1,193,000
Shanghai, South China and Hong Kong	<u>2,139,000</u>	<u>2,926,000</u>	<u>2,619,000</u>
Total	\$2,921,000	\$3,790,000	\$3,812,000

Whole month of January 1937 \$6,882,000

Secretary Morgenthau - 6

(3) Leading export items to China:

(a) To North China and Manchuria:

	<u>First three weeks of January 1938</u>	<u>December 1937</u>
Iron & steel semi-manufactures	\$ 800,000	\$1,158,000
Vehicles, parts & accessories	165,000	439,000
Petroleum products	122,000	174,000
Industrial machinery	98,000	83,000
Raw cotton	72,000	nil
Copper	62,000	nil
Inedible animal products	16,000	26,000
Paper & manufactures	11,000	2,000
All other	<u>32,000</u>	<u>121,000</u>
Total	\$1,378,000	\$2,003,000

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

	<u>First three weeks of January 1938</u>	<u>December 1937</u>
Vehicles, parts & accessories	\$1,207,000	\$ 848,000
Firearms & ammunition	420,000	99,000
Petroleum products	142,000	1,055,000
Iron & steel semi-manufactures	175,000	461,000
Inedible vegetable products	166,000	574,000
Dynamite and T. N. T.	150,000	nil
Edible vegetable products	148,000	247,000
Paper & manufactures	105,000	95,000
Industrial machinery	92,000	72,000
All other	<u>396,000</u>	<u>572,000</u>
Total	\$3,001,000	\$4,023,000

Secretary Morgenthau - 7

(4) Leading import items during the first three weeks of January 1938:

(a) From North China and Manchuria:

	<u>First three weeks of January 1938</u>	<u>December 1937</u>
Bristles	\$203,000	\$342,000
Nonmetallic minerals & products	93,000	7,000
Wool & manufactures	49,000	137,000
Chemicals & related products	48,000	3,000
Tungsten ore & concentrates	45,000	nil
Perilla oil	41,000	57,000
Other	<u>303,000</u>	<u>318,000</u>
Total	\$782,000	\$864,000

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

	<u>First three weeks of January 1938</u>	<u>December 1937</u>
Tung (wood) oil	\$ 515,000	\$ 372,000
Flax, hemp, ramie & manufactures	308,000	455,000
Tungsten ore & concentrates	245,000	60,000
Vegetable products, edible	186,000	221,000
Bristles	165,000	251,000
Tin	123,000	528,000
Cotton manufactures	88,000	102,000
Animal products, edible	65,000	136,000
Wool & manufactures	45,000	141,000
Chemicals & related products	43,000	40,000
Other	<u>356,000</u>	<u>620,000</u>
Total	\$2,139,000	\$2,926,000

GROUP MEETING

January 28, 1938.
9:30 a.m.

Present: Mr. Magill
Mr. Oliphant
Mr. Taylor
Mrs Klotz
Mr. McReynolds
Mr. Upham
Mr. Lochhead
Mr. Gaston
Mr. Haas
Mr. Gibbons
Dr. Viner
Dr. Riefler

H.M.Jr: Mac?

McR: There's been a bill sent to the Treasury for a report that would authorize setting up that Hot Springs Transient Medical Center as a part of Public Health activity. The Public Health people - the Surgeon General has proposed a report as favorable on it. I'm sending it back to him with the statement that the Treasury cannot give its support to this bill; it is not in favor of having Public Health Service assume a permanent responsibility for any of the functions as a relief agency.

H.M.Jr: (Nods agreement)

McR: I just wanted you to know what I was telling him.

H.M.Jr: Yes.

McR: There's no question in my mind

H.M.Jr: You signing it?

McR: I'm signing it.

H.M.Jr: O.K. What else you got?

McR: I've got this letter of Peoples that he wants to use some leeway in granting - in giving awards on the bids in the smaller cases and urgent cases. Peoples personally is very sympathetic with the program of working out these things - going back on the tie bids, but there's a lot of purchasing, a lot of stuff that

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has to be purchased, and it is my opinion that he ought to be given some leeway where obviously the bidders are not in collusion and where there is an emergency for getting the material.

There are two angles on it. One is the operating necessity of getting material - mostly in small lots; no major orders. And the other factor is that many of these things are bought for different departments who can themselves go ahead and purchase. See, we never got through the order generally from the President to all departments, as you know.

H.M.Jr: Whose initials are on that?

McA: Peoples' and mine and Harry Collins'.

H.M.Jr: Well, seeing that Oliphant takes such an interest in this, why doesn't it go through his shop?

McR: Well

H.M.Jr: I won't sign it. I'm not going to have one rule for the Treasury and another rule for another agency, and then maybe have Mr. Jackson come out and attack me. I'm not going to have one rule for the Treasury and another rule for another department. I'm not going to sign it. Let us stop buying for other departments; let us stop buying for other departments. I mean if we've got one rule for the Treasury, another rule for the rest of the Government - let's just buy for the Treasury. I won't sign it. Let Peoples stop buying for other departments, and let him tell the President.

McR: O.K.

H.M.Jr: I won't sign it, Mac. And I wish you'd look into it, - how much we buy for other departments. And if he can't operate under the rules that we've got, let him stop buying for other departments.

McR: O.K.

H.M.Jr: What?

McR: All right.

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H.M.Jr: And I don't see why that didn't go through the General Counsel's office. He's got a man that's supposed to just look after it in Procurement.

Oliphant: That's Mr. Lawes - and Mr. Foley; they're both working on it all the time.

McR: That's all I have.

H.M.Jr: Well, it wouldn't have been all right if I had signed it, but

McR: Well, of course, that's a matter for you to decide, whether it's all right or not.

H.M.Jr: Yes, but, Mac - I don't want to stress it, but here - you of all people ought to have the routine by now, and this whole thing is up, this whole question of prices; then I go sign the thing that we don't accept tie bids in the Treasury but we will buy for the Army, or whoever we are buying for - Interior - we will accept tie bids. Where does that leave me?

McR: Well, of course, what

H.M.Jr: What I want is an Executive Order from the President establishing the same buying rules for the whole United States Government, and until I get that I'm not going to operate differently than I am now.

McR: O.K.

H.M.Jr: Thank you.

McR: That's clear.

H.M.Jr: Will you (Upham) have that stuff that I asked you for special, those - question of how securities are handled?

Upham: I expect to get it some time during the day.

H.M.Jr: You think you could have it quarter of 11?

Upham: I doubt it. You see, it has to come from three sources.

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H.M.Jr: Isn't there somebody you know well enough to call up at each place on the telephone?

Upham: Yes, they're working on it.

H.M.Jr: I mean it seems perfectly silly that

Upham: I think I can.

H.M.Jr: What?

Upham: I think probably ...

H.M.Jr: See if you can.

Upham: Surely.

H.M.Jr: What?

Upham: Yes.

H.M.Jr: Because again last night - here are two banking experts (Viner, Riefler); both said that the thing is handled different ways.

Upham: I think it is. There have been some differences of opinion between agencies.

H.M.Jr: Also statistical experts.

Viner: Also moral experts.

H.M.Jr: Also what?

Viner: Moral and legal.

H.M.Jr: More than legal?

Viner: Moral and legal.

Taylor: Synonymous, Jake.

Viner: I haven't been here steadily enough to find that out.

H.M.Jr: I meant to bring it down - I didn't - about a

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Congressman who attacked me in Congress - you'll (Gibbons) get it from the Congressional Record - because I'm permitting lumber to come in which is not marked legally as to the origin of the country from which it comes; needs a special bill to make me live up to the law. Would you have somebody read the Record and see what it is and go into it? Will you?

Gibbons: Yes. The law states that if it can't be done - briefly, you bring in a great big log or a tree that is cut down; then that is cut up into scantlings, and they're supposed to put a mark on there. Well, of course, how you put a mark on - it isn't feasible, don't you know.

H.M.Jr: Well, supposing you find out, then maybe see this Congressman and explain it to him.

Gibbons: Yes.

H.M.Jr: I mean he blames me for not having the logs marked.

Gibbons: This new administration bill we've got up there will take care of it.

H.M.Jr: Will you handle it?

Gibbons: Yes.

Incidentally, Senator Walsh - talking to him day before yesterday, and he said a compromise on that administration bill - said we're getting a lot of very favorable comment in their hearings; and that's just to iron out these silly things that were in the law.

H.M.Jr: All right.

Gibbons: Do you know a man named Shulman, or Shuman? Jim Farley called me up night before last and said that he called him up and got through to him rather late - called him Jim - and he wanted to be appointed in place of Jefty O'Connor. Said he was a personal friend of yours. Jim said he doesn't know him, and it sounded phony, and to ask you. S-h-u-l-m-a-n or S-h-u-m-a-n.

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- H.M.Jr: No. It's a common name. I imagine there's about 150 of them in the New York telephone book.
- Gibbons: Well, just one of those things. He got through - telephone rang and Jim was there alone and he picked up the phone, and - "Hello, Jim. I'm a personal friend of Henry Morgenthau's."
- Gaston: I think you'll find in the files that a W. P. Shulman writes frequently to the Secretary of the Treasury, giving him advice on national affairs, and gets an acknowledgment.
- Gibbons: ~~Well,~~ Well, that's it. And he said he's "playing Jim's game."
- Bell: "Dear Jim."
- H.M.Jr: Anything else?
- Gibbons: No.
- H.M.Jr: Dan?
- Bell: The Post Office calls up and invites our attention to their large cash balance of 17 million. They'd like to have ten of it begin to earn a little interest.
- H.M.Jr: Well, I'm calling up Mr. Burgess, and if I can find out what that fellow's doing in New York with the Government bond market, I'm going to know more. I can't make out - I wonder if they know themselves what they're doing.
- Lochhead: I had a little talk with Burgess when I was up there. One of the main points in the Government bond market is that the dealers, with the rising market, stacked up on bonds, and they've been riding in trying to unload bonds, and they hardly feel as if they want to just take the dealers out of the market at that time.
- H.M.Jr: Well, in the meantime what Burgess did yesterday is just upsetting the market, and if they keep it up long enough we really will have a bum bond market.

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Just doesn't make any sense, what he did yesterday. Looks as though he was selling his longs and going to shorts, selling medium bonds and buying long ones, then buying long ones and selling medium bonds. And the volume is terrific. Let me find out; meantime

Bell: Wood, of Childs, told me that there was quite a disturbing influence in the market now.

H.M.Jr: Well, it's the Federal Reserve.

Bell: Both by the Treasury - Treasury selling had them all guessing too.

H.M.Jr: I haven't got the thing here - this list; it's a list of what they did, and it's the most - if you can make head or tails out of what they did yesterday - terrific amount. I mean I could follow it if they were selling longs and buying shorts, but when they buy and sell longs both, and buy - I mean it just didn't make heads or tails.

Bring it up again Monday.

Viner: Maybe Burgess is doing some shaving.

H.M.Jr: I don't know what he's doing. Maybe he wants to make some profit.

Viner: Yes, that's what I meant.

Lochhead: Well, they always use their excuse of a better distribution of maturities - swapping them around.

H.M.Jr: "ould you bring it up again Monday?

Bell: Uh-huh.

H.M.Jr: And would you remember that on February 2, Wednesday, we're having a meeting with the Open Market Committee, and have a statement.

Bell: Yes, sir.

H.M.Jr: You (Taylor) haven't talked to Burgess - he hasn't explained?

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Taylor: (Nods no)

H.S.Jr: I'll see you (Lochhead) later.

Lochhead: Francs still continue to strengthen a shade.

H.S.Jr: Good.

Bell: There was one other thing I wanted to talk to you about some time within the next few weeks, to find out whether you want legislation on the public debt. Now we have authority to issue 45 billion dollars in public debt, but it's divided: 25 billion in bonds and 20 billion in notes, certificates, and bills. Now, when we get down to a point that we get within seven or eight billion of that, we begin to think of legislation. And there's about three billion dollars in bonds that you could still issue and about five billion in notes and certificates. It's a question whether we want to consider switching that sum or increasing it before this Congress gets away.

H.S.Jr: Let me think about it. But we might begin

Bell: I'll get some current figures on it and talk to you before

H.S.Jr: If I could get away this year without asking for any legislation, I'd like to.

Bell: Well, I think we can, unless there's some large spending program that comes along.

H.S.Jr: Do you know of any?

Bell: No, I don't know of any, but all I know is what I read in the papers.

H.S.Jr: All right. Well, you're going to remind me again?

Bell: Yes, I'm going to keep at you.

H.S.: I've nothing this morning.

H.S.Jr: You have nothing more ready, have you? Did anybody tell you that this question of these new sets of

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statistics that you have - that I showed them to the President? I mean the ones showing by industries what their inventory

Mac: On, you did? No.

H.A.Jr: Very much interested. Had never seen anything like it. I told him it was purely experimental.

Has either Viner or Riefler seen them?

Mac: No, I just saw them now.

Riefler: I'd like to.

H.A.Jr: They're very interesting. They're still in an experimental stage.

George?

Mac: That's all. I talked to Dr. Fisher. He'll send it over in a day or two.

H.A.Jr: Mac, could you or Bell or somebody have Bartelt contact our 22 men in the states that are doing Social Security, and I wonder if we could get a weekly figure from them showing how many cancellations they have of people who had applied for unemployment insurance. Miss Lonigan was in New York; she had it by cities, and it was quite impressive. The number of cancellations.

Bell: Of applications, you mean?

H.A.Jr: People who have applied since the first of January.

Bell: And been turned down?

H.A.Jr: No, who have gotten jobs.

Mac: Cancelled their applications.

H.A.Jr: Cancelled their applications. Now, I think if we could get that figure weekly

Riefler: Turn-over figure.

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H.M.Jr: What?

Riefler: Turn-over figure.

H.M.Jr: No, they get a job and they withdraw their application.

Who's going to do that? Bell or McReynolds?

Bell: I can. We're getting weekly reports from these boys. I don't know whether we'd want to do this through these representatives or whether we'd want to do that through Altmeyer.

H.M.Jr: Oh, I'd do it through Altmeyer. But I'd very much like to have it.

Bell: A weekly figure.

H.M.Jr: Yes. What I mean - I don't want it to be something that drags along and we get it some time in February - I mean telling what happened. I want it - wonder if, say, by the middle of next week we couldn't have the total of cancellations. And if they couldn't do it for the whole country, if they take ...

Bell: Few cities.

H.M.Jr: Few cities.

Bell: I think we can.

H.M.Jr: What?

Bell: I think we can get it.

H.M.Jr: Because if that goes on, I think it will be a very important straw in the wind. Huh?

Bell: Uh-huh.

H.M.Jr: See?

Bell: Surely.

McR: I had a tentative memorandum from Eddie with respect to what those men were doing. He said, incidentally,

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he expected to have within a few days, probably by the end of this week, a pretty good report for you as to the status, as he got it from that. He's kept in very close touch with them over the telephone.

H.M.Jr: Well, I sent him a message two or three days ago that if everything wasn't all right, to let me know, and I didn't hear.

Bell: That's right. The reports were coming in piecemeal and hadn't been completed.

H.M.Jr: But this has nothing to do with that.

Bell: That's right.

H.M.Jr: Wayne?

Taylor: I heard last night from Secretary Wallace that crop insurance was going to be in this bill if - that Budget and President had told Senator Pope that it would be in if the Budget could find six million dollars for the administrative expenses; but they didn't mention apparently in this conversation a hundred million of the capital.

H.M.Jr: Now, just a minute. would you (Bell) mind just walking around the chair so that you change ...

Bell: and come back.

H.M.Jr: ... and go into the capacity of Director of the Budget.

Taylor: And I just wondered if that had gotten to you (Bell) yet.

Bell: No, I haven't seen it.

Taylor: This was supposedly yesterday some time.

H.M.Jr: Don't look at me. I have nothing to do with the Budget. I'm just like any other department.

Taylor: Yes, sir.

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H.A.Jr: I mean are you trying to pollute our Treasury staff meetings?

Taylor: No, sir.

Bell: Well, I suppose the six million would be rather simple. They don't seem to look at anything less than a hundred.

The House left off of the Treasury-Post Office bill the provision prohibiting the use of appropriations during 1939 to pay enlistment gratuities - re-enlistment gratuities to the Army, Navy, Marine Corps, and Coast Guard; and I tried to do a little spade work to get that put back in the Senate. Fellow said, "What do you mean, talking about six million dollars, when the President is going to send up a message to spend 200 million on the Army and Navy." He said, "You haven't got a chance of getting that six million restored." So it's going to cost us six million next year to pay the re-enlistment gratuities.

H.A.Jr: Is that what the Army and Navy get?

Bell: That's the total cost - approximate total cost for the Army, Navy, Marine Corps, and Coast Guard - Coast Guard very small.

H.A.Jr: That's a permanent law; always applies unless there is a provision that eliminates it.

Bell: So we have had to put it in the budget annually. Gotten away with it for five years, but this year I figure we're going to lose it.

H.A.Jr: So far how is our slate, pretty good?

Bell: Yes, pretty good.

H.A.Jr: Huh?

Bell: Little below, because they took off about 11 million from the Navy.

Taylor: (Nods nothing)

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H.A.Jr: Any other messages?

Jake?

Viner: (Nods nothing)

H.A.Jr: Want to talk about statistics?

Viner: No.

H.A.Jr: Tell them the story. Go on, you tell it.

Viner: Oh, you mean the story on Haas?

H.A.Jr: Yes, go ahead, tell it.

Viner: Well, it needs lots of documentary evidence.

H.A.Jr: Go on, tell it to them. Tell it just the way it happened.

Viner: Lubin of Labor asked me to use my supposed good influence with the Secretary to get the Secretary to use pressure on Roper to collect good inventory data, and he also asked that the Treasury itself cooperate in the statistical field by inserting an additional question on the Social Security reports, which will give Labor better employment data than it could otherwise get. He said he failed to get cooperation over here from the person in charge here and hoped the Secretary would be willing to intervene.

Well, yesterday Lubin said that he hadn't gotten anywhere and that Miss Perkins was going to ask at a Cabinet meeting to have the data collected; and I got the Secretary scared by picturing to him the reversal of role - last time he was exercising pressure on Roper and now they were going to spring something on him in the same way. And he excused himself and said he had to go upstairs for a moment; and down he came with all the files complete - and this is at his house - all the files complete there. I don't know why he doesn't do his home work at his office.

Question: You mean his office work at his office.

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- Viner: Yes. And he had a reply - a defense by Haas of the Treasury record. And the Treasury in fact had apparently acted on it even before Lubin had spoken to me the first time, and the thing had already been cleared through Central Statistical Board and everybody was happy except Lubin, the reason being that apparently somebody at Labor hadn't told Lubin that the thing had gone through.
- But what was most disgraceful about it was that all the records should be at the house.
- Mac: That isn't good administration, is it?
- H.E.Jr: Jake had the most wonderful time teasing me for half an hour. I couldn't wait until I got upstairs and saw where we stood; and we cleared this on December 27. If it had been anybody's fault, it would have been mine, because I had Viner's memorandum lying around for two or three weeks and I think it was very important, and suddenly, knowing he was coming, I snoot it over to Haas to get an answer. Then I took it home to read. And he almost had me worried. But it was very nice. Two things, I mean, happened yesterday - that plus the public utilities plans; I mean just too much to happen in one day. But it was good fun anyway.
- Mac: Jake, he knew if he had them home he could find them.
- Viner: There's something in that.
- (Hearty laughter)
- Slutz: All right. All right. I'll get you yet.
- Mac: Applies just as much to me as to you.
- Slutz: Oh, he's directing that at himself.
- H.E.Jr: I wasn't sure.
- Viner: Mac, there will be ground glass in your soup at lunch today.
- Olyphant: Did Lubin get his figure on the Social Security?
- Viner: He's getting it, yes.

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H.M.Jr: He's getting it as of December 27.

Oliphant: That's fine.

Viner: I don't think he knows it yet. I'm going to give him a ring after this meeting.

McR: I wouldn't tell him too soon.

Viner: Well, the point is this. If the Secretary wanted to be mean, he ought to take all this stuff in his pocket and go to the Cabinet meeting and have Miss Perkins spring it, and look blank for a minute and then say, "Oh, I think I have something in my pocket that bears on it."

McR: I don't think you ought to tell him until she raises it.

Viner: No, Lubin is too good a man.

H.M.Jr: Lubin to Viner

Viner: ..to joy.

H.M.Jr: ... Joy to ...

Viner: ...unconfined.

Rierler: I haven't anything.

H.M.Jr: All right, it was good fun.

Taylor: Did you see the cable that came in last night which I got by mistake?

H.M.Jr: From Bullitt to the Secretary?

Taylor: That was the one about his personal opinion.

H.M.Jr: No, his conversation with Chautemps.

Taylor: No.

H.M.Jr: Oh, there's so many funny things happened. A cable comes in and I got - Dietrich after the first night

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tried to be as good as you (Lochhead) were - trying terribly hard; did awfully well. Just waiting around - got them all excited - in case anything comes in after 6:30. So in the Code Room a girl reads him the cable, which he takes it for granted, being on the French situation, is for me. He says, "I'll go over there and get it." By the time he goes over there, they tell him, "Oh, this isn't for the Secretary. This is a confidential cable for Mr. Hull."

So he says, "I'm going to sit here until I get this cable." So what's-his-name - they put it up to

Lochhead: Feis's assistant.

H.M.Jr: Feis's assistant. "Well, as long as you read it over the phone, might as well give it to Mr. Morgenthau."

But Dietrich said, "I'm going to sit here until I get it." And he did; he brought it.

You fellows (Viner and Diefler) be in at 11, won't you?

Klots: when, today?

H.M.Jr: 11 o'clock.

Klots: I thought you said, "Be on the level."

Viner: Too much to ask.

H.M.Jr: Herbert? After you've read that article I want to talk to you about it.

Gastons: Yes, there are several points in it. It says that a close business associate of Mr. Kennedy gave them this information; says later that the Star-Times* informant, a close friend of Kennedy - so on and so on - very obviously labelled as having come from Kennedy.

H.M.Jr: How would you handle it? Kennedy is in town.

* referring to article in St. Louis Star-Times of Jan. 22.

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Viner: He is in town?

H.M.Jr: Yes.

Viner: Oh yes, he is in town.

H.M.Jr: Yes, I saw him. How would you handle it?

Did you (Viner) see him?

Viner: I saw him in the lobby, next to the bier.

Riefler: You were next to the bier?

Viner: I saw him next to the bier. I didn't say where I was.

H.M.Jr: These Chicago fellows are breezy, aren't they?

Gaston: I don't suppose there's any particular use in talking to Kennedy about it. He's going to keep on doing that sort of thing; if the thing comes up to us, why, we simply tell the people that it's absurd.

H.M.Jr: How about sending for the man that wrote it?

Gaston: He wouldn't tell you any more. I tried to get hold of this man. I don't know him. You know him, Cy?

Upham: No, I don't.

H.M.Jr: Would you send it to Mr. Kennedy? "Enclosed you will"

Gaston: I doubt it.

H.M.Jr: Well, how would you handle it, Herbert? I'm asking you.

Gaston: I wouldn't do a thing with it, except just trying to spread the word among the newspapermen that it's the bunk. Unless you felt you wanted to talk to Kennedy about it

Oliphant: Refer it to Johnson.

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H.M.Jr: Johnson?

Gaston: Who?

Klotz: Hugh.

Gaston: Oh.

H.M.Jr: What else you got?

Gaston: Something I wrote you a note about - not worth speaking about. A man named Maury said he knows you, that he participated in a campaign for a man named Lynch up in Westchester County - Dutchess County, some years ago - Democratic candidate.

Well, he's the public relations man for the Economists National Committee on Monetary Policy; that's Kemmerer and Sprague and a long list of them that have been very critical of our monetary policy. He now says that some of that group, feeling that they are pretty much in tune with you now, would like to have a talk with you about monetary policy; perhaps they could be helpful in enlightening the public on what you are doing and what you propose to do. So he suggests that Mr. Kemmerer and Mr. Sprague, maybe one or two others, come down and have a talk with you. He's going to submit to me a memorandum of what they'd like to talk about.

H.M.Jr: Wait until the memorandum comes in, and who actually is coming.

Gaston: Yes, yes.

H.M.Jr: Do you people know anything about this?

Hiefler: I know about the committee, but

Gaston: He named Kemmerer and Sprague and a man from Chicago - Gideon.

Viner: Gideons.

Taylor: Gideons.

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Gaston: And Walter Sparr of ...

Viner: Well, I'd say ...

Gaston: ... of New York University.

Biefler: Sparr is the Committee, more or less.

Gaston: He is the Committee. He's very - he's poison. but I'll get a further note from this fellow about the things they're interested in.

H.A.Jr: O.K., anything else?

Gaston: That's all.

H.A.Jr: Herman?

Oliphant: (Nods nothing)

Magill: I gave you the note on the situation on the Hill. The Democratic members of Ways and Means are going ahead this morning. I talked to Mr. Doughton over the phone. He at first asked me to come up, but I told him this morning I thought it was undesirable + should do so, since they're having a kind of an oratorical contest among themselves, particularly relating to this tax on closely held corporations. I don't think it particularly desirable for me to participate in their family fights. Maybe I'm wrong.

I notice by the paper, where I learn things as Danny Bell does, that Charley West is now taking care of the tax bill for us. That's a new hand in the game. I hadn't known we had him sitting around the table.

H.A.Jr: Who said that?

Magill: Where did we see that?

Upham: Was in the Herald-Tribune yesterday morning. Rather doubt it was true.

Magill: General story was that Charley - this closely held corporation business was in dire straits and West was talking to the majority leader, etc., in the house to make sure that all was well.

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Upham: See, the Democrats met as a Committee on Committees, and he was there for that. Then they got into it - because it's the Ways and Means Democrats, they got into the other. I doubt that that was it.

Magill: Well, it's a nice fight anyhow.

H.M.Jr: Very nice picture of you on Time.

Magill: Beautiful.

Gaston: On Time?

Magill: I see the distant landscape is there.

H.M.Jr: He's on Time.

Oliphant: "On time," eh?

Magill: I've had this emotional reaction: that this happens to be the first anniversary of my appearance in the Treasury in my present capacity.

H.M.Jr: Congratulate the Treasury.

Magill: It's a good day for Time to come out.

Oliphant: It's "on time."

Magill: "On time."

Viner: Is it a black and blue color picture?

Gaston: No, very red.

Magill: Took it in colors, but it came out in black and white.

Gibbons: Well, it wasn't groundhog day, anyhow, you appeared.

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

Magill: But I really like better the big eagle on being a Left Winger - that's the thing that gives me satisfaction.

H.M.Jr: I drew his attention to it.

Magill: Took me a year to achieve it.

January 28, 1938,
10:20 a.m.

Randolph
Burgess: Hello, Henry?

H.M.Jr: Good morning.

B: Good morning to you, how are you?

H.M.Jr: I'm pretty well.

B: Good.

H.M.Jr: Randolph, I - they gave me a list of the twenty eight million dollar swaps that you made yesterday.

B: Yes, yes.

H.M.Jr: And frankly they just don't make sense to me.

B: Well I- I'm not surprised at that.

H.M.Jr: Because it isn't as though you were swapping longs for shorts. But I just don't - I can't make it out.

B: Yes. Well let me tell you about it.

H.M.Jr: Yes.

B: There has been a curious market here.

H.M.Jr: Yes.

B: There have been some things in supply, and there's been some things where there was good buying.

H.M.Jr: Yes.

B: There - as a matter of fact, this market has had back of it a lot of pretty good buying.

H.M.Jr: Yes.

B: There's been some banks in the market and some insurance companies, booked for particular issues.

H.M.Jr: Yes.

B: Which didn't happen to be very much in supply.

H.M.Jr: Yes.

- 2 -

- B: And we found that by supplying some of those issues, where there was a real demand.
- H.M.Jr: Yes.
- B: We could then use buying power on issues which happen to be in supply.
- H.M.Jr: Yes.
- B: Now it just happened in one or two cases that that meant going from a longer bond to a shorter. For example the long two and a half's.
- H.M.Jr: Yes.
- B: Have been in demand.
- H.M.Jr: Yes.
- B: There were several buyers for those.
- H.M.Jr: Yes.
- B: On the other hand some of the shorter bonds were in supply and pressing the prices down.
- H.M.Jr: Yes.
- B: On the other hand there were a lot of these two and seven eighths, the long two and seven eighths that were kicking around.
- H.M.Jr: Yes.
- B: And making trouble, and we bought fifteen million of those.
- H.M.Jr: Which what?
- B: The long two and seven eighths.
- H.M.Jr: I see.
- B: And we bought fifteen million of those, and were able to sell against them fifteen million of the forty eight fifty one.
- H.M.Jr: Yes.

- 3 -

- B: Which there happened to be an insurance company that want it.
- H.H.Jr: Yes.
- B: Part of this was relieving the dealers position you know they got a little high.
- H.H.Jr: Yes.
- B: Last week, and we warned them that they were getting a little high, and by doing some of these switches we've been able to relieve their positions, and get them down, so they're now pretty reasonable.
- H.H.Jr: I see.
- B: They have a hundred and eight million against a hundred and forty six.
- H.H.Jr: Well the point is -
- B: On Saturday.
- H.H.Jr: I just didn't want to add to the upset which the market has. I mean, reading what you did without any explanation, frankly upset me.
- B: Oh well, we were - we were doing it to take care of the market Henry.
- H.H.Jr: Oh, you are.
- B: Oh yes. That was wholly due to - taking care of the market, and I'm sure that we've benefitted market a good deal by it.
- H.H.Jr: Think so.
- B: The market looks a little better this morning. Better after the closing.
- H.H.Jr: Good.
- B: But I think it's due largely - due partly to our relieving this situation.
- H.H.Jr: But - I couldn't make out whether you wanted longs, or mediums or shorts or what -

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- B: Well, we didn't - we didn't want anything especially. We were simply playing in there to relieve the situation where it was congested.
- H.M.Jr: Well I'm glad to get the explanation.
- B: Yes, we're doing - we did six million the day before yesterday and twenty eight and a half yesterday and we're doing twelve million this morning.
- H.M.Jr: Yes.
- B: Now that puts the market, I think, in pretty good shape - dealers position, and I think there's a demand around.
- H.M.Jr: Right.
- B: Of course the difficulty has been the general market, Henry. This -
- H.M.Jr: Oh I appreciate that.
- B: This railroad bond market is simply lousy.
- H.M.Jr: Yes.
- B: It's the most serious part of the whole situation.
- H.M.Jr: I see. The railroad
- B: Now, Henry. I haven't sent you anything yet on these two points you raised.
- H.M.Jr: Yes.
- B: I have been embarrassed because the Governor has been passing something on to Harriner.
- H.M.Jr: Oh!
- B: But I'll send you a little personal note about it.
- H.M.Jr: All right.
- B: About each one. Just my own personal views.
- H.M.Jr: Fine.

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B: Just for your own consumption.

H.M.Jr: Send it to the house.

B: All right. I'll do that.

H.M.Jr: 2211 - 30th.

B: Yes. I've got that.

H.M.Jr: O.K.

B: I've been a little handicapped because my wife has been laid up. She's got pneumonia.

H.M.Jr: Mrs. Klotz -

B: I have had to spend a good deal of time up there.

H.M.Jr: I'm sorry. How's she getting along.

B: Well, I think she's coming along all right, Henry. They say she's a little better this morning.

H.M.Jr: Good.

B: But I've been a bit worried about it.

H.M.Jr: Oh! All right.

B: Well I'll drop you a line on it, very shortly.

H.M.Jr: I thank you. Thank you.

B: Very good.

H.M.Jr: Thank you. Goodbye.

B: Goodbye.

Friday
January 28, 1938
10:32 a.m.

Treas.
Operator: Mr. Kennedy.

HMJr: Yes.

T.O.: Go ahead.

HMJr: Hello.

J. P.
Kennedy: Hello, Henry.

HMJr: How are you?

K: I'm fine. And you?

HMJr: Oh, pretty well.

K: That's a boy.

HMJr: Joe, I think I know you well enough to call you up ...

K: Yeah.

HMJr: ... and suggest that you get a copy of the St. Louis
Star Times.

K: Yes.

HMJr: ... of January twenty-second.

K: Yes.

HMJr: Which starts off, "A close business associate of
Kennedy's," see?

K: Yes.

HMJr: And the rest - then goes on about - a deal has
been made that you're not to go to England and I am.

K: Yeah.

HMJr: And -

K: All that 'God-damned' thing, Henry. Well, have you -
give me that again.

-2-

HMJr: An -

K: Who is it by?

HMJr: It's by a fellow named, Sam O'Neill.

K: Well, that's the same paper that had one when I was out West, that said that - that Morgenthau had got rid of Kennedy, - - - by sending him to England. Is that the story?

HMJr: Well, that - no, no. No, this is ^{the} story that -

K: January twenty-second?

HMJr: January twenty-second. It says that - -

K: What paper is that, Henry?

HMJr: The St. Louis Star Times. And, there's been so much in it, you know?

K: I know it.

HMJr: And -

K: It's 'God-damned' embarrassing and, of course, as you realize, it's 'God-damned' embarrassing to me.

HMJr: Yes.

K: Because, of course - I mean, to have them - away from the both of us, you'd think that, gee, that we'd spent the night. I'm 'God-damned' happy! I mean, I've got a 'God-damned' good job.

HMJr: Yes.

K: Now, what can I do about it, Henry?

HMJr: I don't know, but, the thing - this thing, I mean, it's written so - I mean, I've never seen it before written this way and where it says, "A close business associate of Kennedy's says as follows:" - you see?

K: Yes. Well, I'll look at it, Henry, and

HMJr: I'll tell you what I'll do, in order to - I'll have it photostated and send it over to you.

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K: All right. All right, send it over to me and I'll look and I'll see what

HMJr: But I've never seen one so definitely accredited, I might say, to you or to a friend of yours.

K: Yes. Well, of course, I can find out -- I never heard of this fellow, I don't even know who he is.

HMJr: I don't know.

K: Yes. And - but you see those things and of course you get them and you burn up yourself, you say, 'God-dammit'.

HMJr: Well, it's just it makes, it's.....

K: Well, Henry, if you can suggest a 'God-damned' thing that I can do or that you can do that will make it.....

HMJr: Well, I can't send for a fellow and say.....

K: No, I can send for him.

HMJr: No, I'm not -- I'm staying here, see?

K: Yes.

HMJr: You can send for him.

K: Certainly. Does he work out of Washington?

HMJr: Yes.

K: He does?

HMJr: Yes.

K: And his name is Mike O'Neil?

HMJr: No, Sam O'Neil.

K: Sam O'Neil, - I never heard of him.

HMJr: Yes. I'll have a photostat.....

K: You send it over to me and I'll send for Sam.
(Spoken laughingly)

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HMJr: O.K.

K: All right. (Laughs)

HMJr: All right. Goodbye.

January 28, 1938

For the Secretary:

Mr. R. E. Reichert, former Bank Commissioner of Michigan, was in for lunch.

He brought up the subject of the bank holding company legislation and referred to the fact that when he was bank commissioner and the Detroit groups were being formed, he came to Washington and testified that he regarded group banking as a sinister development, saying that we should keep to either branch banking or independent unit banking.

He said he welcomed legislation at this time breaking up the holding companies and that he was sure there would be no major difficulties encountered. He said that if any difficulties were in store for the banks on that account, they were certainly in the best possible shape to meet them, being in the most liquid position they have been in for years. He said that if he were still Commissioner of Banking in Michigan and the Detroit groups were still in existence, he would be inclined to give his support to legislation putting them out of existence, and would not be alarmed about any ill effects on the banks.

Upm

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern, Switzerland

DATE: January 28, 1938, 3 p.m.

NO.: 7

In strict confidence I learned this morning from the Vice President of the Board of Managers of the Swiss National Bank that Japan has been putting out feelers regarding the possibility of getting a large loan from the Swiss. My contact gave me to understand that the Swiss National Bank is definitely unfavorable to such a loan.

I was also informed that the Swiss Federal Council has about decided that they will call for redemption of the 1911 and 1920 three and one half percent Federal Railways Loans totalling four hundred million francs. They will then offer for public subscription a loan for the same amount at three percent.

HARRISON.

*This is good cable
Send word to Harrison my
compliments J.M.*
*H.M. Dr. Harris
Harrison 8-259*

EA: LWW

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turn file

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

190
hm

DATE

January 28, 1938

TO Secretary Morgenthau
FROM Herman Oliphant

For your information

The attorney for E. M. Smith and brother wired Wenchel yesterday that an amended offer in compromise raising the original offer of \$1,100,000 to \$1,500,000 (the amount which we had indicated was the lowest we would consider) would be filed with the collector yesterday, and that the Bank had agreed, provided that liens which were placed against the property of the Smiths as a result of jeopardy assessments made after the original offer had been rejected were released immediately. The offer, he stated, will be made on the terms of \$600,000 in cash and the balance in three equal annual installments.

The collector at Los Angeles has been instructed to forward the offer to the Commissioner by air mail as soon as he receives it. We have advised Smith's attorney of our instructions to the collector; that the offer will be acted upon immediately upon reaching here, and that the liens can not be released until the offer has been accepted.

Herman Oliphant

Prepared by
S. Adler and
H. D. White

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Division of Research and Statistics

INTER OFFICE COMMUNICATION

DATE January 28, 1938

TO Secretary Morgenthau
FROM Mr. Haas

Subject: British Government Borrowing in 1937. (All figures
in dollars - \$5 to the pound)

(1) The British national debt rose \$1,210,000,000 in 1937.

National debt - December 31, 1936 \$40,235,000,000
National debt - December 31, 1937 \$41,445,000,000

As of December 31, 1937, the long-term debt was \$36,250,000,000 and the floating debt, \$4,925,000,000.

(2) Long-term borrowing in 1937

There were only two government issues in 1937.

The first was the \$500,000,000 2½ percent Defence Loan, 1944-1948, issued in April. (This Chamberlain issue was generally regarded as a contributory factor to the decline in the British bond market during the spring of 1937.)

The second issue was the \$232,000,000 3 percent Tithe Redemption Stock ("stock" by name only; it differs in no sense from a bond) issued in August to provide compensation in respect of the extinction of tithe rent charges which farmers formerly had to pay to the Church of England.

Month issued	Description of issue	Nominal Amount (Millions)	Issue price	Price 12/21/37
(1) April	2½% Defence Loan	\$500	99-1/2	99-1/8
(2) August	British Government 3% Tithe Redemption	\$232	87-3/4	92

(3) Short-term borrowing

Total floating debt rose by \$670 million from December 31, 1936 to December 31, 1937. It was \$4,255 million on December 31, 1936 and \$4,925 million on December 31, 1937. The table on the following page gives the breakdown of the increase.

Secretary Morgenthau - 2

	<u>December 31,</u> 1936	<u>December 31,</u> 1937	<u>Increase</u> 1936-1937
Ways and Means			
Advances outstanding:			
Advances by Bank of England	\$285,000,000	\$278,750,000	- \$6,250,000
Advances by Public Depts.	138,950,000	197,175,000	+ 58,225,000
Treasury Bills outstanding	<u>3,830,975,000</u>	<u>4,448,550,000</u>	<u>+617,575,000</u>
Total Floating Debt Outstanding	\$4,254,925,000	\$4,924,475,000	+ \$669,550,000

The increase in the amount of Treasury bills outstanding in 1937 was in part due to the Exchange Equalization Fund's increased gold purchases.

(4) 1938 Prospects

The British Treasury will have to resort to the long-term market for at least two new issues in 1938.

(a) The 2½ percent Defence bond issue. It is probable that this will be another issue of 100 million pounds.

(b) 76,500,000 pounds issue of Stock for the purchase of mining royalties to carry through the government's nationalization of coal mining royalties.

*See the original to Post 1938
Pot Cabinet Jan 28, 1938*

to the Congress:

A development has occurred in our banking system within the last few years that seems to me to hold elements of very serious danger to our economic life. This development is the extension of bank holding companies.

It is hardly necessary, I think, to point out to you the great economic power that might be wielded by a group which may succeed in acquiring domination over banking resources in any considerable area of the country. That power becomes particularly dangerous when it is exercised from a distance and notably so when effective control is maintained without the responsibilities of complete ownership.

We have seen the multiplied evils which have arisen from the holding company system in the case of public utilities, where a small minority ownership has been able to dominate a far-flung system.

We don't want those evils repeated in the banking field, and we should take steps now to see that they are not. I am not thinking so much of the

- 2 -

present situation as of what the result may be if we permit the trend to continue. It is not a sufficient assurance against the future to say that no great evil has yet resulted from holding company operations in the banking field. The possibilities and even the probabilities of great harm are inherent in the situation.

Both the Congress and the legislatures of a number of the states have deemed it wise to place limits on branch banking, but no limits have been placed on the holding company system, which accomplishes a similar result without a similar measure of responsibility, and permits, with equivalent capital investment, domination of a much broader field.

I therefore recommend that the Congress enact at this session legislation which will effectively regulate the control of banks by holding companies.

January 28, 1938.

MEMORANDUM FOR THE SECRETARY:

Subject to your approval, the arrangements and procedure below described will govern the disposition of tax cases at Los Angeles under the experimental plan which has been decided upon, to be effective March 1, 1938.

TECHNICAL STAFF, LOS ANGELES DIVISION.

1. A branch of the Technical Staff of the Commissioner's Office will be established at Los Angeles. It will be known as the Los Angeles Division of the Technical Staff (hereinafter referred to as the Staff Division). It will consist of a chief, to be designated by the Commissioner, and such technical assistants, auditors, and clerks as may be necessary. It will perform its duties under the Commissioner's supervision, through the Head of the Technical Staff.

2. The Chief of the Staff Division will exclusively represent the Commissioner in the determination of Federal income and profits tax liability (whether before or after the issuance of a statutory notice of deficiency) in all cases originating in the office of the revenue agent in charge at Los Angeles in which the taxpayers have finally protested the preliminary determination of liability made by that officer, excepting fraud cases. He will also have exclusive authority to settle by stipulation cases docketed by the United States Board of Tax Appeals and set for trial at any place within the territorial jurisdiction of the said agent in charge: Provided, That he shall not make or approve a stipulation for settlement in any docketed case except with the concurrence of the Counsel for the Staff Division referred to below.

3. A representative of the Chief Counsel of the Bureau of Internal Revenue will be assigned as Counsel to the Staff Division, with such technical and clerical assistants as he may require. His duties will be performed under the general supervision of the Chief Counsel. He will advise the Chief of the Staff Division, upon request, upon legal questions arising in the determination of income and profits tax liability. He will advise the Chief of the Staff Division also with respect to any proposed settlement of a docketed case. He will prepare answers to petitions filed with the Board of Tax Appeals, copies of which will be furnished him by the Chief Counsel of the Bureau, in cases originating

in the office of the revenue agent in charge of the Los Angeles Division; and he will represent the Commissioner in the defense before the Board of cases set for hearing within the territorial jurisdiction of such agent in charge, but he shall not stipulate before the Board for the settlement of any case except with the approval of the Chief of the Staff Division. The Counsel for the Staff Division will consider, upon reference, memoranda prepared in the Staff Division directing the issuance of statutory notices of deficiency prior to their approval by the Chief of the Division, and will advise him in any such case whether in counsel's judgment the proposed deficiency or any larger or smaller deficiency could successfully be defended upon appeal to the Board. He will also make such suggestions as he may deem advisable as to the form and content of the proposed statutory notice in any such case, to insure that such notice will provide a sound basis for defense should the case be appealed.

PRELIMINARY PROCEDURE BY REVENUE AGENT IN CHARGE.

4. Deficiency cases will be handled in the office of the revenue agent in charge in accordance with the provisions of the Internal Revenue Manual, except in the following particulars:

(a) In any case where the taxpayer does not respond to the preliminary notice of deficiency and the usual follow-up notices, a special notice will be sent him stating that if he fails to acquiesce or protest within a specified time, the statutory notice of deficiency will be mailed. If the taxpayer fails to respond within the time allowed by the special notice, the agent in charge will issue the statutory notice of deficiency in the prescribed form.

(b) In any case where the taxpayer files a protest after the preliminary or special notice but declines a conference, the agent in charge will reconsider the case in the light of the protest and notify the taxpayer of his conclusions. If an agreement is not reached, he will thereafter, depending upon the circumstances of the case, either (1) issue the statutory notice of deficiency, or (2) advise the taxpayer that on request the case will be referred to the Staff Division for hearing, but that in the absence of such a request the statutory notice of deficiency will be mailed at the expiration of a specified time. In this latter event, the revenue agent in charge will issue the statutory notice upon the taxpayer's failure to request a hearing before the Staff Division within the time specified.

(c) In any case where the taxpayer files a protest and a conference is held, but without agreement, the agent

-3-

in charge will notify the taxpayer of his conclusions, advising him that upon request the case will be referred to the staff Division for hearing, but that in the absence of such a request the statutory notice of deficiency will be mailed at the expiration of a specified time. The revenue agent in charge will issue the statutory notice upon the taxpayer's failure to request a hearing before the Staff Division within the time specified.

5. The procedure for handling overassessment cases will be the same as that prescribed in the preceding paragraph with relation to deficiency cases, except that the special notice will inform the taxpayer that if he fails to acquiesce or protest within a specified time, the agent in charge will recommend to the Commissioner the issuance of a certificate of overassessment in the amount stated in the notice. If the taxpayer fails to respond to the special notice, the agent in charge will send the case to the Bureau for issuance of the certificate of overassessment, or other appropriate action.

PROCEDURE AFTER REFERENCE TO STAFF DIVISION.

6. The Staff Division will accord hearings upon protested cases referred to it by the agent in charge in accordance with the procedure outlined in the preceding paragraphs. It will not consider before the issuance of the statutory notice of deficiency any case in which no protest has been filed with the revenue agent in charge. In any case in which protest has been filed with the revenue agent in charge, it will not consider prior to the issuance of the statutory notice new contentions or new evidence that may be decisive with respect to any major issue, but upon the presentation of such contentions or evidence, will refer the issues involved to the agent in charge for further consideration and for conference with the taxpayer if advisable.

7. When the Chief of the Staff Division has reached a final conclusion with respect to any case, he will prepare a memorandum thereof setting forth the exact grounds upon which his conclusion rests. This memorandum will be transmitted with all the papers in the case to the revenue agent in charge, who will, according to the nature of the decision of the Staff Division,

- (a) Certify a deficiency to the Collector in accordance with Mimeograph 3552,
- (b) Issue a statutory notice of deficiency, or
- (c) Transmit the case to the Bureau for the preparation of a certificate of overassessment, or other appropriate action.

8. The Staff Division will have complete jurisdiction of all cases after the issuance of the statutory notice. Upon the taxpayer's request, the Staff Division may take up for settlement any case in which a statutory notice has been issued, and may grant the taxpayer a hearing thereon. Except in unusual circumstances, however, it will not grant a hearing in such a case prior to the filing of the petition if a hearing has been had in the office of the revenue agent in charge, or if the taxpayer has refused an opportunity to be heard there.

9. After the filing of the petition in any case, the Staff Division will continue to have sole authority, subject to the provisions of paragraph 2 above, for the settlement of the case, and will have the custody of all files, papers, and documents relating to the case, which will, however, at all times be available to the Counsel for the Division for the preparation of the answer to the petition and for the defense before the Board of the Commissioner's determination.

10. At any hearing granted by the Staff Division, the agent in charge will be represented if he so desires, or if the Chief of the Staff Division deems it advisable.

11. Except as may be otherwise directed by the Commissioner, through the Head of the Technical Staff, the conduct of hearings and other proceedings by the Staff Division will be in accordance with the procedure customarily followed by the Technical Staff.

(Signed) GUY T. HELVERING

Commissioner.

Approved: January 31, 1938.

(Signed) H. MORGENTHAU, JR.

Secretary of the Treasury.

HNG/aff

January 28, 1938.
4:24 p.m.

Roswell
Magill: Hello.

H.M.Jr: Ros.

M: Yes, Henry

H.M.Jr: At the Cabinet meeting the Vice President said that he'd been talking to Vinson and Pat Harrison.

M: Yes.

H.M.Jr: One thing that they were worrying about was that this thing would be retroactive, this tax bill.

M: Yes.

H.M.Jr: So I said, "Well I couldn't guarantee much about the tax bill, but I thought I could guarantee that there would not be anything in it which would be retroactive."

M: Yes.

H.M.Jr: Then I said, "Well, that the thing that was worrying us particularly was that Congressman McCormack was the spearhead on a fight against this - any form of surplus tax, and that Robert Doughton was sitting on the side lines."

M: Yes.

H.M.Jr: So the President said, "Well, I'll send for McCormack and have a talk with him."

M: Good.

H.M.Jr: So then the President said, "Prepare a memorandum giving me the background" - send it over to him and he'd read it over the weekend and send for McCormack, Monday. Now, I'll be in tomorrow and if you'd have a memorandum for me, I'd go over it with you, and we'd shoot it over to the President.

M: I - I suppose it'd better not be more than a page.

H.M.Jr: Well, I'd give him whatever is necessary and I'd give him the whole picture. Give him just as much as you think is necessary in order to give him a picture.

- 2 -

M: I'll be very glad to, and I'm glad he's getting into it.

H.M.Jr: All right.

M: I think that's an awfully good way out.

H.M.Jr: Right.

M: All right. Thank you. I'll give it to you, what time in the morning will suit you?

H.M.Jr: Oh, we'll see. We'll see.

M: Yes. All right.



DEPARTMENT OF STATE
WASHINGTON

January 28, 1938.

My dear Mr. Secretary:

I enclose for your confidential information a copy of paraphrase of telegram No. 152 just received from Mr. Bullitt, reporting a conversation which he had with the Prime Minister.

Sincerely yours,
Herbert Feis

Enclosure:
No. 152 of January 27
from Paris.

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 27, 1938, midnight.

No.: 152

STRICTLY CONFIDENTIAL FOR THE SECRETARY.

This evening I had a long and intimate talk with Chautemps. He gave me his views regarding the situation of the present French Government.

The Prime Minister first said that the franc had had another bad day, and that he had ordered that the equalization fund be given back a part of the gold which Bonnet had taken out of it and put in the Bank of France. As long as he possibly could, he said, he would defend the franc without exchange control.

Chautemps was beginning to wonder, however, whether it would not be possible to have some governmental combination which, without exchange control, could prevent capital flight from France. The thought was growing in his mind that the decisive factor in the situation was that the essential expenditures by France for interest on the public debt and rearmament were so great that taxation would not cover them. Furthermore, it was likely his budget would be blown to bits by further necessary expenditures for the navy and for the air force - these expenditures could not be reduced by any government. He said that the small events of each delivery day were relatively unimportant; the French

- 2 -

Government could not reduce its expenditures or increase its revenues, and this was the vital factor. Therefore the Right capitalists would keep on sending their money abroad no matter what Government might be in power in France.

The Prime Minister told me he was not yet convinced that it was inevitable exchange control would have to be established. However, every sign pointed to the conclusion that they could not avoid it. Chautemps asked me what would be the reaction of the United States to the imposition of exchange control, and I replied in the terms of telegram No. 18 of January 13, 7 p.m., from you.

The Prime Minister continued by saying that if the flight from the franc should continue it would be necessary for the present Government to resign. As successors, there were only two possible governments which he could envisage: The first would be the dangerous experiment of calling Herriot to head a National Government, which government would include representatives of all parties from the extreme Left to the extreme Right; from Thorez to Louis Marin. This evening, he said, Lebrun had asked him and Jean Nenev, the President of the Senate, what they thought of such action. The Prime Minister had told the President that "a cabinet containing Thorez and Louis Marin would be able to do nothing at cabinet meetings except play backgammon"; they would not be able to agree on any subject. Chautemps thought it was preferable to have disputes in

- 3 -

the Chamber of Deputies rather than to have anarchy in
the French Cabinet.

END SECTIONS ONE AND TWO.

BULLITT.

EA: LWW

FEDERAL RESERVE BANK
OF NEW YORK

20

OFFICE CORRESPONDENCE

DATE JANUARY 23, 1928.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knoke

WITH BANK OF ENGLAND.

Mr. Bolton called at noontime today. They had actually been trying to squeeze the shorts today in the franc market but the experiment had not been very successful. They had brought the rate down from 154 3/4 to about 153 1/4 but it was going to cost Cariguel a great deal of money to keep it at the higher level. The franc did not look any too good at the moment and he was wondering exactly how the French were going to make out. There had as yet been no evidence of their coming into the London market to borrow money. Bolton wondered whether they could do anything in New York; or would the "famous Johnson Act" be a stumbling block; was there any way of getting around that? I replied that, in my opinion, repeal of the act was the only way to smooth the path for borrowing by nations which had defaulted on their loans and that such repeal was not in the cards. He wanted to know whether their default on the war debt was the only French default. I replied that, as far as I knew, that was so. A little later Bolton inquired whether we could use the Stabilization Fund to help the French by buying francs. I replied that theoretically we possibly could but, that politically it was impossible if for no other reason, because of the howl the Hearst press would make over such transactions. Under the circumstances, then Bolton thought the French, if they wanted assistance, would have to rely upon the British solely. I agreed that that was probably so because countries like Switzerland and Holland were not likely now to make further advances to France. Anyhow, I continued, further borrowing did not seem to be the solution of the French problem. Bolton

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 25, 1935.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knoke

WITH BANK OF ENGLAND.

- 2 -

thought it might at least offer a temporary solution to tide the French over pending the straightening out of the political problem. I asked whether the French had reopened with British bankers the question of raising a new loan in lieu of the \$40,000,000 paid off in December. Bolton replied that, rather surprisingly, nothing had been said. Nevertheless, he felt that there must be a show-down very soon as things could not go on like this much longer. There was a very, very strong movement towards exchange control in France which came from the left. That, he thought, was the real problem and the cause for efforts to find a temporary solution of the French difficulties.

The belga was a little better, Bolton continued. There was nothing new in the situation, the recent selling having been of a speculative nature; there was no evidence of flight of capital from Belgium.

The dollar had again been under pressure in the London market, with quite a number of central banks selling. He did not know the reason unless central banks were following the lead taken by the market. I inquired whether the proceeds of dollar sales went into gold but Bolton replied that most of it was against sterling. At the present levels there was a fairly strong commercial demand for dollars by English commercial houses which had recently absorbed large amounts; but for this cushion the dollar would probably have weakened further.

Bolton had read about the latest claims raised by the veterans and wondered whether this promised to be a live political

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 28, 1958.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knobe

WITH BANK OF ENGLAND.

- 3 -

issue. I replied that it was probably too early to answer that question but that I disliked the strength which was put behind the proposal.

LWK:KMC

RECEIVED
JAN 29 1958
FEDERAL RESERVE BANK
OF NEW YORK

~~111~~

JR

GRAY

London

Dated January 28, 1938

Rec'd 1:35 p.m.

Secretary of State,
Washington.

RUSH.

68, January 28, 5 p.m.

CONFIDENTIAL FOR THE SECRETARY OF THE TREASURY FROM
BUTTERWORTH.

Enc. The following is Sir John Simon's reply:

"The Chancellor is writing to M. Marchandeau, congratulating him on his appointment and expressing pleasure at that part of the French Ministerial declaration which referred to defending the national currency within the framework of monetary freedom and the tripartite agreement. He will take the opportunity of expressing the desire for close cooperation.

The Chancellor does not think it desirable at this moment to press the French Minister of Finance to name definite points between which he will hold the franc as (1) he thinks it is hardly practicable for the Minister at this moment to reach any final decision on that point, his real position being that he must try to act for the

best

-2- #68, January 28, 5 p.m., from London.

best under constantly changing conditions; and (2) he does not wish to invite a rejoinder to the effect that certain policies are practicable or not practicable according as the British and American Governments are willing to underwrite the franc.

The Chancellor will, of course, be interested to know what reply the French make to Mr. Cochran".

When this reply was given me I was told for my "personal information only" that when this matter was brought to Simon's attention his first reaction had been to hark back to the occasion when a similar inquiry had been put to M. Bonnet; he had recalled that on that occasion he had advocated the despatching of such an inquiry but had consulted the American Treasury before taking any action.

With regard to the substance of the above reply I venture to refer to Phillips' remarks reported in the penultimate paragraph of my 31, January 14, 1 p.m., and to the memoranda of his first two conversations in Washington dated September 20 and September 21, 1937.

Two. The British Treasury's information regarding the Dutch short term credits to France differs in the way from that given in the penultimate paragraph of my 61, January 26, 6 p.m. The British Treasury confirms that bills are now appearing

-3- #68, January 28, 5 p.m., from London.

appearing in this market which were issued on January 14th therefore indicating that the option on the final set of bills had been exercised. The British Treasury concludes that the French have or are now getting the resultant foreign exchange but they have no way of knowing whether the French authorities have been willing to modify their original arrangement with the Mendelssohn group to the end that instead of receiving the final 50,000,000 florins they only receive florins as bills are absorbed on the Dutch and other markets. Rowe-Dutton reports from Paris an unconfirmed rumor that the French Treasury is attempting to raise a further credit in Holland, this time on behalf of the railways.

Three. As instructed I am leaving tonight for Paris.

JOHNSON

NYC:KLP

JR

PLAIN

London

Dated January 28, 1938

Rec'd 3:55 p.m.

Secretary of State,
Washington.

72, January 28, 8 p.m.

FOR TREASURY FROM BUTTERWORTH.

Today's London financial press carry summaries of the background interview which was held in the Treasury yesterday. No editorials appear on this subject they being entirely devoted to the Van Zealand report.

I am confidentially informed by a Canadian official that the underwriters were actually left with 49% of the Canadian Government 10 million pound conversion loan although the terms of the loan were favorable (and those recommended by the Bank of England) and the Government bond market has been unusually strong. My informant attributes this failure to the city's hostile attitude engendered by the old grand trunk case which has recently been increased by Albrecht of Alberta. My informant pointed out that this was the first Canadian Government loan made in London on market terms since the war; that the terms of the previous loan (see my 274, January 25, 1 p.m., 1934) were designed by Bennett then Prime Minister to be

attractive

-2- #72, January 28, 8 p.m., from London.

attractive and to reopen the British market to Canadian borrowing. He had bitter things to say about the prejudiced attitude of the city "which would lend money more easily to Balkan countries than to the Dominion of Canada" and gave it as his opinion that no further efforts would be made in the near future to borrow in London rather than in New York.

The last of the "big six" bank chairmen has now made his annual address. These addresses which are always looked forward to with interest are usually notable for their emphasis on the more encouraging elements in the economic situation. Last year the discussion centered around the question as to whether recovery was gaining too great momentum, whether speculation was developing, and whether caution was becoming desirable. This year the general emphasis is on the "temporary", or on the "relatively unimportant dementions" (dimensions?), of the recent setback. Other points touched upon by all the chairmen are the influence of the American situation on the trend in Great Britain; the importance of further expanding British exports; and the British balance of payments position. The speeches are unanimous in appraising the evident check to recovery of the latter part of 1937 as a temporary or relatively unimportant setback which should give little if any anxiety. Fisher (Barclays Bank) put it that "there is little justification for undue concern". McKenna (Midland) made

the

#72, January 28, 8 p.m., from London. -3-

the downright statement that "I see no ground for pessimism". Colin Campbell (National Provincial) said that "The main sources of our weakness in the great depression are (***) not one of them (***) in active operation today" and "I believe in the present position's fundamental strength and soundness and well know the mischief often worked by fears which have no foundation in fact." Beckett (Westminster) put his view as follows: "That our recovery could continue indefinitely without intermission was not to be expected and the movement recently perceptible is at present only a slowing-down of activity, liable to attract exaggerated attention when it succeeds a long period of unbroken progress." Holt (Martins) "deprecates untimely references to impending depression." Wardington (Lloyds) said that when talk of a recession in trade was somewhat loud and insistent he saw "no reason in the fundamentals of our commercial position to apprehend any serious setback." Mention was made (in all but Lloyds) of the situation in the United States and its influence on British activity and world trade generally. Beckett remarked that "recent news from the United States has been more encouraging and the view is gaining round that the next few months will see a resumption there of the recovery movement." In McKenna's view

//72, January 28, 8 p.m., from London. -4-

view there is not so much an expectation of improvement in America as a diminution in the effect of recession there on British business activity. Fisher points out that the causes of the American recession are domestic, and hopes "that private enterprise will soon be encouraged to exert its influence towards the betterment of trade in that country". Campbell thinks that "the spirit of courage and enterprise which has already done so much in the last few years to lighten the burden of internal commercial indebtedness and stimulate recovery will surely soon be successful in enabling a resumption of progress in that great country." Holt pointed out that "conditions in America have reacted upon this country, but as the United States are going through a period of trial we may see a new starting point there from which we may witness a recovery that will not only restore her own fortunes, but be felt internationally." The greatest degree of unanimity reached in the six speeches was on the great importance of the need for a further expansion in British export trade. The greatest emphasis on this point was laid by Fisher, who said that "the need for exports has never been greater than it is today, and of all the problems facing us it ranks amongst the foremost in importance". The chairmen of both Lloyds and the National Provincial Banks, mentioned the

-5- #72, January 28, 8 p.m., from London.

the Anglo-American trade agreement negotiations with favor. It is of interest that no mention was made in any of the speeches of the recent discussions of the desirability of preparing plans for public works to take up a possible forthcoming slack in general employment.

JOHNSON

HPD

RECEIVED
JAN 29 1933
OFFICE OF THE SECRETARY
OF THE TREASURY
WASHINGTON, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 28, 1938, 4 p.m.

NO.: 155

RUSH.

FROM COCHRAN.

At 11:30 this forenoon the Bank of France told me that the control went into the market this morning on the opening of the banks, and with an expenditure of only 40,000 pounds brought the rate down from 155 to 153.90.

I had a talk with my contact again at half-past three. He told me that since noon the market had become more of a drain of sterling and there had been a considerable increase in his losses. Commercial and industrial customers were the purchasers for the most part. At that hour he had brought the rate to 153.20 and seemed determined not to permit it to weaken before the trading closes here this evening for the balance of the week.

Reference is made to my telegram No. 143 of January 26, noon. In that telegram I reported that the control was short 100,000,000 francs of foreign exchange with the loss on Tuesday, January 25, of 143,000,000 francs. 115,000,000 francs were lost on Wednesday, and 167,000,000 francs on Thursday. It was possible to cover such sums by manipulating call gold from the Bank of France. The statement of the Bank of France for yesterday showed no loss of gold but for the statement to be issued next Thursday it seems

- 2 -

this must inevitably happen.

I am informed by Guaranty and National City exchange traders that most of the franc pressure during the past few days has been due to simple export of capital from France. They said that some commercial requirements have been covered, but speculation has played only a minor part.

Part of improvement in market sentiment this forenoon resulted from press account of statement by Secretary Morgenthau as to resources of France with which to support the franc. Chautemps' radio address of last night on labor codes was well-received but since neither the employers nor the labor organization has yet committed itself definitely on the new proposals, outlook is still troubling.

Annual meeting of Bank of France being held this afternoon. Governors' report to the shareholders reveals nothing new.

Van Zeeland report widely copied or summarized.

Dutch Treasury conversion loan reported heavily over subscribed.

END MESSAGE.

BULLITT.

Paris, January 29, 1938.

Personal and Confidential.

Dear Henry:

I am deeply grateful to you for your letter of January 6th regarding Cochran. I disliked intensely to bother you personally about such a matter but I felt it obligatory. I shall approach the French shortly with regard to having Cochran listed as Financial Counselor in the diplomatic list.

I am looking forward eagerly to seeing you in the first days of March.

All good wishes and kindest regards.

Yours very sincerely,


William C. Bullitt

The Honorable

Henry A. Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 29, 1938, noon.

NO.: 158

RUSH

FROM COCHRAN.

This morning the Bank of France was closed, and I found an opportunity for a quiet talk there with my contact.

My friend told me that the statement which Secretary Morgenthau made regarding the franc and the tripartite agreement had exercised a particularly good influence against the professionals, who, after seeing the press report, did not enter the market on Friday morning. Commercial concerns, however, did particularly heavy buying of sterling in the afternoon.

Because of the large trade deficit of the French, and the fact that French importers of foreign goods must purchase exchange forward, it is difficult to term as "speculative" operations which are made so that necessary imports can be paid for.

I asked my contact whether the Bank of France had noticed any important speculation against the franc from New York or from London. He replied that there were some transactions from London, but that those from New York were negligible.

END SECTION ONE.

BULLITT.

EA:LWW

PARAPHRASE OF SECTIONS TWO AND THREE OF NO. 158 of
JANUARY 29 from Paris.

My contact did not believe that any of the large London banks were responsible for these transactions. He could not, of course, tell on whose behalf they were made. The two institutions with offices in London which were most likely to engage in such business, he said, were the Bankers Trust and the Swiss Bank Corporation.

The French control lost 193,000,000 francs as a result of operations yesterday. No loss of gold by the stabilization fund will be shown on the statement of the Bank of France to be issued on February 3, Thursday. This was made possible by using to offset spot losses foreign exchange which had really been set aside for forward operations; account was also taken of the fact that the operations of Thursday were for budget purposes. If there is no important turn of the market (omission - for the better?) it will be necessary to show a significant gold loss to the fund on the succeeding Thursday, although on the next statement, February 3, no gold loss will be shown.

I asked my friend whether the Dutch banking syndicate had paid across to France any instalment on their credit since the 12 and a half million florins paid on January 15. He said they had not. The French have not yet dropped negotiations for the final 37 and a half million florins.

However,

- 2 -

However, the Bank of France believes that the Dutch are trying to avoid making any further payments on this credit. The head of Mendelssohn and Company, Mannheimer, some days ago gave as an excuse that the change in the French Government had made it difficult to carry out further credit operations. The Netherlands bankers, in addition, had been adequately impressed by the fact that there had developed on the Paris market a dual exchange rate. As I dictate this message Butterworth is with me and we shall keep in touch with this matter of the Dutch credit.

This morning, at 11 a.m., I was at the Bank of France. Up to that time it had cost 7,000,000 francs net to defend the franc through the London control. The Reichsbank had had to purchase 10,000,000 francs which gave the franc a little natural support. There had been fluctuation in the rate between 153 one-eighth and one-fourth. London was instructed to bring the rate down to 153.05 before the market closed. The French had hoped to be able to bring the rate below 153 but London expressed the opinion that it would be quite costly to do this.

My Bank of France contact said he was entirely unaware that any week-end change in French monetary policy was planned.

I had a telephone call from Rueff at 12:45 saying that at five p.m. the Minister of Finance, Marchandean, wanted to see me.

EA:LWW

END MESSAGE.

BULLITT.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 29, 1938, 6 p.m.

NO.: 160

RUSH

FROM COCHRAN.

I refer to the last paragraph of my telegram No. 158 of Saturday, January 29.

I called on Marchandeu, Minister of Finance, at five o'clock this afternoon, by request. Rueff was also at the meeting.

Minister Marchandeu expressed his genuine appreciation of the statement which the United States Secretary of the Treasury had made to the press with regard to the Tripartite Agreement and France. Rueff had just received a cablegram from the French Financial Attaché in the United States, which he showed to the Minister. The cablegram gave a very favorable report of the interview at the Treasury. I was asked by the Minister whether we would have any objection to his giving to the French press this account of the interview. I told the Minister that so long as any public statements were recorded accurately and attributed properly there was certainly no objection to disseminating the account.

The Minister asked that I try to obtain an official text of the Treasury interview since I had no such text.

Should

Should the Treasury give me such text by cable, the French would compare it with that which Beaulieu sent them and then decide whether the Ministry should give the press any communication thereon.

[Rueff told me confidentially, after we left the Minister, that he doubted whether it would be advisable to publish any new communiqué. He mentioned that the story had already been carried with considerable benefit to the franc and the good effect thereof might be lessened if anything further is given out. Nevertheless if it is possible he would like to have a copy of our text.]

Marchandean told me that since he had talked with me on Tuesday - reference: my telegram of January 25, No. 140 - there had been no change in monetary policy. He expressed the intention of continuing faithful to the Tripartite Agreement. He said on Monday he will make a public statement as President of the General Council of the Marne in defense of the monetary policy he is following.

Some newspapers, the Minister said, had been inclined to interpret the interview at the American Treasury as involving material assistance to the French. The Minister then proceeded to sound me out as to the prospect of such material assistance - for example, through a loan floated in behalf of an "entirely independent body such as the City of Paris" on the American market. My own personal

idea

- 3 -

idea was, I said, that it was entirely impossible to put through any such operation because, aside from the lack of appetite for foreign loans on the part of the American market, the spirit of the Johnson Act would be contravened if the City of Paris should try to borrow on the American market in the present circumstances, since that body is heavily indebted to the French Treasury.

Rueff thanked me for disillusioning the Minister when we had left him. He, Rueff, had made an attempt to convince Marchandean that an American loan was impossible, but he had wanted me to back him up as I had previously done when talking to other Finance Ministers. I was specifically asked by Rueff not to communicate this matter further and that I do not ask for official instructions about it. Therefore I just mention the incident as one of possible interest to you.

I was assured by both Marchandean and Rueff that they are considering no change in French monetary policy. When I was alone with Rueff I asked him whether he was in agreement with me that if the present Government tried to put through/a law establishing exchange control, the Government would fall. Rueff said he agreed with me.

END MESSAGE.

BULLITT.

EA:LWW

January 29, 1938.
9:45 a.m.

H.M.Jr:
Sen. Alben
Barkley:

Yes, sir.

How are you?

H.M.Jr:

Fine.

B:

Well, I'll tell you what I called you about,
and it's a matter I'm very much concerned over
for Kentucky.

H.M.Jr:

Yes.

B:

I don't know whether it's reached your desk or not
but the FAA has been - has had under consideration
some regulations.

H.M.Jr:

Yes.

B:

With reference to the manufacture of whiskey.

H.M.Jr:

Yes.

B:

You know for a generation and a century or more and
as long as anybody can remember it.

H.M.Jr:

Yes.

B:

A Kentucky type of whiskey has been made and under
the law it had to be stored for four years in freshly
charred barrels.

H.M.Jr:

Yes.

B:

Where it aged and colored.

H.M.Jr:

Yes.

B:

And the whole trade and the whole world understood
that type of liquor was thus stored and thus aged.

H.M.Jr:

Yes.

B:

Now, these Canadians have come down here and they've
got two or three distilleries down there and they're
trying to get the FAA to amend their regulations so
as to let them, to store their whiskey in used
barrels that have already been used and where the

- 2 -

substance has already been evaporated and consumed and the coloring effect has been absorbed and sell it, and advertise it just as if it were made under that original process.

H.M.Jr: I see.

B: And it means that our Kentucky made whiskey is to be put at a tremendous disadvantage which means a reduction of at least ten dollars a barrel in the value of it.

H.M.Jr: Yes.

B: And it just seems to me to be a darned outrage.

H.M.Jr: What -

B: Now I don't know whether it's reached your desk or not. Under the law you have to approve these regulations.

H.M.Jr: Yes.

B: And I didn't want you to approve them until we could - I could have a chance to talk with you at length about it.

H.M.Jr: What is a good brand?

B: Well, Old Tavern, and Old Grand-dad, and there's several good brands down there. I can't remember them all from memory.

H.M.Jr: I think Old Taylor. Anything wrong with that?

B: Old Taylor is one of the kings of it.

H.M.Jr: O.K.

B: And it's made in that process, it's - you might as well take coffee grounds that had been used yesterday and make coffee out of them today, and say it's fresh coffee.

H.M.Jr: How would -

B: They put this whiskey in barrels that - that were charred and whiskey stored in them for four years, or one year or any other length of time, and say that that's the same kind of whiskey that it would

- 3 -

be if it had been put in the original fresh barrels. It can't be.

- H.M.Jr: I'll be delighted to look into it.
- B: Well, may I come down and talk with you about it, before you do anything and -
- H.M.Jr: Absolutely.
- B: What you ought to do is to do like an old Justice of the Peace said about a trial of a case.
- H.M.Jr: Yes.
- B: And he turned to the lawyer on one side, and said, "Well, Tom," he said, "You're a pretty good lawyer, and really now just forget you're in this case, and what would you do with it, if you were me."
- H.M.Jr: Right.
- B: Well he said, "I'd throw it out of the window", so he just picked up the papers and threw them out of the window.
- H.M.Jr: Well - I'll put a stop on that.
- B: This - this is a terrifically important thing - to our people down there.
- H.M.Jr: I'll - I'll put somebody on it right away to see that nothing happens until I get a chance to look at it.
- B: All right.
- H.M.Jr: And to taste it.
- B: All right.
- H.M.Jr: All right.
- B: Well I -
- H.M.Jr: All right.
- B: The tasting is the - I know how expert you are on that.

- 4 -

H.M.Jr: All right.

B: But if the samples that you have are not satisfactory, I can give you an additional supply.

H.M.Jr: All right.

B: All right, Henry.

H.M.Jr: Goodbye.

B: Goodbye.

REORGANIZATION OF PUBLIC UTILITIES
HOLDING COMPANIES

January 29, 1938.
11:00 a.m.

Present: Mr. Taylor
Mr. Oliphant
Mr. Opper
Mr. Foley
Mr. Jerome Frank
Mr. C. Roy Smith
Mr. Stuart Guthrie
Mr. Martin

Frank: Mr. Secretary, this is Mr. Smith, who is the head of our Utilities Division.

H.M.Jr: How do you do.

Frank: This is Mr. Guthrie and Mr. Martin.

Oliphant: I'd like to say just one word at the beginning, that we found it a larger job to check over the list of companies that we got from S.B.C. than we thought, and that will require some more work.

But we do have this situation to discuss this morning. One of the most promising situations is the Standard Gas, and the reorganization section over in our shop have to act within a fairly short time, by February 10, I think, on the question as to whether or not we'll approve their plan of reorganization. And the company is also, I am told by Frank, acute from their standpoint. So it would be desirable, if you were agreeable, to have the Standard Gas and Electric situation described to you and state our two problems with reference to it.

H.M.Jr: Fine.

Frank: Stuart, do you want to try

Guthrie: What?

Frank: I can tell you briefly, then

Oliphant: They have maps here.

-2-

- Frank: They ^{have} a 77-B proceeding which was done before the Public Utility Holding Act was enacted. It was really designed to procure a moratorium on a default issue. That's about right, isn't it?
- Outarie: Yes.
- Frank: Our General Counsel several years ago gave an opinion that if a proceeding of that character had been begun before our act was passed, that then our act was inapplicable. The Commission recently reversed that ruling.
- H.M.Jr: What Commission?
- Frank: Our Commission reversed the ruling of its own General Counsel.
- H.M.Jr: Is that ever done?
- Frank: Well, it's part of the fun of being over them - arbitrarily overrule them.
- Oliphant: Hard thing for Frank, a lawyer, to admit it.
- H.M.Jr: I never knew that was done.
- Frank: I didn't participate in it. That's one of the pleasures I'm looking forward to: overruling lawyers.
- Oliphant: Wanted to all your life.
- Taylor: Learn something every day.
- Opper: I think you (Frank) are a wretch.
- H.M.Jr: All right. This is a big day for me.
- Frank: But as a consequence, if they ignore us and come in later, we'll just ignore what that court does. However, that would be awkward, and it might therefore be desirable for Treasury to stall them on acquiescing in that plan until such time as the Supreme Court has passed on the validity of the statute, of the Holding Company Act, which it will do in about six weeks; and

-3-

then we would feel less timid about moving in on them.

Now, Mr. Guthrie doesn't altogether agree that it is necessary or desirable to avoid having approval of that plan, but I don't see any harm in letting it ride until the Supreme Court has passed on it.

H.M.Jr: May I interrupt you? I personally think - and we have some pretty good economists advising us here - I mean on general affairs; they think the next six weeks are terrifically critical, that whatever is going to be - business conditions for the rest of this year will be decided in the next six weeks. So if we could do something before six weeks for the effect on general business conditions - I want you to weigh that as against the importance of this matter you're talking about, before the case - I mean these people like Riefler and Viner think that the next six weeks will set the course for the balance of the year. That's why I'm pushing so hard on this thing.

Frank: Well, bearing that in mind, I would say there is no paramount reason why that reorganization - it won't do business conditions any particular good to have it go through, won't do any particular harm not to have it.

Oliphant: Your point was that you'd like to do something on your general plan as early as possible.

Frank: Afraid it won't be possible in Standard. About a year's job.

Guthrie: I should think two years.

H.M.Jr: What I think - if the Administration could put through a refinancing, a reorganization of a public utility along the lines that Mr. Roosevelt wants within the next month, I say that would be most helpful.

Frank: Well, the Standard doesn't lend itself to that. That's a minor problem, and it wouldn't be an important matter to us or business generally whether that reorganization - it is a very simple

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reorganization; just affects one of their holding companies, just affects a slight gadget in that structure. We can't do a major job in that structure in any reasonable time.

And the other instances that were presented by the Treasury to us, I think we all agreed were of such character that they wouldn't lend themselves to that. So we reversed it and gave Treasury the other day a list of cases of corporations not yet in reorganization proceedings, but which looked shaky, so that you people could check as to whether you had large tax claims and whether by using them we could effect some squeeze which would bring about a prompt reorganization. And I understand your people haven't had a chance to check completely on that as yet.

H.M.Jr: And Standard Gas does not lend itself to that?

Frank: No.

Guthrie: It might help to explain, Mr. Secretary, that the underlying utility properties that are controlled by this great holding company at the top are in perfectly sound condition. They are able to finance all their needs not only for refinancing but for extensions - everything that is economically necessary. We are dealing only with a very ephemeral superstructure up here in Standard Gas and Electric. It is terribly pyramided - probably no equity for the common stock and not a great deal for the so-called bonds that they have outstanding. But it is just one of those 96-inch dogs, do you see; in fact it is about a 99-inch dog and a 1-inch tail in this case. But it is a long-time problem and their present financing problem is merely an extension of \$25,000,000 of notes.

H.M.Jr: Then it won't lend itself to what I have in mind.

Guthrie: No, it doesn't fit in with this program at all.

Blipant: I'd like to hear from Ed and Oppen on that.

Oppen: Well, my own feeling, from the little we know over here about the capital structure and operating

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properties of Standard Gas - seems to indicate to me, with deference to Mr. Guthrie, that if it wasn't a question of six weeks or a couple months, it would repay further study; but of course, if it is a question of having something that you can do in six weeks or not being worth while to do it at all, then I would certainly agree.

H.W.Jr: What I want to do, if I'm going to do anything - I want to do it in the month of February, if I can.

Oliphant: Well, maybe we could go for a relatively small property.

Frank: Well, Genesee - unfortunately, your tax claim is very small.

Opper: Can't come into the picture on it.

Frank: However, this is true. We got in touch with their lawyers yesterday, and we had turned down a plan that they have, and they are apparently now ready to sit down and work out a sensible plan which - it is a very small property, but it would make possible some financing. But we would be able to do it. And while your claim isn't large, your presence in the picture might be helpful in producing quick results. There is a nice little gem that doesn't amount to very much but shows what you can do.

H.S.Jr: How much money do they need?

Frank: They probably won't need a great deal of money if they will do a proper reorganization. It can all be done by distribution. But they could have an open-end mortgage and they probably could - I don't know enough about it; do they need any extensions?

Smith: It is my understanding that it isn't a case where they need extensions. Just so loaded up now with debts - a case of going to pare it down and put in some new money in order to straighten it out. But I think we estimated the other day that a quarter of a million dollars would handle it.

H.M.Jr: How much?

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- Smith: About a quarter of a million; it's small.
- Oliphant: I'd like to point out that one of the things I think you're after here is a disclosure in a concrete way to the public generally of what the government attitude is going to be on numerous phases of these situations. I suppose the other thing you'd like to demonstrate is that you could do a large piece of financing on this basis. But certainly the Genesee thing would lend itself to the first proposition, namely, to disclose what the Government is willing to do and what it does approve, just as well as a large property.
- Smith: Wouldn't that be in keeping with the talk recently going on around of aiding the financing programs in
- d. . Jr: I wouldn't be bothered by how small it was. Could you take a minute or two to describe Genesee? Has anybody got it?
- Smith: I know the Genesee picture pretty well. Genesee Valley Gas Company is a small holding company above which there are superimposed two holding companies which have no assets at all, except what they own in Genesee Valley, which has no assets itself; it is a holding company, and owns the stock and has pledged the bonds of a small gas company known as the Pavilion Gas Company; that is up in New York State. The total assets
- Oliphant: Does it own stock in any other corporations except Pavilion?
- Smith: I think it has a nickel's worth of stock in
- Frank: I think about three other companies, but they're all worthless.
- Oliphant: Three other operating companies?
- Frank: Yes. They're practically all out flat.
- Oliphant: But they are serving communities?
- Smith: Well, they are, yes. You could call them communities - really districts.

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Frank: You're thinking that we could pour some money into them and rehabilitate them.

Smith: So, you see, the Genesee Valley is nothing but a holding company and its chief asset is stock in Pavilion. Pavilion has outstanding something like 480 million in bonds.

H.M.Jr: Thousand.

Smith: Yes, thousand. I've been thinking about these other cases where we do talk in millions. About \$480,000 in bonds, and those bonds in turn are held by Genesee, and Genesee has issued in turn bonds against those bonds, as I understand it. Is that your recollection, Mr. Frank?

Frank: Yes.

Taylor: Same amount?

Frank: Sir?

Taylor: In the same amount?

Frank: No, in larger amount. Always larger.

Smith: Genesee issued about \$773,000 worth of bonds against the \$480,000 that they held in Pavilion.

Taylor: And the stock?

Smith: And what?

Taylor: And the stock?

Frank: And the stock.

Oliphant: Anybody else own bonds?

Smith: I think the bonds are wholly owned by the Genesee.

Frank: That's right.

Outhrie: The underlying bonds.

Opper: Mortgage bonds?

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Frank: Mortgage bonds on Pavilion.

Saith: Pavilion in turn has some properties. Pavilion got in - apparently wasn't doing any too well, and they had an artificial gas plant and it seems 'as the tide turned, way, that became - they couldn't use that to great advantage; so they really got in bad, and they apparently, in order to keep up their interest and dividends to the top company which controlled them, ran in deeper and deeper all the time, until they were not setting up a proper depreciation reserve or maintenance reserve, and finally ran into trouble with the New York State Public Service Commission.

The situation is this now, that they are going to have to apparently pare down these bonds, they are going to have to get some new money, because if the New York State Commission comes along and says, "Here, you took about \$196,000 (I think it was, wasn't it? It's around that figure) out of your reserve for depreciation and maintenance, and threw it back into your surplus so that you might work out some dividends" - if the State of New York comes along and says, "Now, you're going to have to impound your earnings from time to time until you can build up this reserve again," it simply means that Pavilion will not be in a position to pay any earnings to anybody, will not be a very attractive investment to anybody on the outside; whereas it could be made an attractive investment for someone who was interested in it day by day, week by week, month by month.

H.A.Jr: I think this is a perfect little thing. All you'd have to do is to add three zeros and it would be the same picture of any big company. I think it is a perfect picture. That is, it has everything, except it's in miniature.

Frank: Just like looking at a diseased little body instead of a big one.

H.A.Jr: It's just the kind of set-up that I'm looking for. How much do they owe us?

Oppen: Six thousand dollars.

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- Oliphant: That doesn't matter - I mean if they're willing to go along with you.
- Smith: Here's what happened... Have you (Frank) talked to Roger Foster since he came back yesterday?
- Frank: I spoke to (name not understood). He told me what had happened. Only motion they made in court precipitated a conference with their attorney and the attorney for the trustee of the bond issue. The attorney for the trustee of the bond issue is eager to work out a kind of plan like we indicated to them. Landis, the attorney for the company, now is apparently willing to, or at least thinking that way, and he's stymied if he doesn't; so I think we could very easily precipitate another conference, and if the Treasury sat in and particularly if we gave them some indication that we'd help them find the money, I think we could work it out in a few weeks.
- Smith: We have additional assistance in that the Judge is insisting that they move on the thing. He's giving them thirty days' time to try to develop something.
- H.M.Jr: This town must be awfully small, because I know New York State. Have they got a decent business?
- Smith: Pavilion? Yes, they have a decent business. Our engineers think very highly of it. They went up on the ground.
- Frank: What town is it?
- Guthrie: Little village named Churchville near it.
- H.M.Jr: It isn't
- Guthrie: Very tiny property. As a matter of fact, their property values, as per books, are just under a million dollars. Now, in that book value is \$550,000 they spent within the last five years for a gas manufacturing set-up that is no longer used. The thing has been milked to death by the top holding companies. There's 22 percent leakage in the gas mains running through the streets of their principal town. They need money to put the thing in decent

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condition. Their financial structure is such that nobody would lend them a dime as they stand today.

- H.W.Jr: To make this whole picture perfect, if we could go to Rochester and get the money there, it would be very nice.
- Guthrie: Right at the belly.
- H.W.Jr: I mean if we could go to Rochester and satisfy all the community itself, and raise the money, showing that it could be done locally, that would make a - be very nice.
- Guthrie: Particularly nice since the past bankers have been a Philadelphia outfit, Battles and Company, and they have just milked this thing to death.
- Smith: Three holding companies that have just lived as parasites off this one little company.
- H.W.Jr: I think this is - I'd like to have about four or five more zeros, but you haven't and what's the difference?
- Clipboard: Little better from our standpoint because it would enable us to do a better job in the time limitation.
- Smith: From the standpoint of publicity and effect upon the public - you see, that is about the first reorganization of any kind that's been proposed to us that we've turned down - thumbs down on, and the whole industry is looking at it - "Now, what's going to happen to Genesee?"
- Frenz: Now, if we could announce that the Federal Government is eager to have them work out their problems and get to work and turn it out in four weeks, and we could, why, I think it could be just exactly what you
- Smith: We know exactly what there is to work with, and our engineers say that there are possibilities there, if we can get the right management in there; and we can get that, because that was discussed even yesterday - that probably the old management would have to go as

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the top holding companies are just lopped off.

- H.M.Jr: Now, you don't mind my throwing out some more suggestions. I would send a very able newspaper man - I don't know - up there to see the editor and proprietor of the local paper, and explain to them in confidence what we're trying to do, what it will mean to their community, so we'd begin to get the build-up - I mean "This is something for the community" and so forth and so on. And we might get Frank Gannett interested, in Rochester, even though he is very "anti." But this is something we're doing and we should be there in advance. I mean somebody - I don't know whether you have anybody that could go up and spend two or three days.
- Frank: Yes, we've got a couple men.
- H.M.Jr: I mean who could go see Gannett, the rest of them, say, "This is something for the community." I mean so that - you get the idea.
- Frank: Wonderful idea.
- H.M.Jr: I think if Gannett was properly approached and realized that this means something for Rochester and for his papers and the local - I'd say an even chance he'd go along. Huh?
- Guthrie: Help a great deal if we could get the local community understanding.
- H.M.Jr: Well, Gannett controls, through his papers, the whole section there.
- Oliphant: Nice job of timing to be done on that too.
- H.M.Jr: Well, we ought to go - ought to be up there right away.
- Frank: Now, do
- Oliphant: That is, you mean as soon as we see the end of the road.
- H.M.Jr: Yes, what we're going to do.

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- Frank: We could work out a sensible plan in a couple days. Perfectly obvious what needs to be done.
- Oliphant: Wait a minute. You also want to see that the Rochester money is in sight and the thing is going to be a success, before you
- Frank: Now, can the Treasury help us on stirring up the local banks there?
- H.W.Jr: I'll tell you how much interested I am. If you get this thing worked out, I'd be willing to go to Rochester myself with people from the S.E.C. I mean I'm willing
- Smith: That would be a beautiful set-up.
- H.W.Jr: I mean if somebody from S.E.C. would go with me, I'll go up to Rochester myself.
- Smith: That would help considerably. I was just thinking there that even with your newspapermen some of us should go up there.
- H.W.Jr: I'm willing to go to Rochester myself with whoever wants to go up from the Commission - S.E.C. I think it's important enough that maybe Douglas and you (Frank) go also. We just go up there. We'll get plenty of publicity.
- Frank: Supposing we get
- H.W.Jr: But I want all the bugs out first.
- Frank: We'll get to work on a plan and we could, I think, by Monday or Tuesday have it all laid out. Then we'd want to get this fellow Landis, talk to him, and the attorney for the trustee. And the court will be cooperating - Judge Caffey.
- Oliphant: Judge Caffey?
- Frank: Judge Caffey.
- H.W.Jr: He's good.
- Smith: Very cooperative, very eager to have this thing closed.

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- H.M.Jr: Because this would be - am I right? - the first reorganization, and you do away with all holding companies on top.
- Frank: That's the difficulty: boil it right down to that operating company.
- H.M.Jr: That operating company. And what kind of a financial structure would you give that company?
- Frank: Well, they could stand a small amount of bonds and stock, and a bond issue that would be open for extensions.
- Smith: And we might pare the existing bonds down and issue a common stock out and then add a little bond.
- Frank: Now, there's another public agency that we ought to get in - the New York Public Service Commission, which has got to make a ruling on whether their past conduct was satisfactory.
- H.M.Jr: Old friend of mine, the Commissioner.
- Frank: Maltbie.
- H.M.Jr: Well, Maltbie can be awfully stubborn, but - I mean if we get Maltbie in from the beginning, tell him what we're doing, I don't think - I mean if he thought it was fair. But I think we ought to have him in from the beginning.
- Frank: If he did what we think he ought to do, he'd rule against their past conduct and make them reverse their entries. That still further would cut down their possibility of future deprecations. In other words, if he did the decent thing, which I am sure he'd do,
- H.M.Jr: How long would it take him to rule?
- Frank: I think it's pending right now. We can throw our data right to him; shouldn't take more than two or three days.
- Olyphant: Frank, wouldn't you think the safe and sound thing to do would be to lay all the cards on the table not only

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so far as Maltbie is concerned but also so far as Judge Caffey is concerned. Tell them what we're trying to do. Then you've got everybody in whose decision is vital to success.

Frank: Unfortunately, I suppose to save expense, he didn't appoint a trustee - Judge Caffey didn't; that would have helped us, but he didn't. But I am sure he'll go along. He wants to get it out of his court as soon as possible.

Smith: I think there's no question but what we'll have cooperation from him.

H.M.Jr: And you say the utility industry is looking toward this thing to see how we're going to handle it?

Smith: Oh, very definitely, because this is the first time the Commission has gone down on any kind of

Frank: Just a little affair but it's got everything, all the pathology that a large one could have. Everything wrong with it.

H.M.Jr: How many holding companies on top?

Smith: Three.

Frank: What's the total issue of securities based on this little company? Do you know offhand? It goes on and on.

H.M.Jr: Could you give me a little history of this? Have you got it?

Frank: Send it over this afternoon. Send it over to you within an hour.

H.M.Jr: Could they send it to my house so I could read it?

Frank: Yes.

H.M.Jr: And I want something else sent to the house; I'll tell you about it.

Frank: We'll send it over this afternoon.

H.M.Jr: So I could be reading it. I think this sounds

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- Opponent: I think it's better than something larger.
- Frank: We just licked our chops when that plan came up, because it gave us a chance to lay down reorganization law on a very simple case.
- H. A. Jr: There's lots of money in Rochester.
- Frank: Now, Mr. Smith, you might look into the question of whether those other operating companies, if they got any money, could do a job.
- Smith: Yes.
- Frank: We just abandoned them because we thought they were hopeless, but maybe they need some money and could be rehabilitated. Might look into that.
- Opponent: I think we ought to, because that upper structure is purporting to serve the various communities; if we go in and merely solve the easiest part of it, they've got a comeback.
- H. A. Jr: Do they serve any useful purpose?
- Smith: These other companies have no great amount of value, but they do serve just small communities, and I think the reason that we paid no attention to them was they didn't earn anything and they weren't any great liability; just simply weren't creating a fuss one way or the other.
- Frank: But in the public interest we ought to see what could be done to
- Smith: They reach little communities outlying.
- Taylor: What they using - buying natural gas now?
- Smith: They're mixing it now, aren't they?
- Gutarie: Straight natural.
- Smith: Oh, straight natural now.
- Taylor: What about their artificial gas plant?

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- Smith: Well, I understood that they were trying to keep that in condition so they could use it.
- H.M.Jr: Wayne, will you find out who the investment - private bankers, I mean, are up there - members of - what is this
- Frank: Of the I.B.A.
- Taylor: I.B.A.
- H.M.Jr: Yes, who they are. Do they have anybody that's good?
- Taylor: I can find out that for you. I just don't know.
- Frank: We've got a committee of those fellows working with us right now. Might find out from them.
- H.M.Jr: Find out what his capital is and so forth.
- Taylor: As long as he's got a good name, that's all he needs in this thing.
- Oliphant: Now, there's a suggestion. He says that I.B.A. has a committee working with them on the whole picture.
- Frank: On another bill that they're interested in.
- Oliphant: If Wayne Taylor's approach to the local investment banker was through the committee, that also would hearten a lot of people over the country.
- Frank: They're really camping on our doorstep.
- Taylor: You apparently have got to get some management lined up too. That's going to be about as hard as any problem you'll have on it.
- Smith: Well, it's been suggested already - was talked yesterday, I understand - they might possibly get Stone and Webster Service Company into managing the property up there. That can be worked out.
- H.M.Jr: I don't think that fits in with Mr. Roosevelt.
- Smith: I mean by that - I say that, Mr. Secretary, to indicate that they are agreeable to most anything.
- H.M.Jr: I was going to jump at you, because our statute more or less indicates we are to watch those service companies.

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- H.A.Jr: I've heard them describe the difference between the kind of - well, the difference - what's the one that you keep talking about, waiting to come up before the Court?
- Oliphant: Electric Bond and Share.
- H.A.Jr: The difference between Electric Bond and Share and the management company that does managing and doesn't take stock for its fee. I don't know, it's an awfully fine line, and there must be
- Oliphant: If there is local money, probably local brains.
- Gutarie: Doesn't need any service. Simplest possible form of enterprise.
- H.A.Jr: There must be some good young engineer that could go right in there.
- Gutarie: All it needs is a pipe-fitter and somebody that could see the rates are adequate.
- Taylor: If you could find a local boy who is willing to be the Roman sacrifice, why,
- H.A.Jr: We could go to Cornell Engineering and ask who their graduates are that come from that territory, and Cornell Engineering would tell us. What?
- Taylor: I think that's one of the most important things there.
- Polay: Bob Jackson probably knows everybody there.
- H.A.Jr: Rochester and Jamestown are quite far apart, but he might; I mean it must be at least two hundred miles.
- Polay: Yes.
- Frank: It has been suggested that the present operating man may be all right. The fault of this situation is not operation; just been fleeing this company. The fellow there may be a perfectly good man.
- Taylor: Well, I think it's a very important part of the picture to make it

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Frank: Make it good.

H.M.Jr: May I just say - I want to hurry - you'll find me, when I get into this, leaning over backwards to make sure that this is just as near letter-perfect as possible. I mean we're going to - we've all got in this thing, this is the first one, we want to be just as near sure as possible that all the bugs are out of it.

Frank: It's got to be a little Swiss watch.

Smith: It's simple enough, and it can be made that.

H.M.Jr: But everything would want to click - the Judge, and Mr. Maltbie, and the investment company in Rochester that's going to step in, the newspapers, the management, and everything - it ought to all be clicked; I mean everything ought to be - every step ought to be perfect.

Smith: We can work that out all right, I think.

H.M.Jr: All right.

January 29, 1938.
12:22 1/2 p.m.

H.M.Jr:

Hello.

Operator:

Mr. Jones.

H.M.Jr:

Hello.

Jesse
Jones:

Hello, Henry.

H.M.Jr:

Well, the things begin to kinda pop around here,
on that stuff.

J:

Is it?

H.M.Jr:

Well, you see, the story that came over the UP ticker
this morning, about somebody who's in this meeting,
who had interests in holding companies, said so and
so and so and so, better go slow and all that stuff.

J:

I did not.

H.M.Jr:

Well, you have one of those UP tickers, don't you?

J:

No, I don't have a ticker.

H.M.Jr:

Don't you.

J:

No. I'd like to see it. I'll get it.

H.M.Jr:

I'll have a copy made and send it over to you.

J:

I would like to see it.

H.M.Jr:

Yes. It's quite interesting and I've asked Taylor
to call up Marriner and ask him whether they gave
it out or not, because it had all the earmarks, and
practically as much describes Marriner Eccles, and
says it comes from him. Now I don't know, but I
asked Taylor to call him up and find out.

J:

Yes.

H.M.Jr:

And O'Connor has been asked, why didn't Crowley
tell him he had -

J:

Is he - is he

H.M.Jr:

No, he's written me a three page letter, and says
he wants to leave it before he leaves town.

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J: Yes.

H.M.Jr: And so I told him that he was a member of the Federal Deposits Insurance, and I have no - any authority over them whatsoever.

J: Yes.

H.M.Jr: And then if he wanted to take something up why didn't he do it with the Board of FDIC.

J: By the what?

H.M.Jr: Take it up at a regular meeting of the FDIC.

J: Yes.

H.M.Jr: And that my only legal and moral responsibility was to act through the chairman of the RFC, which I've done.

J: Yes.

H.M.Jr: See?

J: Yes.

H.M.Jr: But I'm going to call you, and I want to work very closely on this.

J: Well, we've got to.

H.M.Jr: Because, and I want to tell you that I told the story at Cabinet, because I wanted the President, anybody else to know who might hear about it.

J: Know the facts, yes.

H.M.Jr: Yes. And I told them that - just that I'd asked you and that you were going to go ahead.

J: Yes.

H.M.Jr: But, you know *Granville* is in town.

J: Yes, I heard he was. I haven't seen him.

H.M.Jr: I haven't seen him, and don't intend to see him, but he's been over all morning, over at SEC.

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J: Where has he been?

H.M.Jr: At SEC.

J: SEC. Yes.

H.M.Jr: Yes. But, it's going to be a lot of fun, Jesse.

J: Well, we're liable to have some fun.

H.M.Jr: And - but - between the two of us, with the President back of us, I said yesterday, we could handle it.

J: I feel perfectly confident. Now - it doesn't worry me at all, and there's not any danger that can't be met.

H.M.Jr: No.

J: And Ben Douglas' man, from out there, was over here yesterday afternoon, for a couple of hours.

H.M.Jr: Oh, was he.

J: With our boys. We got right at it.

H.M.Jr: Fine.

J: And this morning I called Marshall Diggs and gave him a list of information that we need here, and we asked him for it, some of it by wire and some by air mail.

H.M.Jr: I see.

J: So I'm going to have a report for you pretty soon.

H.M.Jr: All right. Well - I - as I get these things where people - you know -

J: Yes.

H.M.Jr: I want to tell you vice versa.

J: Yes.

H.M.Jr: Because -

J: It's going to stir up.

H.M.Jr: It is. And as I say, I didn't like that story of United Press.

J: Well, you know darned well where it came from, I do.

H.M.Jr: Well, it -

J: It couldn't come from but one place.

H.M.Jr: Yes. I think it's stupid. I mean for them to put it out.

J: Why certainly.

H.M.Jr: I'll tell Taylor to have a copy made and send it over to you.

J: I'd appreciate it very much.

H.M.Jr: Thank you.

J: Thank you for calling me.

January 29, 1938
12:28 p.m.

Douglas: Yes.

H.M.Jr: Hello, Douglas.

D: Mr. Secretary.

H.M.Jr: Talking.

D: The report - the other report -

H.M.Jr: Yes.

D: Of Trans-America that Jerry Frank mentioned -

H.M.Jr: Yes.

D: That I mentioned, and that you inquired about this morning.

H.M.Jr: Yes.

D: Was an oral report.

H.M.Jr: Oh!

D: Made by the head of our San Francisco office.

H.M.Jr: Oh!

D: Whom I sent over yesterday afternoon to talk with Jesse Jones' staff.

H.M.Jr: I see.

D: So they have on Jesse's study all the dope that we have.

H.M.Jr: I see. Well.

D: Now the second thing I want to mention to you - Jerry Frank reported back to - you're interested in the Genesee thing.

H.M.Jr: Yes.

D: I think it's swell, and I told Jerry to present it to the Commission Monday. I'm going to Chicago tomorrow.

H.M.Jr: Right.

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- D: I'll be back Thursday morning, and I would be delighted to hop a train with you and go on up on that thing if you still think well of it.
- H.M.Jr: Well, I think - I don't want to go up there until -
- D: I know.
- H.M.Jr: Unless everything was lined up.
- D: But surely.
- H.M.Jr: And ready, and then I want to talk it all over and then before I go and all that, I'd speak to the President.
- D: Right.
- H.M.Jr: But I'm tremendously enthusiastic over the possibilities.
- D: I think they're great.
- H.M.Jr: And the fact that it's small, I don't think it makes any difference because it has all the diseases that we're trying to eliminate.
- D: Yes.
- H.M.Jr: Isn't that right?
- D: Yes. Indeed, absolutely.
- H.M.Jr: I think it's - it's a perfect miniature example of what the Administration doesn't want.
- D: That's right. It's It's swell.
- H.M.Jr: And I think - we ought to have something, I mean, by the time you come back.
- D: Good. That'd be fine.
- H.M.Jr: But -
- D: I'll have our boys keep pounding away at it.
- H.M.Jr: But as long as Jesse has got that, I won't - it doesn't have to be duplicated.
- D: Yes. Giannini was in this morning. I spent a long time with him this morning.

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H.M.Jr: Yes.

D: He's an extremely nervous upset man.

H.M.Jr: Yes.

D: He takes the position that if the SEC doesn't allow him to engage in these market operations in Trans-America.

H.M.Jr: Yes.

D: ~~Stock.~~ Stock of the Bank of America, that the thing is very apt to have repercussions and collapse and shake the whole country. He's really frightened.

H.M.Jr: Yes. Do you think that somebody's told him a story what we're doing.

D: I don't think so.

H.M.Jr: You don't think so.

D: I don't think so.

H.M.Jr: Uh-huh.

D: Of course, he talks. He's a very loose talker and loose thinker.

H.M.Jr: Yes.

D: He makes wide charges that the Fleisch backer interest in Wall Street and so on are conspiring to ruin him.

H.M.Jr: Yes.

D: That's his easy - easy out.

H.M.Jr: Yes.

D: I just want you to know that he was through here and was waving the flag of terror at me, and -

H.M.Jr: Well, I mean - what - where - where is the crash going to come. Where does he say it's going to come from?

- 4 -

D: Well, he - what he feels is this that if he cannot be allowed to run a market in the Trans-America stock, that stock is going to drop pretty fast.

H.M.Jr: I see.

D: And the action is going to resound throughout the whole structure.

H.M.Jr: Oh, I see.

D: That is general talk.

H.M.Jr: Well now this man that you sent out there - Has he got this picture?

D: Yes. Yes.

H.M.Jr: Well I - would you - you wouldn't mind if he came to see me personally at the house?

D: Oh, I'd - I'd urge him to do it, if you wanted to see him.

H.M.Jr: I'll tell you what you do. Would you ask him to come to the house at five o'clock to see me?

D: Yes.

H.M.Jr: It's 2211 - 30th.

D: 2211 -

H.M.Jr: 30th. Tell him it's off Massachusetts Avenue.

D: I'll have him there, and I may send somebody else along, who can cover angles of it that he doesn't know about.

H.M.Jr: I'd like to get it personally.

D: Yes. I'll have him there this afternoon.

H.M.Jr: Thanks. And I'll see you Thursday.

D: Goodbye, Mr. Secretary.

H.M.Jr: I enjoy working with you.

D: It's been a real pleasure. Goodbye.

January 29, 1938

Sumner Welles called up and said that the Mexican Ambassador called yesterday and was very much worried and concerned that they had not heard from me in regard to whether we would or would not buy silver from them in February and Welles said that my withholding that until the last minute had a most beneficial effect. Welles also said that the Mexican Ambassador talked to President Cardenas on the telephone and they are going to call a Congress in Mexico early in March to reconsider these increases in tariffs.

By message of 1/29/28

January 29, 1928

MEMORANDUM TO THE PRESIDENT:

The Ways and Means Subcommittee has proposed three types of corporation taxation. (1) Corporations with net incomes of less than \$25,000 would pay normal taxes graduated from 12 1/2 to 16 percent but no undistributed profits tax. (2) Corporations with net incomes exceeding \$25,000 would pay taxes at rates ranging from 16 to 20 percent, depending upon the proportion of their adjusted net income which is distributed in dividends. (3) Closely held corporations with net incomes exceeding \$50,000 would pay taxes at rates approximating those of the existing law, if they distributed less than 60 percent of their net incomes.

The Subcommittee has estimated that of the 6,500 corporations whose incomes exceed \$50,000 not more than 1,500 would fail to distribute in excess of 60 percent of their net incomes in a normal year. The Treasury has not exact figures as to stockholdings of this group of corporations, but it is estimated that around 500 to 1,000 are possibly closely held within the definition proposed. A corporation is closely held for this purpose if more than 50 percent in value of its stock is owned by one individual and members of his family; or if more than 75 percent is owned by two or less individuals, exclusive of their families; 56 percent by three or

- 2 -

less individuals and so on up to 75 percent by ten or less individuals.

Congressman McCormack of Massachusetts is leading a vigorous fight against the recommendation for the taxation of closely held corporations. He is supported by Congressman Lammick of Ohio and possibly by Messrs. Boehme of Indiana, Fuller of Arkansas, Thompson of Illinois and Robertson of Virginia. The seven Republican members of the Committee are apparently solidly against the proposal for the taxation of closely held companies. The Democratic members of the Committee have held several meetings with a view to resolving their differences. Congressman Vinson believes that the proposal as to closely held companies is absolutely necessary for the protection of the revenues against surtax avoidance.

A number of witnesses appeared in the recent public hearings in opposition to the Subcommittee's proposal but none of them made a very convincing case. The principal argument advanced is that the special treatment of closely held corporations places the family business at a disadvantage as compared with the larger and more widely owned corporation. Mr. McCormack also cites the fact that many newspapers would fall within the proposal. The principal answers to Mr. McCormack's arguments are that the ordinary American corporation over the past ten years has distributed an average well in excess of 70 percent of its earnings. Consequently, no corporation need pay the additional tax if it will make the same distribution that American corporations do make on the average.

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Moreover, the Subcommittee has recommended that a closely held corporation be allowed to retain all or any part of its earnings if the shareholders will consent to pay the taxes that would be due if the earnings were distributed.

The Treasury has analyzed each of the cases mentioned in the public hearings and finds no basis in them for suggesting modifications of the Subcommittee's proposal. Two of the principal cases referred to by Mr. McCormack and his supporters are those of R. R. Donnelley & Sons Company of Chicago and the Lane Company, Incorporated of Virginia. Since both companies distributed an average of over 65 percent for the three years 1934-1936, neither of them would be subjected to the tax on closely held companies if they continued their present dividend policy. Moreover, on the face of the record neither of them makes any satisfactory showing of the necessity for retaining large amounts for use in the business. Mr. Donnelley's company had adjusted net income in 1934-1936 of \$519,000; \$609,000; and \$416,000. The Lane Company had adjusted net income of \$129,000; \$137,000; and \$146,000.

January 31, 1938

My dear Dr. Feis:

I would appreciate it if you would convey my compliments to Minister Harrison, at Bern, and my thanks to him for his cable of January 28th. (w. 7, filed that date) P-157

The information contained in his message is extremely interesting to the Treasury and it would be helpful to us if he would transmit similar telegrams in the future.

Sincerely,

(Signed) H. Morgenthau, Jr.

Hon. Herbert Feis,
Adviser on International
Economic Affairs,
State Department,
Washington, D. C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 31, 1938.

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The business situation

Conclusions

Business activity continues to improve slowly, though sentiment in some quarters has become more depressed owing to the failure of new industrial buying to develop in the volume many had anticipated around the beginning of the year and to declines in the commodity and security markets.

Encouragement to our belief that a gradual recovery from present levels may be expected during 1938 is provided by (1) the very low levels to which activity in important industries has fallen, as compared with the apparent levels of consumption; (2) a continued high volume of retail sales, with department store sales during January probably equalling in actual volume the highest levels of the recovery movement; (3) an increase in new orders for steel; (4) an encouraging volume of new orders in a number of other industries; and (5) the prospect that the currently increasing activity in the shipbuilding industry will provide an aid to business.

The principal depressing factors continue to be (1) uncertainty over the business and price outlook, which has led to a widespread movement to liquidate inventories and to extremely cautious buying policies; (2) the prospect of further reductions in pay rolls unless business improves, with a consequent reduction in consumer purchasing power; (3) an expected decline in agricultural incomes during 1938; and (4) over-large inventories of manufacturers, which may take some time to reduce to normal at current rates of buying.

The current situation

The New York Times business index (seasonally adjusted) increased fractionally during the week ended January 22. (See Chart 1.) Greater than seasonal improvement in automobile, electric power, and lumber production, and in miscellaneous

Secretary Morgenthau - 2

carloadings, were partly offset by declines in the seasonally adjusted indexes for other carloadings, cotton mill activity, and steel ingot production.

Weekly data on department store sales indicate that sales during January in dollar volume will be about the same as in January last year, when the FRB adjusted index of department store sales stood at 93. (See Chart 2.) This will represent an increase of 3 points over the seasonally-adjusted December figure, and will compare with an index of 95 in February 1937, the peak of the recovery period. Since retail prices are believed to be about 4 percent lower than last January, the actual volume of goods sold may even have exceeded that of the best month of 1937.

This contrasts somewhat with the trend of sales in the 1929-30 decline. At that time the adjusted index of department store sales declined to 110 in December and to 107 in January, as compared with a peak of 113 reached in June and in September. The index of variety store sales in 1929-30, seasonally adjusted, dropped even more sharply, from 111.3 in December to 96.7 in January.

The high rate of consumer buying has aided in reducing inventories of retail establishments. The FRB adjusted index of department store stocks stood at 72 for the end of December, compared with 76 at the end of November and a peak of 78 in August. Current sales trends indicate a still lower figure for January. In January of last year the index stood at 74.

We show also in Chart 2 the trend of department store sales by Federal reserve districts, expressed as a percentage of the 1936 annual index for each district. It will be noted that sales have been very well maintained in the New York district, and also in the Minneapolis and San Francisco districts. The districts making the poorest showing are those related to the steel and automobile industries. In the Chicago district, which includes Detroit, sales remain depressed. The Cleveland and Philadelphia districts, including the major steel-producing sections, also had relatively poor sales during December.

The steel situation

Steel ingot output increased 3 points this week to 33 percent of capacity, which is the highest rate since the week ended November 20. While no rapid recovery is expected from

Secretary Morgenthau - 3

this level, encouragement for a continued uptrend is provided by a substantial upturn in new orders received last week by the U. S. Steel Corporation, making the third highest weekly figure since September.

Steel output during January, at an average rate of about 29 percent of capacity, will represent slightly more than the usual seasonal gain over December. The present rate, if continued through February, would represent slightly more than the seasonal increase over January. A rate of 34 percent in March, when the seasonal peak in steel activity is usually reached, could maintain the adjusted FRB steel index at its January level. Thus it appears that so far as steel production is concerned, very little would be required to register an upturn in business activity.

The textile situation

Following the exceptionally active business of the previous week, mill sales of finished goods slackened somewhat last week while raw material prices showed a sagging tendency. Cotton mill activity showed a gradual improvement, though it is doubtful that the increase in January as a whole will be as much as the usual seasonal rise. Although actual goods sales were less, interest in goods improved during the week, leading to expectations of heavier sales later. Forwardings of cotton to domestic mills showed some improvement. Advices from abroad continued to report a low level of cloth sales, with lower levels of mill activity than those prevailing last fall.

Commodity prices

Reactionary influences in the commodity markets during the past two weeks have carried prices of sensitive commodities back to about the December levels, following a sharp upturn during the first ten days of the new year. Reuter's index of spot commodity prices in Great Britain has declined to below its December low.

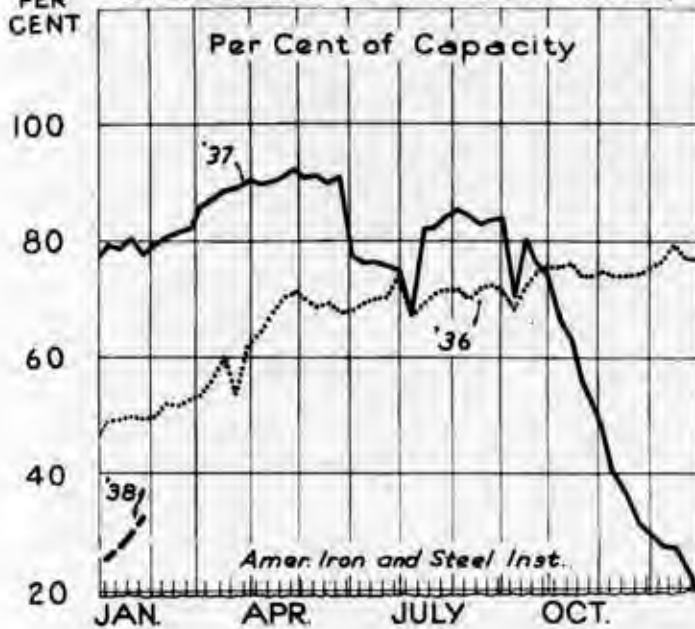
Chief factors in the recent decline have been the failure of industrial buying of raw materials to carry through the month at the rate many had expected earlier in the year, and a decline in the security markets resulting from several influences. Commodity prices on the whole have shown no real indication of weakness, but have responded in apparently a normal manner to the influences mentioned. The decline in stock prices has been strongly influenced by the expectation of widespread dividend reductions during the first quarter of the year, and by increased apprehension over the future of the railroads following the reorganization

Secretary Morgenthau - 4

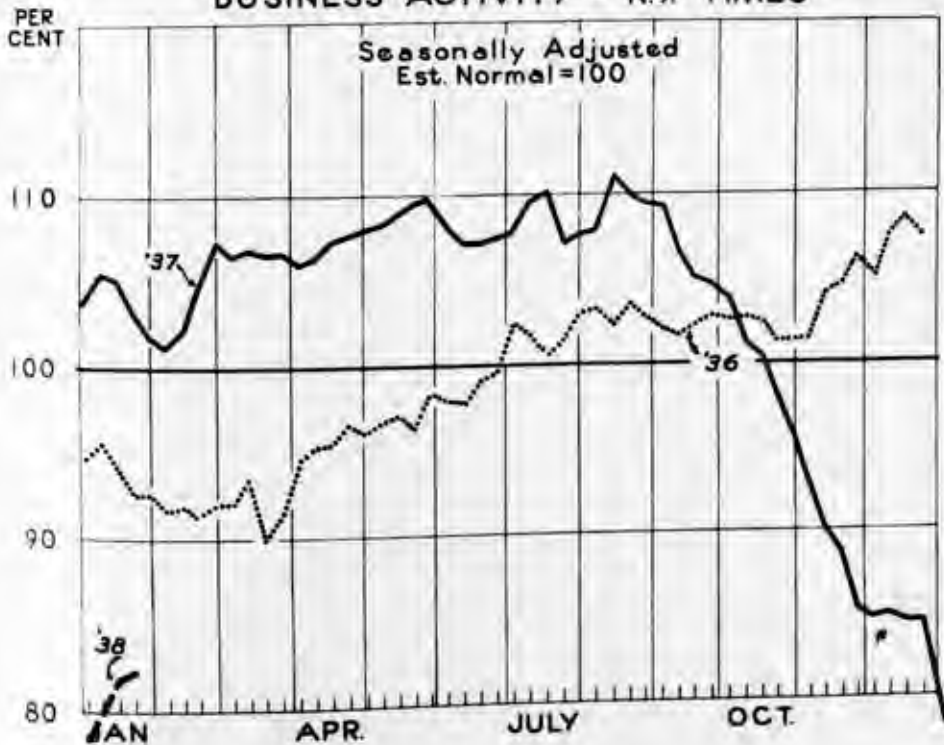
application of the Erie railroad. It appears likely that total dividends paid by corporations during this quarter will show one of the largest reductions on record as compared with dividends of the previous quarter. Several factors will contribute to this showing: (1) Reduced earnings; (2) heavy dividend disbursements in the final quarter of 1937 due to the undistributed profits tax; (3) the prospect of a modification of this tax as applied to 1938 earnings; (4) the desire to conserve cash because of uncertainty over the business outlook.

Reductions made by brokers in recent months in margins required on commodity futures transactions should prove a favorable price influence upon any revival in speculative interest. Margins on wheat are reported to have been reduced to \$300 a contract as compared with \$750 earlier in the year; on corn to 3 cents a bushel as compared with a previous 4-cent margin; on rubber to \$600 a contract as compared with a high of \$1,000; on cottonseed oil to \$400 as compared with \$800, and on other commodities proportionately.

STEEL INGOT PRODUCTION



BUSINESS ACTIVITY - N.Y. TIMES

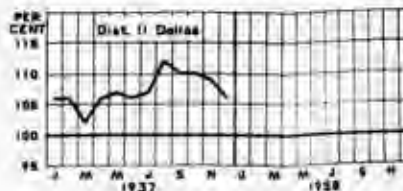
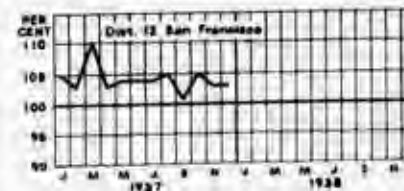
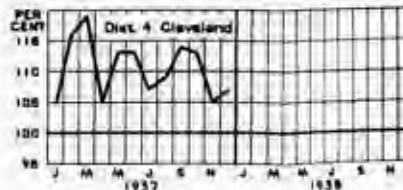
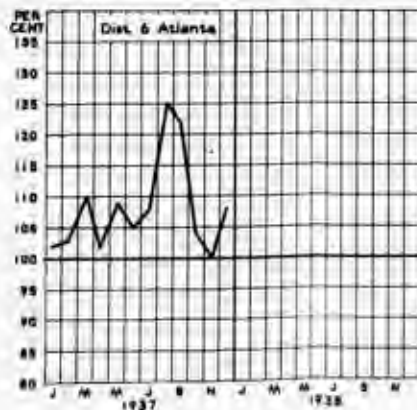
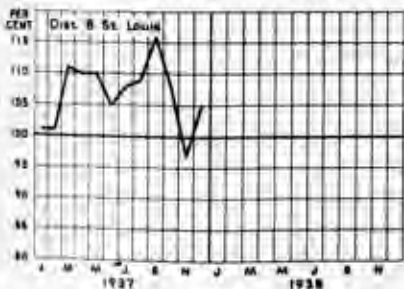
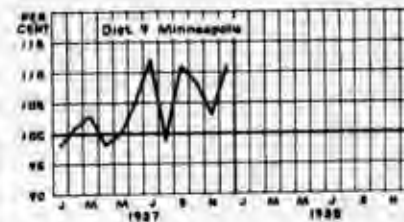
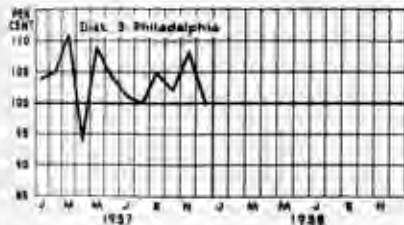
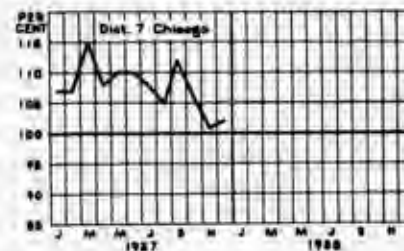
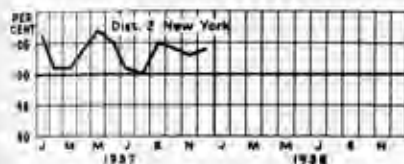
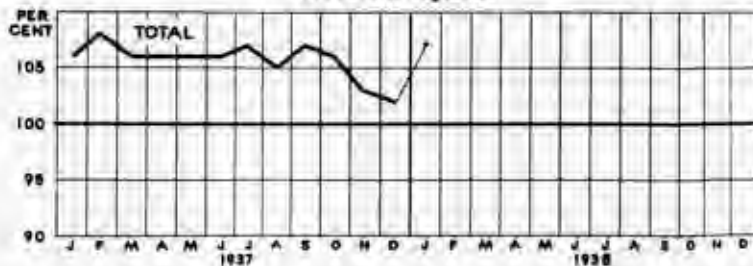


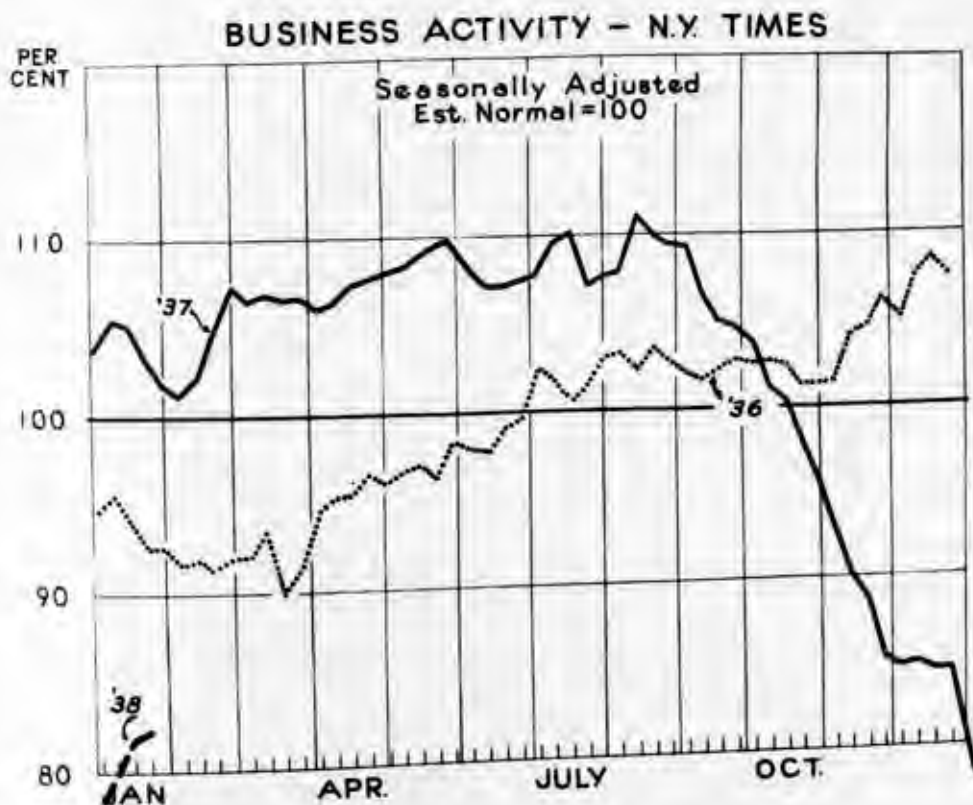
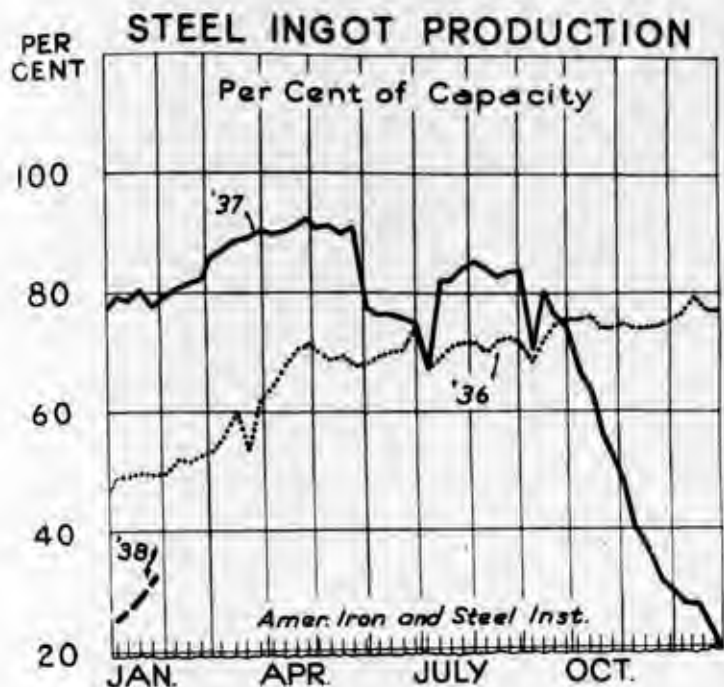
DEPARTMENT STORE SALES

By Federal Reserve Districts



MONTHLY INDEX OF SALES
1936=100, Adjusted





Prepared by
H. D. White
H. Glasser
J. S. Hooker

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Division of Research and Statistics

DATE January 31, 1938

TO Secretary Morgenthau

FROM Mr. Haas *MA*

Subject: Latin American trade with the United States and other countries compared.

(Summary)

1. We are by far the most important supplier of Latin American imports. Last year we sold more to Latin America than did the United Kingdom, Germany, Italy and Japan combined.

2. In 1936 we had roughly the same relative trade position as in 1928 in all the more important countries except three - Mexico, Brazil and Argentina. In two of these countries - Mexico and Brazil - Germany improved its share greatly. In the third, Argentina, Japan was the only one of our leading competitors that improved its position.

3. During the first half of 1937 our exports to the whole of Latin America increased greatly, and our trade position improved relative to our chief competitors.

In some of the countries, however, - Mexico, Colombia and several of the smaller countries - Japan greatly improved her trade position. Her gains were very large in percentage terms though relatively small in dollar value.

United Kingdom improved her trade position only in Brazil and a few smaller countries, and lost in Argentina and several of the smaller countries.

Germany did not improve her position compared to 1936 except in a few small countries.

4. During the last half of 1937 Japan gained on her chief competitors in many of the Latin American countries - particularly Argentina, Brazil, Mexico, Chile, Ecuador and Colombia.

Germany gained over her competitors in four of the smaller countries, although the complete figures for the last quarter (which are not yet available) will probably indicate gains in other countries as well.

Secretary Morgenthau - 2 - (Summary)

5. Italy is the least important supplier to Latin America of the five countries considered and is not increasing her share.

In 1937 she sold Latin America about \$30 million. Her most important customer by far is Argentina. Though her exports to that country increased somewhat in 1937, they decreased more to Brazil, her second most important customer. Altogether, her exports to Latin America, though increasing along with total increase in Latin American imports, have not been an important or increasing factor in that market.

6. The prospects for our trade in Latin America during 1938 are not good because:

(a) Latin America will buy less from foreign countries due to (1) the lower market prices for the chief exports of Latin America, and (2) increasing exchange difficulties.

(b) We will have a difficult time maintaining our trade position in Latin America because:

(1) Increased intensity of competition with Japan owing to her vital need for maintaining or increasing her exports will unquestionably cut into our trade in some of the commodities we export.

(2) Faced with a declining market, Germany can and probably will resort to competitive measures which we cannot use and against which we do not seem to have adequate defenses.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 31, 1938

TO Secretary Morgenthau
 FROM Mr. Haas
 Subject: Latin American trade with United States and other countries compared

We are by far the most important exporter to Latin American countries.

In 1937 we sold more to Latin America than did United Kingdom, Germany, Italy and Japan combined. Our exports were more than twice as great as those of Great Britain, two and a half times those of Germany, fourteen times those of Japan, and seventeen times those of Italy.

Our exports to the whole of Latin America combined are increasing both in dollars and in the share of our total exports.

From 1932 to 1937 our exports to Latin America have increased proportionally more than our exports to the rest of the world.

Year	Our total exports	Our exports to Latin America	Percent of total of our exports going to Latin America
			(In millions of dollars)
1928	5,128	878	17
1932	1,611	216	13
1935	2,283	376	17
1936	2,453	430	18
1937 (11 months)	3,027	577	19

For the first eleven months of 1937 our exports to Latin American countries amounted to \$577 million, an increase in value of 49 percent over the same period of 1936.

Our exports to every Latin American country were higher in 1937 than 1936. To most of them the increase was over 35 percent. Exports to Venezuela increased 95 percent, to Argentina 64 percent, to Uruguay 55 percent, and to Chile 53 percent.

Secretary Morgenthau - 2

The increase in trade to Latin America during the past few years has not yet brought the level of our trade up to what it was before the depression. Venezuela is the only exception. We now export one-fourth more to Venezuela than we did in 1928. Argentina used to be our best customer, purchasing \$178 million of our goods in 1928. In 1937 she ranked third, behind Mexico and Cuba, purchasing only \$83 million. We sell less to Latin America now than we did in the pre-depression period not because we are losing out but because Latin America buys less, in terms of value, than she used to.

Our purchases from the whole of Latin America combined are increasing in dollars but constitute a smaller percentage of our total imports.

Approximately one-fourth of our imports come from Latin America. (This does not include our silver purchases from Latin America. If silver were included the share would, of course, be greater.) Imports have increased steadily since 1932 and show a 39 percent rise in the first eleven months of 1937 compared with same period in 1936.

Year	Our total imports	Imports from Latin America	Percent of our total imports coming from Latin America
(In millions of dollars)			
1928	4,091	1,030	25
1932	1,323	356	27
1935	2,047	483	24
1936	2,419	529	22
1937 (11 mos)	2,875	664	23

Our imports from Latin America exceed our exports by about \$100 million.

If we include purchases of silver from Mexico and Peru that balance would be increased to about \$140 million.

(All detailed tables pertinent to this report are in the Appendix)

Secretary Morgenthau - 3

We have a "favorable" balance of trade with the following countries:

(First eleven months of 1937)

	<u>Our exports to</u>	<u>Our imports from</u>	<u>Balance of trade</u>
(In millions of dollars)			
Bolivia	5.2	1.3	3.9
Ecuador	4.6	3.7	.9
Haiti	3.8	2.6	1.2
Mexico	99.9	56.2	43.7
Netherland West Indies	31.5	18.0	13.5
Panama	23.4	4.3	19.1
Peru	17.1	14.9	2.2
Venezuela	41.7	20.9	20.8

We have an "unfavorable" balance with the following countries:

(First eleven months of 1937)

	<u>Our exports to</u>	<u>Our imports from</u>	<u>Balance of trade</u>
(In millions of dollars)			
Argentina	83.2	135.0	51.8
Brazil	60.8	111.5	50.7
Chile	21.6	43.6	22.0
Colombia	35.8	48.4	12.6
Cuba	87.9	140.6	56.7
Guatemala	6.9	8.8	1.9
Honduras	5.0	5.3	.3
Salvador	3.2	8.4	5.2

Secretary Morgenthau - 4

1928 to 1936

Up to a year ago our share of sales to leading Latin American countries has been either maintained or increased with the important exceptions of Brazil, Argentina, and Mexico.

In Brazil and Mexico we lost in favor of Germany. In 1928 we supplied Mexico with 68 percent of her imports while Germany supplied 9 percent. In 1936, however, our share dropped to 59 percent while Germany's increased to 15 percent. In the case of Brazil, our share was 27 percent in 1928 and 22 percent in 1936, while Germany increased her share from 12 percent to 23 percent.

In Argentina our share was reduced from 25 percent in 1928 to 15 percent in 1936. In this instance Germany lost likewise, though less than we did, and United Kingdom only maintained her position. Japan's share, however, rose from almost nothing to about 4 percent.

Germany gained in some countries, in addition to her spectacular gain in Brazil, and lost ground in others.

Germany also increased her share in the trade with Peru, Venezuela, and Chile. In each case her 1936 share was approximately double her share in 1928.

On the other hand, Germany lost little in her share of the trade of Uruguay, Argentina, and Colombia. In Cuba, her relative position has been maintained.

Japan's exports to Latin America in 1923 were negligible, but she had made considerable percentage gains by 1935, and declined somewhat in 1936.

Her exports to Latin America never amounted to large sums. Japan's exports to all of Latin America in 1936 constituted only 5 percent of her (Japan's) total exports, and constituted much less than 5 percent of Latin America's total imports.

United Kingdom had maintained her approximate trade position in some countries, gained slightly in a few - Colombia and Uruguay - and lost in several - Brazil, Chile, Peru, and Venezuela. In no case has her gain or loss been striking except in Brazil where her share of Brazil's imports has been cut in half.

Secretary Morgenthau - 5

Italy sells little to Latin America.

Italy's exports to Latin American countries, which were relatively small in 1928, were even smaller in 1936 and 1937. Italy has lost her share in all the leading countries and is now an insignificant factor in South American trade.

1937

Last year the situation changed considerably.

During the first half of 1937 our exports to Latin America increased more than did the exports of Germany, Japan, or United Kingdom.

Compared with the first half of 1936:

U. S. exports to Latin America increased	46 percent
U. K. exports to Latin America increased	26 "
Japan's exports to Latin America increased	30 "
Germany's exports to Latin America increased	20 "

We did not fare alike in all countries. In the more important Latin American countries, the United States increased exports more than did United Kingdom, Germany, and Japan, with the following exceptions:

Venezuela, where Germany's gain was slightly more than ours. Mexico, Cuba, and Colombia, where Japan's gain was considerably more than ours in percentage terms, but not of absolute importance because Japan's trade was only a small portion of our trade in the first half of 1936.

In numerous of the smaller Latin America countries the gain for the United States was much less than that of her three competitors.

	<u>United States</u>	<u>United Kingdom</u>	<u>Germany</u>	<u>Japan</u>
Dominican Republic	33%	114%	12%	146%
Honduras	6	4	152	74
Haiti	9	92	44	162
Nicaragua	58	- 5	- 19	163
Salvador	14	86	1	75

Secretary Morgenthau - 6

In the third quarter of 1937 Japan jumped into the lead in percentage increase to most Latin American countries with United States a good second.

Compared with third quarter of 1936:

Japan increased her exports to Latin America	67	percent
U. S. increased her exports to Latin America	53	"
Germany increased her exports to Latin America	34	"
U. K. increased her exports to Latin America	29	"

Japan made some startling increases in the third quarter of 1937.

Increase compared with 1936 exports

	Japan	United States
Argentina	160%	66%
Brazil	163	62
Mexico	133	50
Colombia	400	34
Ecuador	244	77
Salvador	100	26
Uruguay	98	78
Haiti	80	1
Panama	30	10
Costa Rica	62	62

Germany's gains were greater than the United States only in Panama, Costa Rica, Salvador, and Haiti, and the United Kingdom exceeded our gains in only Panama and Haiti.

During October and November Japan's increases to the whole of Latin America were greater than ours. (Trade of United Kingdom and Germany for those months are not yet available.)

In October and November our gains were 59 and 46 percent of our exports in the same months of 1936, while Japan's gains were 61 and 90 percent, respectively.

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The countries to which Japanese trade increased much more than ours were:

Argentina	Uruguay
Mexico	Ecuador
Chile	Cuba
Colombia	

On the other hand, our gains were much greater than Japan's in:

Venezuela	Salvador
Peru	Guatemala
Nicaragua	Honduras

From the trade statistics available it appears that the United States increased its share of trade with Latin America to a greater extent than did the other three countries during the first half of the year. In the third quarter, however, Japan's share increased more than ours, and the rate of our increase over Germany and the United Kingdom was less than during the first half of the year. In the last quarter of 1937 Japan increased sharply its share relative to the United States and from preliminary figures available Germany may also have increased its share greater than the United States. There are no figures available for the United Kingdom exports to Latin America during the last quarter.

To conclude:

Towards the end of 1937 the United States began to lose the highly advantageous position in Latin America which it had held during the early part of the year. However, the loss in dollar volume is not yet large.

Our prospects of trade with Latin America during 1938 are not very good.

Latin America will import less, we believe, in 1938 than she has in 1937, because:

1. The following commodities, together constituting a very important portion of Latin America's export trade to the world, have fallen sharply in price since the first half of 1937. Sodium nitrate (from Chile) and beef (from Uruguay and Argentina) are the only important commodities showing an increase.

Secretary Morgenthau - 8

Decline in prices December compared with the average of the first six months of 1937:

Cotton	38 percent	Coffee	24 percent
Rubber	31 "	Tin	23 "
Wool	28 "	Bananas	13 "
Wheat	27 "	Sugar	11 "
Copper	29 "		

Virtually no change:

Petroleum	Tobacco
Silver	Gold

Increases:

Beef	34 percent	Sodium nitrate	6 percent
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Unless the prices of these commodities show marked improvement during the next year, Latin American exports will be lower in value because of the importance the above commodities play in their total exports. For example:

Coffee constitutes more than half of the total exports of the following countries:

Brazil	55 percent
Colombia	56 "
Costa Rica	66 "
Guatemala)	
Salvador) over	75 "
Haiti)	

Bananas constitute 85 percent of the exports of Honduras and 70 percent of Panama's; 6 percent of Colombia's.

Sugar and tobacco make up 90 percent of Cuba's exports.

Meat products are four-fifths of Uruguay's exports.

Grains and wool account for 48 percent of Argentina's exports.

Wool accounts for 40 percent of Uruguayan exports, 6 percent of Argentine exports and 4 percent of Chilean exports.

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Raw cotton accounts for 27 percent of Peru's exports and 16 percent of Brazil's.

Tin makes up over 70 percent of Bolivia's exports.

Petroleum and products make up 90 percent of Venezuela's exports; 38 percent of Peru's exports, 20 percent of Mexico's exports, 20 percent of Colombia's, and 12 percent of Ecuador's.

Sodium nitrate and copper, 65 percent of Chile's exports.

Copper accounts for 15 percent of Peru's exports.

2. The prospects of increased investments in Latin America are slimmer than ever.

Doubtless there will be some direct investments made by foreigners to establish branch plants and further develop some of the natural resources and build public utilities but the present credit status, of most of the Latin American countries, their long record of defaults, the political instability and the potential exchange difficulties will mitigate against any large annual sums being invested there.

Recent events in Mexico will certainly not encourage more foreign capital to go there; nor will political developments in Brazil promote confidence abroad.

The one country that is in a position to attract large amounts of capital is Argentina but the past year Argentina has indicated that she prefers to rely upon foreign funds for the exploitation of her resources as little as possible.

3. The prospects of increased production of gold and silver are slight.

The total amount of gold produced in Latin America is about 70 million dollars, half of which is produced in Mexico and Colombia. Gold production has increased in recent years but not enough to make any substantial difference.

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4. Latin American exports meeting increasing competition.

The opportunity of Latin America to increase greatly her exports is restricted by the fact that her agricultural exports are meeting increasing competition from each other and from other continents, while the demand for her non-agricultural products is increasing only very slowly because of technical developments and the development of new sources of supply elsewhere. Only in her oil, manganese, and possibly tin, is there any prospect of rapidly increasing foreign demand.

(A war in Europe would, of course, create a great demand for Latin American products by European countries and would result in increased buying power in Latin American countries for our exports.)

Altogether, therefore, it is probable that Latin America will buy less foreign goods in 1938.

It is likely that our trade will suffer more than will that of Japan and Germany because:

(a) Both those countries must maintain and expand their export markets and will make every effort to do so.

(b) Both countries employ methods of getting business that we do not -- barter arrangements, clearing and compensation agreements, disguised subsidies.

(c) In the past half year Japan especially has been increasing her trade greatly, and she is bound to redouble her efforts, and employ new devices.

The gain by Japan, though great in terms of percentage, will not be large in terms of dollars.

Value. As pointed out earlier, we export 17 times as much to Latin America as does Japan.

Nevertheless, for certain commodities and in certain countries Japanese competition is becoming a serious factor and will doubtless become more so next year.

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This is particularly true of rayon and cheaper grades of cotton textiles. For example, Japan's export of rayon to Mexico in 1937 was more than doubled, while her exports of cotton tissues to Mexico were more than 400 percent. Similarly, Japan's cotton textile exports to Argentina doubled in 1937.

Why was Japan able to make its sharp gains in Latin American trade?

In the period between 1928 and 1936 Japan succeeded in entering the Latin American markets, which she had barely touched prior to that time. The major reason for her ability to compete successfully in these markets was because of the depreciation of her currency by 37 percent during the depression.

In the third quarter of 1937, which coincided with the outbreak of the Japanese-Chinese hostilities, Japan again began to increase sharply her share in the Latin American markets. We do not know what devices she has been using, but we hazard the following:

(a) Intensive sales effort carried out by the official "missions" of Government officials which visit Latin American countries to develop trading possibilities; and

(b) Japan probably offered her commodities at lower prices than she had been able to previously, probably because of special assistance given to Japanese exporters by Japan in the attempt of the Japanese Government to increase its foreign exchange resources.

Why has Germany been able to gain in Latin American trade in 1935 and 1936 and not nearly as much in 1937 (1st nine months)?

Germany's gains in Latin American trade were made in the years 1935-1936 and were concentrated in relatively few countries. During this period Germany was introducing and pushing her aski-mark compensation trade. Those countries which accepted arrangements wherein aski-marks were used were soon placed in a position where it was necessary for them to increase their purchases of German goods in order to dispose of aski-marks acquired by the export of raw materials to Germany.

By 1937 most of the advantages from the above methods had been relieved. From then on additional gains became more difficult.

Our exports to Mexico will probably drop sharply during 1938.

We sell more to Mexico than to any other Latin American country. The recent exorbitantly high duties imposed on almost all of our important exports will undoubtedly be effective in reducing our sales. Our largest single export to Mexico, for example, is vehicles and parts, and second largest is industrial machinery. Import duties on these items have almost doubled and in some cases more than doubled. The tariff has recently been raised on 218 items, or approximately one-third of the Mexican tariff list. From a preliminary

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examination it appears that the duty increases have hit our products more than those of other countries. Below are listed reported increases on some of the more important items:

Tariffs raised January 19, 1938 (as reported by the press) by percentages given below:

Calculating machines	200	Velvets	100
Motors of all kinds	75	Crafts paper	300-400
Autos - 4 cylinders	66-2/3	Felt hats	65
Autos above 4 and not more than 6 cylinders	150	Textile machinery	150-200
Autos above 6 and not more than 8 cylinders	133	Sewing machines	100-200
Autos more than 8 cyl.	150	Radio transmitters	150
Trucks	133	Radios with cabinets	192
Machetes	150	Radios without cabinets	400
Capsules and pills	100	Typewriters	225
		Cameras	200

Even without the tariff increases the political and economic situation in Mexico is such as to give little promise of maintaining our last year's level of exports to them during 1938. With the higher duties in effect our exports will certainly be cut substantially.

Cuba, also, is likely to buy less from us in 1938.

The ability of Cuba -- our second largest Latin American customer -- to purchase imports depends almost entirely upon the value of her two export crops, sugar and tobacco. Both these items are lower in price than they were during most of 1937 and as yet there is no reasonable prospect that they will rise again to 1937 levels. We may, therefore, expect that Cuba will buy less in 1938. Since more than half of Cuba's imports come from the United States it is likely that we shall sell Cuba less in 1937 than in 1938, even though our share of Cuban business may increase.

Any improvement in our position in the Argentine market -- which is as important as the Cuban market -- is dependent upon the negotiation of a trade agreement which would put a stop to Argentina's discrimination against American exporters in acquiring exchange permits. This discrimination will not be removed unless a trade agreement is negotiated. The position of the United Kingdom in the Argentine market in 1937 was greatly

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improved by the Anglo-Argentine trade agreement of last summer. Unless that agreement is offset by a corresponding American agreement the special advantages which the United Kingdom obtained will permit her to make gains in Argentina at our expense.

The total of Argentina's purchases from abroad will be dependent upon the prices of her major commodities such as wheat, beef, flax, corn and wool. The prices of these commodities reached their high point early in 1937 and with the exception of beef, have fallen throughout the year. As long as these prices stay at the present low level, Argentina will not be as good a customer in 1938 as she was in 1937. This is true in spite of the fact that Argentina has added substantially to her gold reserve during the past three years.

Coffee and cotton prices in 1938 will largely determine how much Brazil will import.

Brazil is still basically dependent upon two commodities -- coffee and cotton -- as her source of foreign exchange, in spite of the fact that Brazil has made considerable progress in attempting to diversify her economy. The 1938 prospects of Brazil as a market is therefore dependent upon the success of Brazil in her attempts to establish a world agreement for the marketing of coffee, which would maintain the price at satisfactory levels, and the condition of the cotton market. The negotiations for a coffee agreement are now taking place and the welfare not only of Brazil but of many of the smaller Central American countries is dependent upon the outcome of these negotiations. If the world agreement on coffee is reached it seems likely that Germany's position in the Brazilian market will not be as strong as it has been in the past two years. Germany succeeded in increasing her trade in Brazil because of the barter arrangement made with the use of aski-marks which Brazil accepted. Because of her desire to dispose of coffee (and cotton) without disturbing the price in free markets.

Bolivia, Chile and Peru are almost completely dependent economically upon the world market for copper, tin and potash.

In 1937 these three countries were prosperous because the demand and the prices for their products reached levels higher than 1928. The subsequent fall in the latter half

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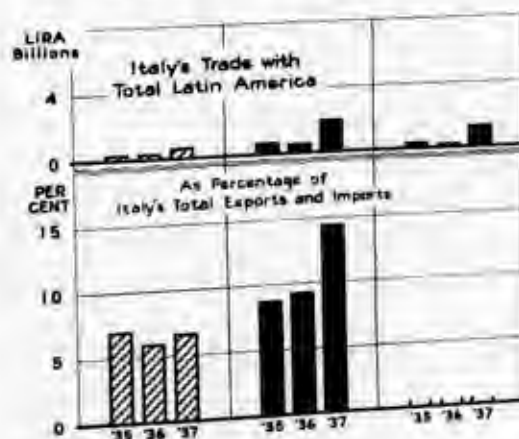
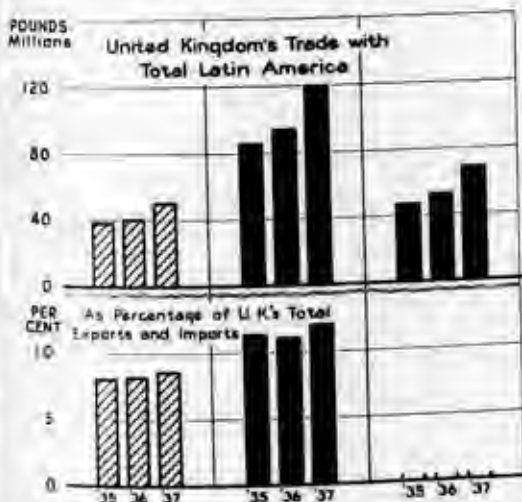
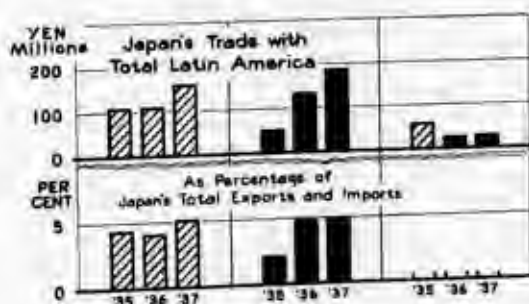
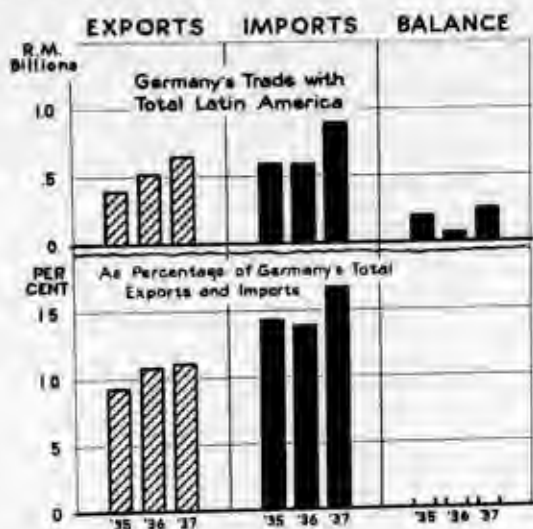
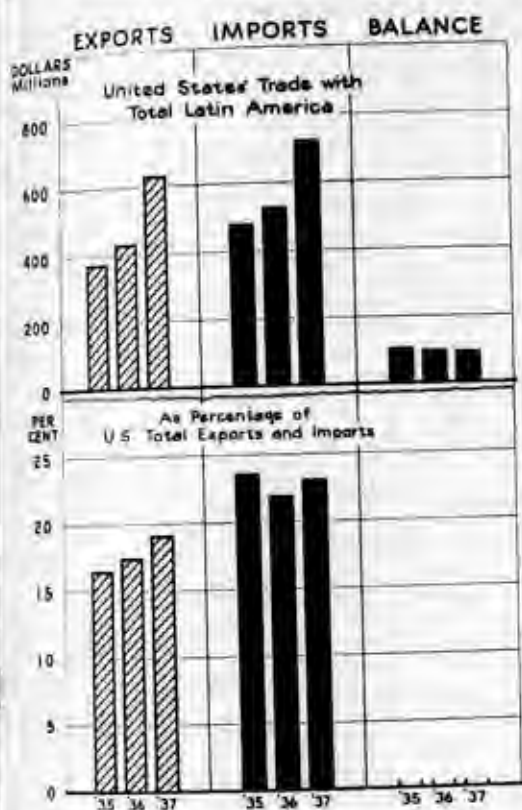
of 1937 which is continued and which shows every indication of continuing well into 1938, means that these countries will probably feel the business recession deeply. They will not only be able to buy less because they have less to spend, but increasing exchange difficulties will induce lower imports.

Venezuela doubled her purchases from us in 1937, compared with 1936, and this improvement in trade may well continue during 1938. The major export commodity of Venezuela is petroleum, and petroleum did not suffer in the decline of raw material prices during 1937. In addition, the United States is about to negotiate a trade agreement with Venezuela, which should enable us to increase our share in the trade of Venezuela.

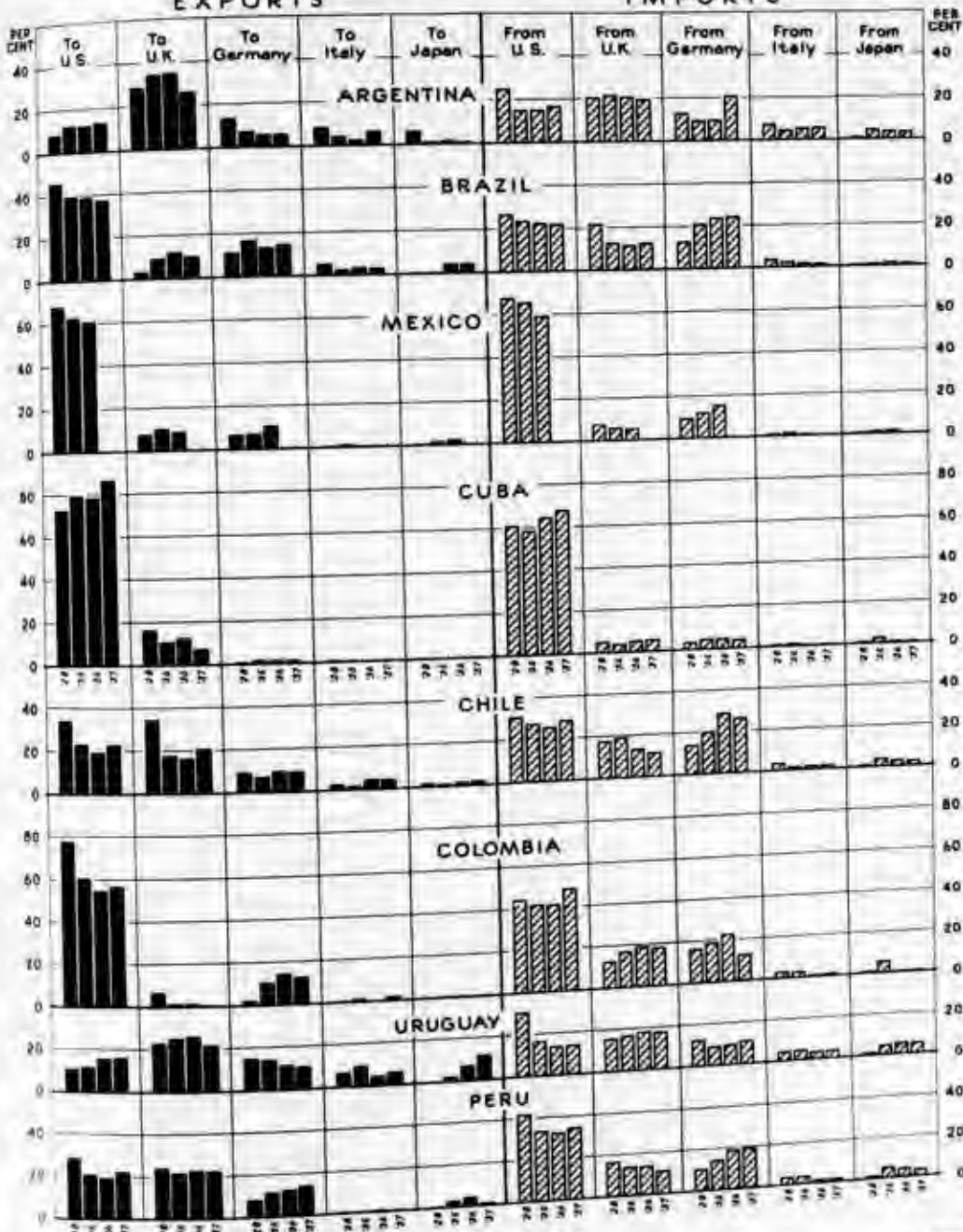
Colombia and Ecuador are mainly dependent upon exports of coffee and petroleum, plus cocoa and minerals for Ecuador and gold and bananas for Colombia. There are optimistic as well as pessimistic factors in analyzing the prospects for trade with these countries. On the whole, however, it is likely that our trade will be somewhat lower during 1938, but that there will not be a sharp decline. A clarification of the coffee situation will be of considerable assistance.

Other countries in Central and South America are dependent mainly upon the export markets for sugar, bananas and coffee, and are very sensitive to changes in the prices of these commodities. Nicaragua is already experiencing a crisis in foreign exchange, and has evidently decided to increase duties on imports in contravention of our trade agreement with her. Although our trade with Nicaragua is not very important quantitatively, the action of Nicaragua will be serious if it is a precedent which may be followed by other small Latin American countries whenever they run into exchange difficulties. If the business recession continues in the United States, these smaller countries will be seriously affected, and we may anticipate sharp reductions in our sales to them during the ensuing months.

TRADE WITH TOTAL LATIN AMERICA



PERCENTAGE DISTRIBUTION OF EXPORTS AND IMPORTS OF LEADING LATIN AMERICAN COUNTRIES



10-100

U.S. Department of the Treasury
Office of Research and Statistics

United States' Exports to Latin America

Percentage change during periods of 1937
over corresponding periods in 1936

	: Total 1936 : : exports in : : dollar : : equivalent :	Percent change in exports in 1937 over corresponding period in 1936			
		First : half :	Third : quarter :	October : %	November : %
	(Millions)				
Argentina	56.9	+ 60	+ 66	+ 96	+ 52
Brazil	49.0	+ 19	+ 62	+ 55	+ 40
Mexico	76.0	+ 52	+ 50	+ 27	+ 23
Venezuela	24.1	+ 97	+ 97	+102	+ 68
Cuba	67.4	+ 36	+ 40	+ 46	+ 34
Chile	15.7	+ 32	+ 70	+ 99	+ 85
Colombia	27.9	+ 53	+ 34	+ 44	+ 29
Uruguay	8.5	+ 41	+ 78	+ 71	+ 43
Peru	13.4	+ 19	+ 33	+ 83	+117
Bolivia	3.6	+ 28	+ 44	+158	+217
Dominican Republic	4.6	+ 33	+ 75	+ 4	+ 85
Guatemala	4.6	+ 76	+ 66	+ 88	+ 54
Ecuador	3.3	+ 19	+ 77	+175	+ 31
Honduras	4.9	+ 6	+ 8	+ 43	+ 8
Salvador	2.8	+ 14	+ 26	+ 59	+116
Costa Rica	3.0	+ 46	+ 62	+ 22	+ 38
Paraguay	.3	+103	+201	+ 80	+ 52
Haiti	3.9	+ 9	+ 1	+ 18	+ 10
Nicaragua	2.4	+ 58	- 15	+ 51	+ 97
Panama	22.7	+ 11	+ 10	+ 14	+ 36
All other	<u>34.6</u>	<u>+ 96</u>	<u>+ 73</u>	<u>+ 72</u>	<u>+ 69</u>
Total to Latin America	429.6	+ 46	+ 53	+ 59	+ 46

United States imports from Latin American countries
 Eleven months ending November 1928, 1936, 1937

(In millions of dollars)

Country	1928	1936	1937
Mexico	113	44	56
Cuba	191	120	141
Argentina	93	58	135
Brazil	202	91	111
Venezuela	35	23	21
Colombia	85	38	48
Netherland West Indies	50	13	18
Panama	6	4	4
Chile	67	23	44
Peru	19	8	15
Uruguay	11	11	14
Trinidad and Tobago	9	3	3
Guatemala	9	7	9
Dominican Republic	9	5	7
Bolivia	.2	1	1
Honduras	12	6	5
Ecuador	5	3	4
Jamaica	7	2	2
Costa Rica	5	3	4
Haiti	1	2	3
Bermuda	1	.3	.4
Salvador	3	5	8
Nicaragua	5	2	3
French West Indies	.2	.2	.2
British Guiana	1	.1	1
British Honduras	3	2	2
Barbados	.4	.4	.4
Paraguay	1	1	1
Surinam	1	2	3
Total	947	478	665

January 29, 1938.

Treasury Department, Division of Research and Statistics.

United States exports to Latin American countries
 Eleven months ending November 1928, 1936, 1937

(In millions of dollars)

Country	1928	1936	1937
Mexico	107	68	100
Cuba	117	61	84
Argentina	164	51	83
Brazil	91	45	61
Venezuela	34	21	42
Colombia	54	25	36
Netherlands West Indies	124	13	31
Panama	31	21	23
Chile	36	14	22
Peru	21	12	17
Uruguay	24	8	12
Trinidad and Tobago	4	4	7
Guatemala	12	4	7
Dominican Republic	15	4	6
Bolivia	4	3	5
Honduras	9	5	5
Ecuador	6	3	5
Jamaica	8	3	4
Costa Rica	8	3	4
Haiti	12	4	4
Bermuda	3	3	4
Salvador	7	3	3
Nicaragua	7	2	3
French West Indies	2	2	2
British Guiana	1	1	1
British Honduras	2	1	1
Barbados	1	1	1
Paraguay	1	.3	1
Surinam	1	1	1
Total	799	387	577

United Kingdom's Exports to Latin America

Percentage change during periods of 1937
over corresponding periods in 1936

	: Total 1936 : exports in : dollar : equivalent (Millions)	: Percent change in exports in 1937 : over corresponding period in 1936	
		: First half : %	: Third quarter : %
Argentina	77.3	+ 21	+ 39
Brazil	24.2	+ 50	+ 50
Mexico	6.9	+ 42	+ 15
Venezuela	6.1	+ 93	+ 34
Cuba	5.1	+ 28	+ 18
Chile	8.8	- 4	+ 14
Colombia	12.1	+ 34	+ 18
Uruguay	9.7	+ 6	+ 37
Peru	5.8	+ 8	- 12
Bolivia	1.0	+ 22	0
Dominican Republic	.5	+114	+ 21
Guatemala	1.0	+ 41	+ 47
Ecuador	1.2	+ 5	+ 24
Honduras	.4	+ 4	- 22
Salvador	.8	+ 86	+ 25
Costa Rica	.6	+ 71	+ 23
Paraguay	.3	+ 72	+ 5
Haiti	1.2	+ 92	+ 29
Nicaragua	.6	- 5	- 54
Panama	1.9	+ 9	+ 32
All other	<u>39.1</u>	<u>+ 20</u>	<u>+ 12</u>
Total to Latin America	204.6	+ 26	+ 29

United Kingdom's Trade with Latin America

(In millions of pounds)

	Exports			Imports		
	Total	To Latin America	Percent of Total to Latin America	Total	From Latin America	Percent of Total from Latin America
1928	844	82	9.7	1,196	146	12.2
1932	416	32	7.7	702	93	13.2
1935	481	40	8.3	756	96	12.7
1936	501	41	8.2	848	107	12.6
1937 (9 mos.)	445	38	8.5	742	102	13.7

Japanese Trade with Latin America

(In million yen)

	Exports			Imports		
	Total	To Latin America	Percent of Total to Latin America	Total	From Latin America	Percent of Total from Latin America
1928	1,972	26	1.3	2,196	14	.6
1932	1,410	18	1.3	1,431	5	.3
1935	2,499	109	4.4	2,472	51	2.1
1936	2,693	110	4.1	2,764	134	4.8
1937 (11 mos)	2,903	147	5.1	3,525	172	4.9

Japan's Exports to Latin America
 Percentage change during periods of 1937
 over corresponding periods in 1936

	:Total 1936: :exports in: : dollar : :equivalent: :	Percent change in exports in 1937 over corresponding period in 1936				
		First half %	Third quarter %	October %	November %	
	(Millions)					
Argentina	\$6.8	+ 40	+160	+113	+140	
Brazil	2.7	+ 58	+163	+ 35	+132	
Mexico	2.1	+ 70	+133	+ 65	+131	
Venezuela	2.3	+ 90	- 4	- 40	- 7	
Cuba	.4	+ 41	+ 28	+ 45	+ 66	
Chile	2.2	- 19	+ 63	+160	+353	
Colombia	.04	+307	+400	+412	+ 50	
Uruguay	2.4	- 25	+ 98	+227	+119	
Peru	1.8	- 12	- 14	+ 71	+ 40	
Bolivia		Not listed separately				
Dominican Republic	.9	+146	+ 47	+ 50	+ 31	
Guatemala	.1	- 44	+ 38	+ 12	- 30	
Ecuador	.8	- 86	+244	+705	+2,312	
Honduras	1.1	+ 74	- 50	- 28	- 41	
Salvador	.01	+ 75	+100	- 14	- 23	
Costa Rica	.6	+ 62	+ 53	+ 50	+ 43	
Paraguay		Not listed separately				
Haiti	.4	+162	+ 80	- 30	+ 30	
Nicaragua	.2	+163	- 4	- 68	- 61	
Panama	3.0	+ 20	- 30	+ 32	+ 69	
All other	<u>5.1</u>	<u>+ 37</u>	<u>+ 62</u>	<u>+ 56</u>	<u>- 1</u>	
Total to Latin America	33.0	+ 30	+ 67	+ 61	+ 90	

Germany's Exports to Latin America
 Percentage change during periods of 1937
 over corresponding periods in 1936

	: Total 1936 : : exports in : : dollar : : equivalent : (Millions)	Percent change in exports in 1937 over corresponding period in 1936	
		First half %	Third quarter %
Argentina	24.4	+ 35	+ 64
Brazil	33.4	+ 27	+ 32
Mexico	12.8	+ 37	+ 24
Venezuela	6.0	+104	+ 84
Cuba	2.8	+ 12	+ 30
Chile	12.4	+ 7	+ 19
Colombia	11.3	- 35	- 39
Uruguay	4.2	+ 23	+ 68
Peru	7.2	+ 10	+ 18
Bolivia	1.1	+ 5	+ 37
Dominican Republic	.4	+ 12	+ 40
Guatemala	2.5	+ 37	+ 54
Ecuador	1.7	+ 17	+ 13
Honduras	.4	+152	+ 54
Salvador	1.6	+ 1	+ 38
Costa Rica	1.6	+ 8	+ 93
Paraguay	.5	+ 94	+100
Haiti	.3	+ 44	+ 34
Nicaragua	.9	- 19	- 50
Panama	1.8	- 80	+371
All other	<u>1.6</u>	<u>+ 58</u>	<u>+ 56</u>
Total to Latin America	128.9	+ 20	+ 34

United Kingdom's Trade with Latin America
(In millions of pounds)

	Exports			Imports		
	Total	To Latin America	Percent of total to Latin America	Total	From Latin America	Percent of total from Latin America
1928	844	81	9.6	1,196	141	11.8
1932	416	31	7.5	702	88	12.5
1935	481	39	8.1	756	86	11.4
1936	501	41	8.2	848	94	11.1
1937 (9 months)	445	38	8.5	742	90	12.1

Japanese Trade with Latin America
(In million yen)

	Exports			Imports		
	Total	To Latin America	Percent of total to Latin America	Total	From Latin America	Percent of total from Latin America
1928	1,972	26	1.3	2,196	14	.6
1932	1,410	18	1.3	1,431	5	.3
1935	2,499	109	4.4	2,472	51	2.1
1936	2,693	110	4.1	2,764	134	4.8
1937 (11 months)	2,903	147	5.1	3,525	172	4.9

Germany's Trade with Latin America
(In million reichsmarks)

	Exports			Imports		
	Total	To Latin America	Percent of total to Latin America	Total	From Latin America	Percent of total from Latin America
1928	12,030	893	7.4	14,051	1,736	12.4
1932	5,739	241	4.2	4,667	521	11.2
1935	4,270	397	9.3	4,159	596	14.3
1936	4,768	515	10.8	4,218	588	13.9
1937 (11 months)	5,359	593	11.1	4,938	827	16.7

Italy's Trade with Latin America
(In millions of lire)

	Exports			Imports		
	Total	To Latin America	Percent of total to Latin America	Total	From Latin America	Percent of total from Latin America
1928	14,556	1,687	11.6	21,920	2,763	12.6
1932	6,812	530	8.5	8,268	834	10.1
1935	5,238	359	6.9	7,790	674	8.7
1936	5,547	325	5.9	6,039	563	9.3
1937 (10 months)	8,550	564 ^{1/}	6.6	11,509	1,658 ^{1/}	14.4

^{1/} Estimate based on trade with Argentina, Brazil, Chile and Uruguay, which represented 80 percent of Italy's trade with Latin America in 1935 and 1936.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 31, 1938

TO Secretary Morgenthau
 FROM Herman Oliphant

In your first conference with Mr. Douglas on bank holding companies, he suggested a plan S.E.C. had in mind for certain states in the Southeast for reorganizing utilities and spoke of the possible need of Government financing to carry out that plan. He was left with the impression that there was no present authority for the Federal Government to provide such financing.

The Federal Reserve Bank of Atlanta would have the powers conferred by the following language:

"In exceptional circumstances, when it appears to the satisfaction of a Federal Reserve bank that an established industrial or commercial business located in its district is unable to obtain requisite financial assistance on a reasonable basis from the usual sources, * * * pursuant to authority granted by the Board of Governors of the Federal Reserve System, may make loans to, or purchase obligations of, such business, or may make commitments with respect thereto, on a reasonable and sound basis, for the purpose of providing it with working capital * * *."

The Reconstruction Finance Corporation can

"for the purpose of maintaining and increasing the employment of labor, when credit at prevailing bank rates for the character of loans applied for is not otherwise available at banks * * * make loans to any industrial or commercial business * * *".

January 31, 1938.
11:30 a.m.

H.M.Jr: Hello.
Marriner
Eccles: Good morning, Henry.

H.M.Jr: Hello Marriner.

E: You wanted to meet with the Committee on Wednesday morning.

H.M.Jr: Yes.

E: I was wondering if Thursday would suit you as well. The reason was, I was planning on going up to New York tomorrow - late tomorrow afternoon, and I wouldn't be back for the meeting. However, I can cancel that if you have some - some preference.

H.M.Jr: No, Thursday at eleven o'clock is -

E: Now, Burgess - I believe Thursday would possibly suit Burgess better because -

H.M.Jr: Make it Thursday at eleven o'clock.

E: Well if that suits you just as well, I'll do that.

H.M.Jr: Just as well.

E: George won't be here.

H.M.Jr: Yes.

E: But all the rest will be.

H.M.Jr: Yes.

E: Well all right then, we'll put it down for Thursday.

H.M.Jr: That's right.

E: Now, do you want to meet with me tomorrow.

H.M.Jr: Yes.

E: All right. And I'll -

H.M.Jr: Now there is a chance that the President may have me because he couldn't have me today for lunch.

- 2 -

E: I see.

H.M.Jr: So he said that he'd try to arrange it for tomorrow.

E: I see.

H.M.Jr: But lacking the President of the United States, I'd be delighted to help you.

E: Well, I'm not going to run any - I'm not - I don't expect to run competition with him.

H.M.Jr: All right. Well, now, are you coming alone, or are you going to bring Ransom?

E: Well, I'll - whatever you say, I'll bring Ransom over.

H.M.Jr: Well then if you have Ransom, I'll have Taylor.

E: How is that? Let's - unless there's something that - last time, I - I felt that you and I possibly ought to get together and discuss the thing we did talk.

H.M.Jr: Yes, we got that -

E: Unless you have something else, why I have nothing particularly confidential that I wouldn't want Ransom and Taylor in on.

H.M.Jr: Good.

E: Well, then I'll wait to hear from you tomorrow.

H.M.Jr: That's right.

E: When are you going to come over here and get lunch with us.

H.M.Jr: Well, I'll do that.

E: Huh.

H.M.Jr: I'll do that soon.

E: All right then.

H.M.Jr: All right.

E: Goodbye.

FARM SECURITY ADMINISTRATION FINANCES

January 31, 1938.
3:10 p.m.

Present: Mr. Bell
Mr. W. W. Alexander
Mr. C. B. Baldwin

Alexander: Well, Mr. Secretary, our boss man suggested that there might be some profit in our talking with you, and we are glad of the opportunity. If you will intimate the lines along which we

A.J.Jr: It's just this. Mr. Wallace spoke some harsh words at Cabinet about - well, I mean the Secretary of the Treasury - how hard-hearted we were and all that sort of thing. And I said that as far as myself was concerned, that Mr. Bell and I saw the Hopkins people at least once a week and we have been able to keep them happy and supplied with sufficient funds to take care of their work up to date; and, notwithstanding the difficult times we are going through, if you people were running out of money and had people starving on your hands, that I couldn't - I couldn't dream of it if no one told it to me. That is, very briefly, the story. And, as I said - that we could keep the other organization satisfied; I don't know whether we could keep yours, unless - at least we can't ...

Alexander: ... unless you know the facts.

A.J.Jr: ... unless I know it. But as I say, Bell and I have had this arrangement. Naturally I don't get into budget hearings; that's Mr. Bell's responsibility. But for the President he and I do go into the question of policy. Once the policy is adopted - I mean, why, Mr. Bell does take care of it. But he and I, on these things which affect the Treasury so vitally, run into big figures - we both went to get in on it. Is that right, Dan?

Bell: Uh-huh.

Baldwin: I think you might say, Mr. Secretary - of course, the program laid down for us at the beginning of the year - now, we certainly haven't any complaint about Dan and the way his people have treated us; there hasn't been any trouble. But the difficulty is that the Secretary of Agriculture found himself under

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terrific pressure coming from all sorts of directions for things which can't be done.

H.A.Jr: Well, a couple Congressmen. Let's be frank.

Those notes are only for myself. Only one copy. They never circulate. I can't remember all these things.

He comes in there and suddenly bleats, and throws it in the President's lap and my lap, and I just don't know that there is anything new that's happened from the time the thing was set up; that's all.

But what I'm interested in is not who's right and who's wrong. I'd like you to give me, if you would - I mean so we'll get something out of this, you see, rather than - what is your picture? Now, I - it's been a long time. How are you set up by divisions? I mean in just very simple language what are you doing? I'm more interested - I don't know if we can do anything.

Alexander: We've got two or three things. First place, we've got these old projects that were started.

H.A.Jr: Dan, is that chair just as comfortable? Then I can see you in case you want to relax at me.

Bill: Winker's not so good today.

H.A.Jr: What?

Bill: My winker is not very good today.

Alexander: We've got the old projects which were started under various agencies - F.R.A.A., Subsistence Homesteads. That's a problem of management.

H.A.Jr: Now, say it - what's that?

Alexander: Old projects that were started under F.R.A.A. and Subsistence Homestead that have been finished and people are in them.

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H.A.Jr: Now, those are houses?

Alexander: Housing projects, yes.

H.A.Jr: Are they finished?

Alexander: Well, practically so.

Baldwin: Those particular projects are.

Alexander: Are finished. The people are in them, and as that

Bell: You extended that, did you?

Alexander: Beg pardon?

Bell: You extended that?

Baldwin: Some of them are extended. We haven't to date had many extended.

H.A.Jr: I'm going to interrupt you. A month ago you said you had \$15,000,000 to run to July 1. Now, what

Alexander: Oh, that's something else. I was sketching to you what our activities were.

Then certain farm projects that we ourselves started, in the process of being finished. Finished by July 1, or practically so; but the construction will be all out of the way on July 1. That's provided for; we have no problem for that.

Our problem is very large on the rehabilitation program, on which we spend 90 percent of our money, which is the taking of these people who are either on relief or slipping on relief - these farm families, and giving them small loans, giving them help to get them on their feet, get them on their way, self-supporting. Instead of the demand for that falling off, as we had every right to hope a year ago that it would, the thing is just increasing - increasing, the number of these people that are coming into difficulty.

We have just had some sample studies made in eight counties in South Carolina. We've got fifteen hundred families that are there just stranded; children need

-4-

clothes - no clothes, no money, no way to go to school. And in another county in Arkansas - three counties in Arkansas, a thousand families. There seems to be - that's all new stuff. We're spending - 35 percent of the money that we're spending for grants, we're spending in the Great Plains drought area; carrying a tremendous load of drought cases out there, where there's no use of making them loans now until they get some rain. So we're just carrying those people on a straight dole. Some of the counties, 60 percent of all the farmers in the county - I think an average of those counties of 60 percent of those families in the county - farm families - are on the dole. Just can't help it; no crops for years.

The money that we have had for rehabilitation loans - well, we had anticipated that a large part of that grant load this winter would be confined to the Great Plains area, that drought-stricken area - Nebraska, the Dakotas, and Montana. Then the first thing that came along was about 16 counties in Wisconsin which we hadn't - we thought they'd make it, but they haven't; they've had to have help. The load in Nebraska has picked up - the grant load; Governor's been putting a great deal of pressure on us to do things in Nebraska that we just haven't had the money to do. Said people are leaving those farms - many of the farm families going to town, so on; bad situation in that state. Down in Colorado I suppose they still have some, and in western Kansas.

H.A. Jr: How about Texas?

Alexander: Well now, we haven't had so much grant load in Texas until recently there began this pressure to come up from the South - south Arkansas and Texas. First thing we found was 300 families stranded in one of the counties down there. Congressmen came in and asked for help. We were suspicious that we were being asked to carry people that the landlord ought to carry, but on investigation - and therefore we wouldn't go into it except we could get a contract with the landlord that he would carry them when the crop time came, and so on. And we're doing that with loans. We haven't gone into the grant business in

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this Cotton Belt area.

Baldwin: For instance, we only have two - in the month of December, we only made 195 grants in the state of Texas.

Alexander: Yes, but the pressure is coming from the Cotton Belt. There are a lot of stranded farm families down there; something has just got to be done with them. Now, we've gone ahead with our loan program, and that's the thing that we like to do; I mean that's the thing that's getting us somewhere - getting people on their feet by making them loans.

Now, we allocated the money available to the counties on the basis of the need and the farm population, etc., which means that we had in that particular county enough money to carry the people that we had already started up the ladder, plus a certain number of new loans. We got that out just as early as we could, so there wouldn't be any uncertainty and the thing could get going. But the demand for new loans has just run away with us, and we're having to say to them when we get to the end of our money that there just isn't any more money.

H.M.Jr: How much money you got left in that division?

Baldwin: We have a considerable amount - let's see, about \$40,000,000. See, our loan season is just beginning.

Bell: Just for the loans.

H.M.Jr: How much for grants?

Baldwin: We have about \$10,000,000 left for grants.

Alexander: But this loan money has been allocated by counties, and although it hasn't actually been loaned, the man in the county knows how many loans he can make.

Baldwin: He's turning down all

Alexander: He's turning down all beyond what he has.

H.M.Jr: Well, did Congress do that? Who made the allocation?

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Bell: President made the allocation.

H.M.Jr: I mean aren't there some counties which maybe don't need it as badly as others?

Baldwin: Well, we have taken that into consideration in dividing our funds up - a very careful investigation of the need in every county, and then divided. We had a request, for instance, for about \$90,000,000 and we had, all told, about \$54,000,000. So we have divided that up on the basis of need.

H.M.Jr: well, where's the seed loan bill this year, Dan?

Bell: That's through. It will be at the President in a few days.

H.M.Jr: How much money to that?

Bell: They reappropriated the unexpended balance of the old loan, plus certain receipts. Be about \$35,000,000.

H.M.Jr: Does that go to Myers?

Bell: Yes.

H.M.Jr: That will help, I take it, in some of these areas.

Bell: While it is designated as a crop loan, it is for all kinds of purposes, even for food.

Baldwin: The difficulty there

H.M.Jr: Even for food?

Bell: Yes.

Baldwin: The difficulty there, Dan - that loan is controlled largely on an acreage basis, and particularly in severe drought-stricken counties these people need money for capital equipment, the type they can't get within the limits Farm Credit has to establish. That's where we get our great pressure, particularly in some sections of the Middle West and the northern Great Plains.

Bell: Well, are you hard up for money now?

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Baldwin: Here's the situation. For cash we are all right.

Bell: You're just having a little pressure brought to bear, aren't you, just like everybody else in Washington.

Baldwin: But it's pretty intense.

Bell: Well, everybody in Washington is having the same thing.

Baldwin: The point is, though, our supervisor in a certain county - his allotment of funds for next year - for this year is \$50,000. When he gets applications in that have been passed upon by his local county committee - we have a county advisory committee and we investigate their farms and see whether or not we can make a loan with a reasonable chance of having it paid back, reasonable chance for his rehabilitation. We stop when we get up to \$50,000. Now we are getting in many counties five and six times the number of applications that we can take care of. And naturally our people - our supervisor doesn't want to hold these people up, say, "There may be some money later." They tell them, "Sorry, we've had to close our applications."

Bell: Did you keep any reserve back, not allocate any of your money?

Baldwin: All but about a million dollars. Because we allocated so much less than we - than was requested in each region, each state.

H.M.Jr: Who heads up this actual - this division? What do you call it?

Alexander: Rehabilitation.

H.M.Jr: Who heads that up?

Alexander: Mr. Perkins.

H.M.Jr: Perkins. What's his first name?

Alexander: Milo.

H.M.Jr: I don't know him, do I?

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Bell: I don't think so.

Baldwin: Been in the Secretary's office. Happens to be out of town now.

H.M.Jr: How many employees does he have to do this work?

Baldwin: I can give you the figures. About 75 percent of our total employees are in connection with the work on this rehabilitation program.

Bell: Does he make the grants too?

Baldwin: Yes. All with the county office. Same man handles both.

Bell: They're all under Perkins, both loans and grants.

Alexander: Yes.

H.M.Jr: We've gotten a couple complaints here of your repossessing on loans.

Alexander: Yes, I expect you got more.

H.M.Jr: Yes.

Alexander: Yes, I expect you have.

H.M.Jr: The health people get some of those.

Alexander: Yes. Yes.

H.M.Jr: United States Health.

Alexander: We have done some repossessions, because if we make a man a loan and he apparently isn't going to

H.M.Jr: But I got it that you take everything away from them.

Alexander: No, leave them a cow.

H.M.Jr: We got several complaints that you take everything away.

Baldwin: In some cases they take their cow away from them. We have a chattel mortgage on everything he has. But

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I'll tell you, generally those cases, Mr. Secretary, are where these people have sold the crop, and we have a chattel mortgage, and in some of the states, in order to recover, we have to liquidate whatever we have - whatever is covered by the mortgage in order to do it. But the first thing our people look to see is whether or not it is possible for this man to do a rehabilitation. If he's made no effort and we have advanced him money over a period of two or three years and he's squandered it, sold his crop without remitting - we have to keep some discipline up.

H.M.Jr: The complaint is that you people loaned them too much in the beginning.

Alexander: Loaned them too much?

H.M.Jr: More than he could really carry. Too much machinery.

Alexander: Well, about 85 percent - 85 percent of them don't find it so.

Baldwin: I think the - of course, those advances very tremendously, but those loans run about \$350, \$375; in some cases, of course, we made loans of twelve, fifteen hundred, two thousand dollars, in the dairy section.

Alexander: Best collections we've made are on our larger loans.

Baldwin: We've got 9,795 employees.

H.M.Jr: Just under ten thousand.

Baldwin: That compares with May, 1936, total of 19,500.

H.M.Jr: How much?

Baldwin: Nineteen thousand. We have just cut our organization in two.

H.M.Jr: On this particular - you're talking now just on

Baldwin: I'm talking of the whole organization. About 75 percent of the people

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- H.M.Jr: Nineteen thousand to
- Baldwin: To ninety-seven hundred, ninety-eight hundred.
- Bell: That's your total organization, not just Perkins.
- Alexander: 75 percent of those people are on this loan and grant thing.
- Baldwin: Typical county unit is a rural supervisor, paid an average of about \$1300 a year; a clerk, paid an average of about \$900 a year; and a woman, a home supervisor who works with these people in their homes, paid an average of about \$1500 a year, and we have about one of those to two supervisors, generally try to cover two counties with the one woman who works with these destitute families.
- H.M.Jr: Now, where does this share-cropper bill - do you people have that?
- Alexander: Yes, we have that.
- H.M.Jr: Now, what are you doing under ...
- Alexander: Well, we're buying this year about 2,100 to 2,500 farms. Can't tell exactly how much there will be. Ten million dollars available.
- Baldwin: We're making the loans.
- Alexander: Making the loans. Tenants buy the farms.
- Bell: Changed it. They can't buy the farms; have to make the loans.
- Alexander: We make the loans.
- Bell: Bill was changed.
- Alexander: The county committee recommends the individual and the farms.
- H.M.Jr: Same committee or different committee?
- Baldwin: We have only operated 300 counties on the tenant bill. The cost of administration was just gone out of sight. Try to operate in every county with only ten million dollars.

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H.M.Jr: Well, your administration costs must be high.

Alexander: Five percent.

Baldwin: Five percent is all we're allowed, of course. Our supervisors have to

H.M.Jr: I don't know whether Mr. Wallace told you what the President said. He said, "Can't Hopkins take care of some of these people?"

Alexander: Well

Baldwin: Now, here's our experience on that. We worked very carefully, very closely, with WPA. They started out in these drought areas last year, where most of our grants are made, and made grants to about three hundred thousand farm families - three hundred fifty thousand.

H.M.Jr: In '37.

Baldwin: I mean they gave them work.

H.M.Jr: Gave them what?

Baldwin: Gave them work in '37.

H.M.Jr: Yes.

Baldwin: Well, as a matter of fact, in December, 1936, they had to cut them off - didn't have money enough to run them; so we were given money to run them with grants. We took those people; we had a grant load of about four hundred thousand families then.

H.M.Jr: When was that?

Baldwin: That peak was reached in March, 1937. And we brought it down - I don't have the figures by months, but we got down to 56,000 in July. And it's been going up since - oh, from 56 to 76, and then on up to 108 in December. Now, Harry isn't attempting to reach that group of people.

H.M.Jr: How many have you got now?

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Baldwin: 103,000 on grants.

H.M.Jr: With Hopkins?

Alexander: No, those are ours.

Baldwin: No, these are ours. We are carrying these on grants.

H.M.Jr: How many is he taking care of?

Baldwin: Well, he's taking care - 85 percent of these people are in our Great Plains, and he doesn't have a rural program out there.

H.M.Jr: I mean has Hopkins got any rural program?

Baldwin: Oh, I think some, yes. I think some people, but very small number. I haven't seen the figures on it recently, but he's carrying very few farmers on his rolls.

Alexander: We've got three thousand families here in three counties, Arkansas and Texas. They'll get - 1550 of those will be taken up first of February by - given work on flood control project here and there. There are projects that are taking some of these people over.

Bell: He'll do it in those areas where the relief load is sufficient to make a project. In this Great Plains area they are so widely scattered that they'd have to bring them from miles to get them on a project.

Baldwin: We've been carrying them. We've got counties in North Dakota where we have as much as - in Immons County, North Dakota - 76 percent of the farm families in that county are on - we are giving them grants.

Alexander: Average for those counties is 60 percent.

H.M.Jr: Average 60 percent.

Baldwin: Yes. We're carrying 35,000 farm families, which represents a population, I'd say, of 130,000 people on grants.

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- H.M.Jr: Well, what you people are worrying about now is some months hence; is that what you're worrying about?
- Baldwin: Well
- Bell: Worrying about pressure.
- Alexander: We're worrying about the pressure that's coming on us now from every Congressman in the country. We just stay on the phone over there. "Why can't you make these loans?" "We haven't got the money."
- H.M.Jr: I mean when are you beginning to run out of money?
- Alexander: We are out of money so far as these new loans are concerned.
- Bell: They won't run out of actual money if the President's program is laid down. He laid down a program with respect to Resettlement the same as he did with Hopkins.
- H.M.Jr: That will last to July 1.
- Baldwin: That will last to July 1 if we don't accept any more loans now.
- H.M.Jr: Well, are people - do you know of cases in rural areas where people are really starving now?
- Alexander: There is hunger.
- H.M.Jr: There is?
- Alexander: Oh yes. Here you are - 1,500 families in eight counties in South Carolina; 90 percent of them live in the open country; 90 percent of them are heads
- H.M.Jr: Living in open country? No roofs?
- Alexander: In scattered farms outside of the village.
- H.M.Jr: Oh. What a funny term.
- Alexander: That's the technical term, sir.
- H.M.Jr: I've lived on a farm for 25 years, but I haven't said

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I've lived in open country.

Alexander: Rural district.

H.M.Jr: Is that what they say up in New Jersey where you come from? Don't you come from New Jersey?

Alexander: No, sir, I come from Georgia.

Dell: He doesn't like New Jersey.

H.M.Jr: Must be a Southern term.

Alexander: No, it was a term developed by the Country Life Association.

Baldwin: well, tell you what was done. To distinguish between people that live in small villages

H.M.Jr: All right, it's a trivial Where do you get down to

Alexander: Now, they're able to give them clothes, but they're not able to give them any food.

H.M.Jr: Yes, but that doesn't say they're hungry.

Alexander: well, it doesn't say

Baldwin: I think you might say this, Dr. Alexander. We have practically withdrawn from giving grants in any place except the drought section, unless they have some catastrophe.

H.M.Jr: I tell you what you do - going to give you a chance - give me a dozen counties in twelve different states - I mean ...

Alexander: where there is

H.M.Jr: where there is distress.

Alexander: We're getting that for you right now.

H.M.Jr: I mean where there is distress. And then I'll pick an investigator and advise you, with your assistant - send him or her into the field, with your knowledge

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and cooperation.

Alexander: All right.

H.M.Jr: Hun?

Baldwin: Mr. Secretary, I don't think that reaches this problem that these Congressmen talk about. They aren't talking about people that are hungry.

H.M.Jr: Well, I am.

Baldwin: I know that's what you're interested in.

H.M.Jr: I mean I'll just turn myself inside out if you can tell me where people are hungry. So will Mr. Bell. We'll find you the money.

Baldwin: Frankly, I don't think you'll find many hungry people. Do you, Dr. Alexander?

Alexander: Yes, I think you will.

Baldwin: Because they are not the kind of complaints we get.

Alexander: No, our complaint is - there are another class of people that are quite above that. You see, here we've got \$50,000. We can take care of so many of these rehabilitation loans; but there's a great number of people out there in that same county that simply can't get money to move their crops and go on with their farm.

H.M.Jr: That's something different. I'm asking you for a dozen cases in a dozen different states, as many as you've got, within reason, where people are hungry.

Alexander: Are in need, in want.

H.M.Jr: Yes.

Baldwin: Of course, our instructions to the field right now are to go ahead and spend the money where we find hungry people, regardless when we run out. That's on our grant people.

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- H.M.Jr: I'm asking for cases where there are people who are hungry or in
- Alexander: Without clothes or medical care.
- H.M.Jr: Medical care - I can get that from Dr. Parran - I mean discuss the medical care. Mrs. Roosevelt and Mrs. Morgenthau went to a county outside of Lexington there - I mean, without medical care is - I know where those are.
- Are we still carrying on a program in North and South Dakota?
- Baldwin: Oh yes. That's one of the finest things we're doing. There is, of course
- H.M.Jr: Now, there is a case, if you don't mind my saying - it's only my constant working, working, working personally by which we were ever able to get that North and South Dakota thing through. That's right, Dan?
- Bell: What's that?
- H.M.Jr: That joint thing with Dr. Parran. I never have said it, but we just worked and worked and worked, plugged away at that thing, just to get that thing for Dr. Parran. You know, this joint thing.
- But I'd like to know, as I say, where the people are in real need.
- Alexander: All right, sir.
- H.M.Jr: And then if you'll tell us that, I'd like to send somebody out.
- Alexander: All right.
- Baldwin: I was thinking about New Mexico, Dr. I was out there not long ago, and those Spanish Americans - never seen anything like the situation in that state. Perhaps they are no more hungry than they have been for the last five or six years, but it's really atrocious.
- Bell: This pressure you're getting from the Hill

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Baldwin: We're getting the pressure

Bell: For grants or loans?

Baldwin: ... for loans.

Alexander: The pressure we are getting is for loans.

H.M.Jr: Now, you work closely with Steve Garwood.

Baldwin: Oh yes, very closely. As a matter of fact, we executed an agreement with Farm Credit the latter part of the week

Alexander: I signed it today.

Baldwin: Did you sign it today?

Alexander: Yes.

Baldwin: I thought it was signed Saturday.

.... to prevent any duplication between what they're doing and what we're doing. We had the same agreement last year, and we had no trouble at all.

H.M.Jr: He's a gentleman.

Alexander: Yes.

Well, the pressure that will continue to come is on these loans. Now, in Nebraska, these fellows say that unless those men can be assured that they can get loans to move their crops, they're going to move off and leave the farm. Considerable amount of abandonment of farms now. These farmers are just whipped, begging for more money to make them loans for their crops.

H.M.Jr: I tell you what you do. I'm asking for this, see? See what kind of report we get, and then in a week or ten days I'd like to see you agsin. How's that?

Alexander: All right, sir.

H.M.Jr: I mean I can't - I'd be more than pleased, until we can see where we are, to sit down and - say, every ten days, with you people.

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Alexander: All right, that's fine.

Baldwin: Mr. Secretary, we haven't mentioned this migratory labor situation in California. That's ...

Alexander: That's another one.

Baldwin: That's a very mean one. Out there we are making some grants. Now, we are actually running into trouble with the state of California because we are making grants. They don't want us to make them.

H.M.Jr: Do they want them to get out?

Baldwin: Want them to get out. A hundred thousand came out last year.

Alexander: There's nowhere for them to go.

Baldwin: We're doing everything we can for them. Established a number of camps. But if that condition continues, we know what it would cost; cost a million, five hundred thousand dollars to look after those people out there. They're camping by roadsides, aren't getting medical attention; children are suffering, and many of them are very hungry. California will not take care of them, although they have a large relief program.

H.M.Jr: Anything that you've got - I've done something else besides be Secretary of the Treasury in my life and - I mean I know what social work is. And I'm asking you - I mean give me the worst you've got.

Alexander: All right.

H.M.Jr: Now, let's see how bad it is.

Alexander: All right.

H.M.Jr: What?

Alexander: All right.

H.M.Jr: Let me see the worst you've got, and then, if you don't mind, we'll send somebody ourselves with you, openly and aboveboard, the way we always work.

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Alexander: All right.

H.M.Jr: See?

Alexander: It's all right. Now, the pressure that you're getting is, however, from this loan thing in Nebraska.

Baldwin: We've got a joint memorandum, I understand.

Bell: Yes, I got it here now.

H.M.Jr: Well, I want a chance to talk it over with Mr. Bell. We didn't know just what this is.

Alexander: All right, sir.

H.M.Jr: You're interested in that thing that I sent over there?

Alexander: Yes, our boys are working on that.

H.M.Jr: And they'll have within a reasonable time a report?

Alexander: Yes, sir.

H.M.Jr: They certainly make a little money so a long way, don't they?

Alexander: Yes. We've got one of our engineers out there looking at it.

H.M.Jr: I saw the report - beautiful.

Thank you for coming over.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: January 31, 1938, 10 a.m.

NO.: 52

FOR COCHRAN FROM THE SECRETARY OF THE TREASURY.

Reference is made to your telegram No. 160 of January 29.

With regard to the reference to the Tripartite Agreement and France which was reported to Rueff by the French Financial Attaché to the United States, this was given to the press only as background information. No direct statement or interview was given. In view of this Secretary Morgenthau does not wish his name to be used in connection with the report of the French Financial Attaché.

HULL

EA:LWW

MBo

GRAY

London

Dated January 31, 1938

Rec'd 1:50 p.m.

Secretary of State,
Washington.

* RUSH.

78, January 31, 6 p.m.

FOR THE SECRETARY OF THE TREASURY FROM BUTTERWORTH.
Returned from Paris this evening.

In the course of my talks with Cochran which were very helpful and informative he told me of his interview with Marchandseau reported in his telegram of January 26. Am I authorized to pass on the general substance of this conversation to Phillips with whom I have an appointment, made by him last week, for noon tomorrow?

JOHNSON

HPD:

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 31, 1938, 4 p.m.

NO.: 163

FROM COCHRAN

Feature of European exchange trading today is weakening of dollar against sterling. Swiss are reported heavy sellers of dollars and purchasers of gold on London market, one customer alone selling today one and one half million dollars. Belga weakening with dollar is at gold export point with London.

French control began offering sterling at 152.87 when banks opened this morning and brought rate down to 152.55. By 3:30 p.m. rate had moved back to 152.95 where control was giving some sterling on a quiet and steady market. Forward franc somewhat strained and discounts lower.

Today's improvement has followed: (One) American Treasury press conference on France and tripartite, which continues to receive favorable comment from French editors. (Two) Vigorous policy of French control on Friday evening and Saturday morning. (Three) Chautemps statement denying plan to seek plenary financial powers or to go against tripartite underwriters. (See my 161, January 31, 11 a.m.) (Four) Prospect of Minister of Finance Marchandau giving a statement along similar lines over radio at 7:30 tonight.

Further exchange upset should be postponed by the fact that parliamentary vote on the labor code the latter end

- 2 -

of this week and that the Bank of France statement this Thursday will show no gold loss. Rentes on the other hand are lower today. The Algerian loan which opened on the eleventh of January with twenty francs commission per thousand franc bond is today selling with a forty franc commission with difficulty. Contacts of mine in the Ministry of Finance expect that this loan will be closed on Wednesday. They believe it will shortly be followed by a Credit National operation.

EULLITT.

EA:LWW

TELEGRAM SENT

LMS

GRAY

January 31, 1938

4 p. m.

AMEMBASSY

LONDON (ENGLAND)

38.

FOR BUTTERWORTH FROM THE SECRETARY OF THE TREASURY.

Your No. 78, January 31, 6 p. m.

Yes.

HULL
(FL)

EA:FL:LWW