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RB

PLAIN

London

Dated November 11, 1937

Rec'd 3:52 p. m.

Secretary of State
Washington.

710, November 11, 8 p. m.

CONFIDENTIAL FOR TREASURY FROM BUTTERWORTHE.

Confidentially informed that there was a meeting this afternoon of the eleven clearing house joint stock banks to discuss the question of treatment of foreign deposits. An attempt was made to obtain agreement for uniform treatment of foreign balances reducing the usual 1-1/8% interest rate to between 1/2 and 3/4% and instituting certain minimum amount and minimum period qualifications. Agreement could not be reached within any framework or formula (the Midland Bank being the most intransigent opponent of concerted action); in fact the meeting adjourned without even setting a date for another discussion. I gather that this attempt came from within the clearing banks and was not the result of official pressure but the clearing banks here believe that the action of the Swiss banks, though termed a voluntary agreement, was in fact dictated

RE -2- No.710, November 11, 8 p. m. from London

dictated by the Central Bank. It seems now unlikely that any further action will be taken here barring a similar intervention by the Bank of England (with the advice and consent of the British Treasury) but such intervention would, of course, be successful as Phillips implied in his discussions in Washington (see paragraph 4, page 2 of the memorandum of conversation held on afternoon 7 September 11st).

The dollar continued to strengthen today reaching at one time 4.98 1/2. The demand was general with Sweden an outstanding buyer. Likewise, the gold premium declined to 11D. and the demand was also less than yesterday. With Paris closed the Bank of England had authority to operate in the franc market but was not called upon to do so.

As representative of informed opinion in the City on the value of the dollar there is quoted below a pertinent extract from a private letter addressed by the senior partner of an important merchant banking house doing a large exchange business to a Scandinavian client who gave it to me in confidence:

"I cannot find that we share your apprehensions
regarding

RB -3- No. 710, November 11, 8 p. m. from London

regarding the dollar at any rate if we are envisaging a longer rather than a shorter period. It is true, of course, that the heavy purchases of gold by the United States in the spring of this year depressed the dollar in the exchange markets for the reason which you yourself give: namely, that the United States had no balance on international account with which to pay for the metal. The gold simply went to America instead of in another direction because the Federal Reserve Board is an unlimited buyer at a fixed price. But if a somewhat longer view is taken there seems little ground for apprehension on the score of these gold imports. Gold is the one commodity which pays for itself. If the dollar is seriously threatened gold will be shipped abroad again. That is unless it is assumed that gold will be demonetised. Just at the moment we are having experience of the contrary phenomenon. The United States have been rather slow and cumbersome in their methods for letting gold go abroad again so that the dollar has weakened not because the gold went in but because it was delayed in coming out. Simultaneously the Swiss, the Dutch and their respective central banks have been converting into gold everything they can lay hands upon.

There has

RE -4- No. 710, November 11, 8 p. m, from London

There has been a good deal of rumor recently regarding the possibility of further dollar devaluation. For the present, so we believe, this may be dismissed as at any rate wholly improbable. But were it to occur, virtually every other important currency would very quickly follow suit. The countries that did not would, rather unnecessarily, suffer acute economic disturbance. So that as an exchange risk there seems little need to worry unduly on this score.

As regards the possibility to which you refer in your letter of America refusing to buy gold, perhaps all one can say is that conditions have undergone a rapid change since last May and June when this was envisaged as a serious prospect, especially as some American financial writers were protesting against the U.S.A. "subsidizing" the British Empire by its gold purchases. A good deal may depend on Russian gold production in future once this can be more decisively ascertained. But were gold to be demonetized throughout the world it would not by any means follow that the dollar would become a weak currency. Except for the predominance of extremely radical social ideas it is the contrary which one might expect. No doubt the U.S.A. balance of payments disallowing for gold is more nearly in equilibrium now than

for

RE -5- No. 710, November 11, 8 p. m. from London

for many years. But the exports of the United States both agricultural and industrial have proved extraordinarily strong and resilient--almost inelastic--for many years. The world can hardly do without them if it is to be prosperous. For the present therefore we see little ground to be apprehensive, if minor fluctuations can be disregarded, for the future of the dollar."

BINGHAM

KLP

RECEIVED
NOV 11 1941
INTERNATIONAL TRADING
CORPORATION
NEW YORK, N. Y.

JR

GRAY

London

Dated November 12, 1937

Rec'd 8:58 a.m.

Secretary of State,
Washington.

712, November 12, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

With reference to final paragraph my 673, October 28, 6 p.m., Phillips telephoned to inquire again about this matter and asked if it would be possible to obtain information regarding American representation at forthcoming meeting of League Finance Committee before he and I meet on Monday morning.

BINCHAM

CSB

RECEIVED

NOV 12 1937
STATE DEPARTMENT

JR

GRAY

London

Dated November 12, 1937

Rec'd 2:25 p.m.

Secretary of State,
Washington.

713, November 12, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The Court of Directors of the Bank of England have nominated Montagu Norman for Governor for the 19th time and Catterns for Deputy Governor. This is tantamount to reelection.

The decision of the Brazilian Government, both as regards its foreign obligations and its internal political arrangements came as a surprise to the City. Even those who now claim that such developments were to be expected, and that it was inevitable that Vargas should steal his national opponent's program and thunder, admit that the timing was unexpected. The suspension by the stock exchange of further dealings in Brazilian Government, State, and Municipal securities although swiftly arrived at was not merely an expression of petulance but is in accord with the gloomy and serious view taken here. Confidentially informed by two banking firms interested in Brazilian finance that not more than half of the Brazilian sterling bonds

-2- #713, November 12, 6 p.m., from London.

bonds are held in this country, continentals due to the high interest yields having made large purchases. It seems to be vaguely hoped that America's unfavorable balance of trade may furnish the means of rectifying the total default. Through the mediums affected by the provisions for nationalization of foreign insurance companies and banks are still in the stage of making further inquiries.

The foreign exchange movements were without significance. The amount of gold at fixing declined to 180 bars the price being 140 shillings 4 1/2 pence, being a premium on the dollars of 11 pence. There were hardly any gold dealings after fixing.

BINGHAM

KLP:CSB

EDA

TELEGRAM SENT

GRAY

November 12, 1937

4 p.m.

AMEMBASSY

LONDON (ENGLAND)

446.

FOR BUTTERWORTH.

Your 712, November 12.

Riefler will attend the November meeting. Collidge is planning to attend the subsequent one.

For your information Riefler is coming down to discuss agenda with us tomorrow.

HULL
HF

EA:HF:LWW

RECEIVED
NOV 13 1937
TELETYPE UNIT
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.

EDA

GRAY

PARIS

Dated November 12, 1937

Received 4:25 p.m.

Secretary of State

Washington

1593, November 12, 5 p.m.

FOR THE TREASURY.

Dealings on the money market here today were orderly and not very considerable, with the trend rather against the franc due largely to commercial buying of dollars. The fund, it seems, gained a small amount of sterling this morning at the opening around 147.06. The rates quickly strengthened, however, to 147.33, and closed around 147.17. The dollar moved between 29.47 and 29.53.

The security market was undecided and no changes of importance took place either way. Rentes were up for 10 to 30 centimes.

The expected reduction in the interest rate of the Bank of France was announced today. The discount rates (WERE?) was reduced from $3\frac{1}{2}$ to 3 percent, advances on securities for $4\frac{1}{2}$ to 4 percent and 30 day advances for $3\frac{1}{2}$ to 3 percent. The weekly statement dated November 4 and published today shows no changes in the gold reserves, nor in advances to the Treasury. Commercial discounts

WERE

EDA - 2 - #1593, November 12, 5 p.m. from Paris
WERE down about 1,000,000,000 francs. Thirty day
advances up 508,000,000. The note circulation
increased by about 555,000,000. Deposits down
382,000,000. Ratio of gold cover 51.27 against 51.36.

BULLITT

SMS:NPL

00413333

NOV 13 1943

RECEIVED
NOV 13 1943
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

Confidential

12

Cabinet Meeting - November 12, 1937 - 2 P.M.

Present: The President and all members of the Cabinet except the Vice President and Secretary Morgenthau, who was represented by Mr. Magill

1. Fascist developments

The President stated that the Fascist nations were the great menace to the Democratic form of government at the present time because the Fascist form of government had been effective particularly in international affairs. He said that he had predicted that a Fascist nation would presently be established on this continent and that the announcement of the Fascist regime in Brazil followed his prediction only two days later. He went on to say that in his conferences with the bankers at Hyde Park he had discovered that many of them would really like to see the United States a Fascist nation, with the expectation that they would really be in control. The bankers generally do not think of current problems from a national point of view, but the President felt that they were gradually becoming educated. He said this Administration had just about taken them through the second grade but that they had ten more grades to go.

If Brazil should sign the anti-Communist Treaty to which Germany, Italy, and Japan are now parties, the United States would have to take some notice of it because of the likelihood that there are secret military clauses behind the rather vague anti-Communist pact itself.

The Attorney General suggested that the strength of the Fascist countries lay in the fact that each is unified behind a single leader and that each has the force to back up its policy in international affairs. The Democratic nations do not back their leaders with the same unity and do not have enough military force to be effective. Mr. Hull stated that he felt the United States should proceed to build at least three more battleships since this was the only kind of argument that Japan understood.

2. Trade agreement with Great Britain

Mr. Hull said that formal negotiations were about to begin on a trade agreement with Great Britain. Preliminary exchanges have already taken place and the difference of views between the two countries have been largely ironed out. The prospect is that agricultural products will be admitted to Great Britain on a considerably more favorable basis than at present. It will be necessary to consider reciprocal trade relations with Canada at the same time the British agreement is being negotiated but it is not contemplated to take in the other British dominions.

Secretary Roper mentioned the fact that large quantities of Canadian shingles, in excess of the quotas, had arrived at American ports; and that the President would be requested to sign an executive order to permit their entry into this country. The President said that he would not approve the entry of these shingles contrary to our agreement with Canada. In the course of about two months the shingles can be admitted under next year's quota.

3. Secretary Morgenthau's speech

The President said that Secretary Morgenthau had informed him that he had a very difficult audience to address in New York last week. Senator Byrd had made a typical speech which was full of inaccurate statements. Secretary Morgenthau said that if he could have spoken extemporaneously, he could have demolished most of the Senator's speech but he decided to adhere to his prepared address. The President said that the address had been well received by the newspapers, as a very constructive statement. He thought that it was "possibly too constructive." As the Cabinet knows, the Administration is doing all it can to balance the budget but he does not regard that as the most important question before the country. It may be that the expenditures next year will exceed receipts by a few hundred million dollars. The President had gone over Secretary Morgenthau's speech and approved it but had asked the Secretary to insert a statement to the effect that the Administration was not going to permit people to starve. There was no comment by other members of the Cabinet.

I told the President, in response to his question, that we were making satisfactory progress with the tax revisions. The subcommittee had already pretty well concluded its consideration of the two most publicized topics, capital gains and the undistributed profits tax.

4. Public utilities

The Attorney General reported that the Electric Bond and Share case in New York had been won in the Circuit Court of Appeals and would probably go on to the Supreme Court. The success in that case indicated the soundness of the Department's policy in delaying the other public utility cases, and in insisting that the validity of the holding company act should be tried out in the Electric Bond and Share case.

The President said that he expected to see a number of public utility executives next week regarding the sit-down strike in public utility expenditures. He said the real question at issue between the Administration and the public utilities was whether or not the utilities could obtain valuations for rate-making purposes in excess of the "prudent investment cost." The President referred to his press conference in which he had cited an old English case to the effect that cost and not value was determinative in fixing public utility rates.

5. The Navy

Secretary Swanson besought the President not to cut the Navy's budget but further said that he thought two new battleships and not three would be enough, otherwise the pacifists would be unduly aroused. Secretary Hull again insisted on three.

6. Anti-trust prosecutions

Secretary Ickes said that he had been asked to appear as a witness voluntarily in the Wisconsin Oil prosecution, but he had, of course, refused to do so. The Attorney General said that these cases were testing out the utility of criminal prosecutions as a means for enforcing the anti-trust act. He felt that there was some chance that the government might win but not very much.

7. Agricultural bill

Secretary Wallace reported that the agricultural bill would probably be approved by the House Agricultural Committee this afternoon. Corn is not included in the bill. The cost of the voluntary program (compulsory as to tobacco) would be about \$200,000,000 which could be met by a processing tax on cotton and wheat. The Agricultural Committee, however, did not propose to include tax provisions in its bill but was going to pass the buck to the Ways and Means Committee. The President said that the crop control bill must go hand-in-hand with taxes to pay the cost; that he could not approve crop control legislation which operated as a drain on the Treasury.

8. Housing

Secretary Wallace urged that the President should take a strong position in favor of increased housing construction. The President described the proposed housing program as calling for loans of 90 percent of the cost. Consideration was being given to the use of sterilized gold as a backing for \$50,000,000 of currency to provide the needed equity capital. He thought this use might be an undesirable precedent and said that the whole question was being studied. He said further that he would probably deliver a housing message after the beginning of the session.

Secretary Roper said that he was considering a trip to South America with a group of American business men in the spring. The President and Secretary Hull approved the idea, provided that the right business men were selected for the trip.

9. Labor

Secretary Perkins reported on the operations of the Labor Board, pointing out that most of the disputes were being settled by agreement and that the Board was acting impartially. She said that the negotiations

- 4 -

between the A F of L and the CIO were progressing rather satisfactorily and that she was reasonably hopeful of an ultimate agreement.

10. Railroads

The President referred to conversations which he had with railroad executives to the effect that additional railroads would probably go into receivership next year; and that some railroads now in receivership, such as the Missouri-Pacific and Chicago and Northwestern, were hardly earning operating charges. The Interstate Commerce Commission is much too slow in dealing with applications for increased rates but the executive has no control over the Commission. A good many people think the only solution is government operation.

In the course of a discussion between the President and the Attorney General, the President suggested that it might be desirable to form a railroad administration and thereby to provide personnel to serve as receivers for the various insolvent railroads. In this way a form of government operation might be obtained without the great expense of buying out the security holders. Furthermore, since the securities had lost most of their value the government ought not to be compelled to pay much for the railroads anyway.

The Cabinet meeting adjourned at 4:45 P.M.

Notes taken by Mr. Magill

Ribbon copies of the attached memo
of 11/12/37 were sent to the following:

The President

The Secretary of State

The Secretary of War

Attention:- Col. Strong(G-2)

Letters of transmittal dated 11/15/37,
signed by the Secretary.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 12, 1937

TO Secretary Morgenthau
 FROM Mr. Heas *MH*

Subject: Current trade with Japan and China

A. Trade with Japan for month of October 1937 ^{1/}

(1) United States exports to Japan.

United States exports to Japan during October 1937 were 25 percent greater than during September 1937, but considerably less than our exports during the summer months of 1937, and less than our exports for October 1936.

	<u>1937</u>	<u>1936</u>
October	\$21,133,000	\$26,663,000
September	16,842,000	21,328,000
August	24,643,000	10,763,000
July	26,509,000	11,995,000
June	25,194,000	13,627,000

Excluding exports of raw cotton, our exports for October 1937 were twice as great as our exports during the same month of 1936.

United States exports to Japan, excluding raw cotton

	<u>1937</u>	<u>1936</u>
October	\$19,582,000	\$ 9,787,000
September	15,354,000	10,552,000
August	23,449,000	9,201,000
July	24,566,000	10,965,000
June	21,962,000	9,352,000

^{1/} Previous reports cover weekly figures only. This report is for the whole month of October. The report also includes the trade for the first week in November. See page 6.

Secretary Morgenthau - 3

(6) The following items show large increases in exports to Japan compared with October 1936:

	<u>October 1937</u>	<u>October 1936</u>
Petroleum products	\$4,585,000	\$2,224,000
Iron and steel semi-mfg.	3,982,000	187,000
Copper	1,893,000	956,000
Industrial machinery	1,394,000	658,000
Paper base stock	1,222,000	798,000
Scrap iron and steel	1,148,000	nil
Hides and skins	898,000	141,000
Pig iron	887,000	nil
Scrap brass	418,000	nil
Ferro-alloys	279,000	6,000
Coal tar products	255,000	63,000
Lead	167,000	nil

(7) The composition of our imports from Japan, with a few exceptions, was approximately the same in October 1937 as that of October 1936. These exceptions were:

	<u>October 1937</u>	<u>October 1936</u>
Silk manufactures	\$ 475,000	\$ 253,000
Flax, hemp and Ramie manufactures	136,000	19,000
Wool manufactures	277,000	148,000
Rayon manufactures	374,000	142,000
Perilla oil	346,000	nil
Pyrethum flowers	260,000	75,000
Raw silk	8,076,000	9,077,000
Food products (excluding tea)	193,000	475,000

Secretary Morgenthau - 4

(8) Of the total of \$21,133,000 of exports to Japan during October 1937, the following items account for almost all:

Petroleum products	\$4,585,000
Iron and steel semi-manufactures	3,982,000
Copper	1,893,000
Cotton, unmanufactured	1,551,000
Industrial machinery	1,394,000
Paper base stock	1,222,000
Scrap iron and steel	1,148,000
Hides and skins, raw	898,000
Pig iron	887,000
Vehicles, parts and accessories	788,000
Scrap brass	418,000
Ferro-alloys	279,000
Coal tar products	255,000
Fertilizers	238,000
Wood, unmanufactured	223,000
Lead	167,000
Industrial chemicals	137,000
Photographic and projection goods	131,000
Others	937,000
	<u>\$21,133,000</u>

Secretary Morgenthau - 5

(9) Of the total of \$15,338,000 of imports from Japan during October 1937, the following account for the bulk:

Raw silk	\$8,076,000
Cotton manufactures	1,157,000
Silk manufactures	475,000
Tea	462,000
Chinaware and porcelain	385,000
Rayon manufactures	374,000
Fish	365,000
Perilla oil	346,000
Inedible animal products	343,000
Wool manufactures	277,000
Pyrethum flowers	260,000
Paper manufactures	252,000
Earthenware	206,000
Chemicals	199,000
Lily bulbs	198,000
Food products	193,000
Wood manufactures	175,000
Metal manufactures	164,000
Glass manufactures	142,000
Flax, hemp and Ramie manufactures	136,000
Other	<u>1,153,000</u>
	<u>\$15,338,000</u>

Data on our trade with China for the whole month of October can not be reported as yet inasmuch as we began collecting weekly figures of our trade with China in the third week of October. October trade figures will be available from the Department of Commerce in a few weeks.

Secretary Morgenthau - 6

B. United States trade with Japan and China during first week of November 1937.

(1) United States exports to Japan during the first week of November were considerably lower and imports from Japan were somewhat lower than the first week of October, but the report of the first week is inadequate to draw any definite conclusions. The inadequacy is particularly true of exports, for export declarations received during the first week do not represent the full volume of actual exports during the week.

	<u>First week of November 1937</u>	<u>First week of October 1937</u>
U. S. exports to Japan	\$1,180,000	\$1,727,000
U. S. imports from Japan	3,245,000	3,328,000

(2) The leading items of export to Japan during the first week of November were as follows:

Petroleum products	\$ 639,000
Iron and steel semi-manufactures	132,000
Cotton, unmanufactured	97,000
Copper	76,000
Fertilizer	72,000
Wood, unmanufactured	38,000
Vehicles, parts and accessories	36,000
Other	90,000
	<u>\$1,180,000</u>

Secretary Morgenthau - 7

(3) The leading items of import from Japan during the first week of November were as follows:

Raw silk	\$2,157,000
Cotton manufactures	205,000
Tea	98,000
Fish	85,000
Porcelain and chinaware	67,000
Rayon manufactures	66,000
Silk manufactures	65,000
Food products (vegetable products)	52,000
Pyrethium flowers	45,000
Earthenware	35,000
Paper manufactures	33,000
Camphor	31,000
Other	306,000
Total	\$3,245,000

(4) United States trade with China during the first week of November 1937.

	<u>North China and Manchuria</u>	<u>Shanghai, South China and Hong Kong</u>
Exports, 1st week of Nov.	\$428,000	\$116,000
Imports, " " " "	215,000	609,000

The documents received, particularly export declarations, during the first week of the month are inadequate for drawing definite conclusions as to the totals of our monthly trade with China.

(5) The principal items of export to China were as follows:

(a) To North China and Manchuria:	
Tobacco	\$166,000
Iron and steel semi-manufactures	\$157,000
Petroleum products	103,000
Other	2,000
	\$428,000

Secretary Morgenthau - 8

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

Iron and steel semi-manufactures	\$37,000
Fruits and nuts	25,000
Vehicles, parts and accessories	18,000
Other	<u>36,000</u>
	\$116,000

(6) The principal items of import from China were:

(a) From North China and Manchuria:

Wool and manufactures	\$116,000
Bristles	32,000
Leather	28,000
Other	<u>39,000</u>
	\$215,000

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

Tin	\$173,000
Inedible vegetable products	119,000
Flax, hemp and ramie manufactures	109,000
Wood oil	25,000
Other	<u>183,000</u>
	\$609,000

MBo

GRAY

London.

Dated November 13, 1937

Rec'd 9:30 a.m.

Secretary of State,
Washington.

714, November 13, 1 p.m.

CONFIDENTIAL FOR TREASURY FROM BUTTERWORTH.

With reference to the second paragraph of No. 713, November 12, 3 p.m., there is obtained in confidence from private source authoritative figures on British holdings of Brazilian governmental securities. Of the total nominal amount outstanding at the end of 1936 of 120 million pounds there was then in the benefit of British ownership 76 million pounds made up as follows: of the 80 million pounds of Brazilian federals some 44 million pounds remained in British hands and of the 40 million pounds state and municipals some 36 million pounds remained British owned. Payments on these securities to British owners amounted in 1936 to slightly less than two million pounds.

The following excerpts from the city columns of the MANCHESTER GUARDIAN and the TIMES are representative of the line taken by the British press as a whole: Sprigge of the GUARDIAN mentions inter alia "London merchant bankers

2- No. 714, November 13, from London.

bankers, insurance companies and investment trusts by no means stand alone to lose large sums in case of Brazil's default, nor yet do they stand alone in need of thinking out how the debtor may be brought to a more helpful frame of mind. The United States is a steady buyer of over half the great staple article of Brazilian export, coffee, and a predominant buyer of other Brazilian goods. As a large buyer of Brazilian cotton - now a large second staple export article - this country has also a valuable market for Brazilian exporters." FULL of the TIMES after emphasizing the damage done to Brazil's credit by the completely though temporary default goes on to indicate that clause 117 of the 1934 constitution likewise provided for nationalization of foreign companies and that nothing very much was done about it: "The implications of article in the new constitution banning foreign banks are not therefore necessarily as bad as they appear to be. At the worst it would surely be possible by use of some of the many devices of present-holding company expenditure for the banks and other foreign companies to subscribe to the law, while retaining essential control of their businesses from London."

It may be of interest in connection with the ^{renewal} ~~renewal~~ ~~news~~ of rumors (repeat rumors) regarding deterioration of

German

3- No. 714, November 13, from London.

German economic position that the same reliable source reports the purchase this week in London on behalf of the German authorities of sterling and dollar German securities with a market value about one million pounds.

BINGHAM

RR:CSB

RECEIVED

NOV 13 1947

INTERNATIONAL SECURITY DEPARTMENT

U.S. DEPARTMENT OF STATE

RE

PLAIN

London

Dated November 15, 1937

Rec'd 3:50 p. m.

Secretary of State

Washington.

718, November 15, 8 p. m.

FOR TREASURY FROM BUTTERNORTH.

In the course of a conversation today Phillips evinced great interest in the American scene and in the administration's legislative plans particularly as regards taxation, cotton, utilities and railways and he took occasion to express his opinion that "with any luck" the present recession in America should only be comparable to that which occurred in 1907; that recession was then comparatively short-lived and expansion continued thereafter through the end of the war.

Phillips also mentioned the recent revival of gold hoarding and said that his inquiries had not produced much definite information but the movement did not now seem to have any great impetus behind it.

He also mentioned France's proposed repayment of the \$40,000,000 railway credit and said that "the real inwardness" lay

RE -2- No. 718, November 15, 8 p. m. from London

lay in the fact that British bank advances had increased to such an extent that the bankers were less keen on such a credit. My own information from the banking syndicate is that the French authorities wished to renew the credit but on improved terms both as regards interest and security; they cited the recent Swiss loan as a precedent. ~~Morgans~~ and Lazards explained that the joint stock banks which has absorbed the overwhelming majority of the credit would be unwilling to renew now on such terms as would apparently meet with French approval. The French were therefore advised to repay the credit thus creating a favorable impression and to take up again in January or February the negotiations for a new credit on better terms. Phillips stated that France had obtained sufficient gold and foreign exchange since the last depreciation to repay the credit without difficulty.

Trading in Brazilian securities was reestablished today presumably because no more precise information regarding the situation seemed to be forthcoming and trading was taking place on other markets. The changes in prices can be illustrated by the 1894 Rothschild funding which is secured on the customs: it opened at 60 and closed at 73; on

November

RB -3- No.718, November 15, 8 p. m. from London

November 10 it stood at 94.

The fact that the dollar moved in the morning almost a cent with scarcely any dealing taking place has given rise to the comment that the British and American authorities may be intent on keeping the price of gold at its current level and not letting the premium run off.

BINGHAM

SMS

CSB

RECEIVED
NOV 15 1934
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

JR

GRAY

Paris

Dated November 15, 1937

Rec'd 5:14 p.m.

Secretary of State,
Washington.

1606, November 15, 7 p.m.

FOR THE TREASURY.

A semi-official statement made on Saturday night by Bonnet in the form of a reply to questions is published in the press to the effect that the British pounds 40,000,000 credit will be integrally repaid as called for, between the second and twenty-sixth of December. It is added that the improvement in the situation of the French currency makes this possible and gratitude is expressed to the British Government and to the British bankers for the assistance thus provided. This statement has been given wide and favorable notice in the press. The suggestion appears that the Treasury plans to negotiate a further credit in London early in January.

At the time of the negotiation the credit was equivalent to about 4,000,000,000 francs. At the present rate of exchange it amounts to nearly 6,000,000,000 francs. The British press quotes Bonnet as stating that the French exchange fund will provide the necessary exchange for the repayment.

While

-2- #1606, November 15, 7 p.m., from Paris.

While Bonnet's announcement referred to above and recent reduction of the interest rates of the Bank of France, would probably, normally have had a stimulating effect upon the French exchange and security markets today, the renewal over the weekend of insistence by officials of the General Conference of Labor that budgetary balance was not essential and that labor would insist upon constitutional reforms in the near future in the form of large scale nationalizations (credit, insurance, electric power, et cetera) seems to have had a depressing effect.

END SECTION ONE.

WILSON

NPL:RGC

MBo

GRAY

Paris

Dated November 15, 1937

Rec'd 5:24 p.m.

Secretary of State,
Washington.

1608, November 15, 7 p.m. (SECTION TWO).

A further disturbing influence was a statement by Severac, Assistant General Secretary of the Socialist Party, in the POPULAIRE yesterday that "people commence to feel that Bonnat's method will not be as effective as his partisans had hoped, and that in the near future the state strongly risks finding itself faced by financial difficulties the renewed gravity of which would constrain the most timid to seek resources where they exist", meaning by the latter no doubt the usual capital levy often advocated by elements of the Extreme Left. In view of recent affirmations that complete harmony of views existed in the cabinet on financial policy, this attack coming from a prominent member of the Socialist Party caused considerable astonishment in financial circles.

On the exchange market both spot and forward rates strengthened in favor of the pound and the dollar. The pound is now quoted at 147.45 after 147.65 and the dollar

2- No. 1606, November 15, from Paris.

lar 29.49 after 29.57. The fund we are told lost some sterling this morning but retrieved an approximately equivalent amount this afternoon.

Rentes improved about 50 centimes but other French securities showed little change. On the other hand internationals showed strength.

Parliament meets tomorrow for the extraordinary session of 1937. Discussion of the budget is expected to commence towards end of November and in the meantime it is expected to pass upon such questions as increased wages and allowances for civil servants and question of reopening next year of the Paris Exposition which will call for a new credit of about 500,000,000 francs.

In correlation with reduction of interest rates of the Bank of France the Treasury has decided to reduce the annual interest rate of its 75 to 105 day ordinary Treasury bonds from $3 \frac{15}{32}$ nds% (rate prevailing since September 3 last) to $2 \frac{31}{32}$ nds%.

END OF MESSAGE.

WILSON

NPL:RGC

GROUP MEETING *

November 15, 1937
9:30 a.m.

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

H.M.Jr: This is my own personal reaction (re speech of Nov. 10). I think the people that helped me in the Treasury did a perfectly-magnificent job, and I appreciate it very, very much.

(To McReynolds) And I want to see that Seltzer gets a raise.

And nobody has yet been able to find a single technical flaw in that speech, and they won't be able to. And I think that that's the final answer.

I didn't know what I was going up against; maybe it's just as well. But it's all right.

Oliphant: Well, I don't think anybody can - I think the speech is fine - I don't think anybody can work with you and with this team as long as we have and come away from that meeting without a good deal of bitterness. That was a disgraceful and disrespectful performance.

Gibbons: Well, Herman, it was no different

Oliphant: Well, wait a minute, Steve. And it looked to me like the whole set-up there, including Parker Gilbert's speech, was an attempt to take you into camp and give you an Al Smith Liberty League dinner - plus the fact that you were sandwiched in between a couple of Morgan partners, which was marvelous advertising for them. The whole thing stinks.

H.M.Jr: I was dumfounded - my friend George Harrison leans over and says to Lamont: "You've certainly got the Secretary of the Treasury boxed in here tonight,

-2-

haven't you?" And Lamont didn't like it at all.

Oliphant: Why would he, any more than Bruce Kramer did under similar circumstances at the Mayflower.

H.M.Jr: Lamont didn't like it at all. But I was surprised at George Harrison. He said, "You've certainly got the Secretary of the Treasury boxed in here tonight."

Well, there's no bitterness here, because it's just as well, Herman, for me to know how these people feel. Now, I'm delighted that I know how Parker Gilbert feels, because Parker Gilbert has never talked that way to me personally. And on the other hand, the other Morgan partner shouted so everybody could hear within a hundred feet, "This is the best thing that ever happened." And he didn't care how - and Leffingwell was the first fellow in the Street who ever had a nice word to say, and he's never asked me to see him. But Leffingwell shouted at the top of his lungs, so everybody could hear it.

Oliphant: I think we sit here and lose the feel of what the typical leadership of American business and finance is, and it's very illuminating to realize the hopelessness of trying to work with them.

H.M.Jr: Well, you've (Magill) got to get on the Hill, don't you?

Magill: Yes, sir, and I've got one thing I'd like to speak about before the "board of strategy." We have been working with the Committee on capital gains and the undistributed profits tax. I think we've been making very good progress, largely because the Chairman, Mr. Vinson, is very anxious to complete his role and get done. So they are very apt to want to make some decisions on these things right soon. Well, they asked promptly what the yield of the undistributed profits tax was for the current year. We said we would scurry around and endeavor to find out. Mr. O'Donnell has now done so, and informs me this morning that last year's yield, taking in account the individual surtaxes as well as the direct impost on the corporations, is 286 million dollars. We told them last year 625 million. That's the story.

-3-

Haas: I'd better look that over.

Magill: I told Mr. O'Donnell that I was not going to give the Committee that information this morning. Now, they're hot on our trail. We've been getting requests from Senators

H.M.Jr: I think in fairness to Haas he ought to have a chance to

Magill: He certainly should.

H.M.Jr: ... check it, and also Helvering's people.

Haas: Uh-huh.

H.M.Jr: See? I mean whoever - I don't know who he has, but he has a

Haas: He has that woman.

H.M.Jr: Well, whoever it is.

Haas: Question of what assumptions are used.

H.M.Jr: What?

Haas: It's a question of what assumptions

H.M.Jr: Well, whatever it is, I think you ought to go at it. You got this fellow Crum down here?

Haas: He's not down here now, but he was planning to come down the end of this week.

H.M.Jr: Better ask him to be here tomorrow morning.

Haas: I'll see if he can get down.

H.M.Jr: See if he can get away from his classes, will you? Terribly important, George.

Haas: That's right.

H.M.Jr: What?

-4-

Haas: That's right, it is.

H.M.Jr: Just what I've told you before - on these things, publicly, I've got to take it.

Haas: Oh, sure, sure you do.

H.M.Jr: So if Crum can come down. And I'd show it both to Helvering's people and your own people.

Magill: Of course, that's the point, the one you have just made. O'Donnell tells me that McLeod left nothing around the place to indicate how he arrived at 625 million; but, so far as I can see, that is practically immaterial for present purposes, because it is the Treasury's estimate of 625 million, and it's the Treasury's receipts, acknowledged now to be less than half that amount.

Haas: It wasn't 625 million dollars on that alone, Ros. I'll have to go over that. It was several items that added up to that.

Magill: Well, anyway, the Treasury takes it on the chin.

H.M.Jr: I take it on the chin.

Magill: No, I think I can keep it off your chin.

Haas: Well, let's not get excited.

H.M.Jr: Who's excited?

Haas: I might get excited.

(Hearty laughter)

H.M.Jr: That's very funny. Who's afraid of the big bad wolf? All right, George, don't get excited.

Haas: O.K., doing the best I can.

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

Magill: Needless to say, I'd like the answer on this quite soon, because I'm the fellow whose head gets hit by the ball bats in the first instance. And I would like to give them the information; at least, I'd like

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not to be damned too heartily for not being

H.M.Jr: Well, he can get right at it. Get hold of O'Donnell right after this meeting.

Haas: Are you (Magill) going to take him up with you?

Magill: He doesn't necessarily have to go up with me. Might be better if he doesn't.

H.M.Jr: And have Helvering's people in at the same time.

Haas: Well - we'll have them in, but that's just window dressing; they don't

H.M.Jr: Now, George, we went through that once before. I don't want Helvering to go over and tell the President something else.

Haas: We'll have them.

H.M.Jr: ... that this end is cockeyed and he's got something else.

Magill: Well, you can have White and Acheson over. That woman isn't going to help much, but White and Acheson will.

Now the second point I think George has already taken care of, but I want to mention it - perhaps unnecessary, but for the sake of getting it emphasized. The Senators, even last week before they were all back to town, were calling up anyone around the Department that they happened to know, to get various types of statistics and estimates. Well, of course, there is no earthly objection to their having any public statistics that there may be. On the other hand, the last fellow that was calling up was none other than Senator Davis of Pennsylvania, who wished to know the statistics on the yield of the undistributed profits tax, so he could make a speech - I believe he's making it tonight. And he called up somebody down in the Statistical Section of the Income Tax Unit; no, he called up somebody on the Joint Committee on Internal

-6-

Revenue Taxation, and they called up somebody in the Statistical Section, and the Statistical Section did give some information, and it was only by virtue of my putting the juice on the Joint Committee pretty hard that we succeeded in keeping it from getting out.

H.M.Jr: Well, that's absolutely - the rule last year that I laid down was that any information on statistics, anything else like that on taxes, should go up over my signature. Wasn't that the way we handled it last year? See?

Magill: Well, I laid down the same thing, except putting it through myself. There's going to be a lot of these all through

H.M.Jr: But who was that in George's section?

Magill: Well, I think what happened - as I understand it, Davis got in touch with the Clerk of the Finance Committee, and he got in touch with a clerk in the Joint Committee on Internal Revenue Taxation; and he got in touch, I think, with White.

Haas: Of the Bureau.

Magill: Of the Statistical Section in the Bureau. And got some information.

H.M.Jr: Well, can you tighten this up without my getting in on it?

Magill: Yes, I think it's been tightened up, but it is, of course - ⁺ just want to verify the proposition. It seems to be highly important that all figures of that character should clear through me. I don't want the grief, but I think it's the only way to keep from getting utter confusion.

H.M.Jr: O.K., now, what else you got?

Magill: I think that's about all. We've got a tough situation, but ...

H.M.Jr: Well, they won't meet this afternoon, will they?

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Magill: They want to, but I think we can probably keep them from doing it.

H.M.Jr: Are you all through?

Magill: (Nods yes)

H.M.Jr: Want to go up now?

Magill: I'd like to, if you will excuse me.

H.M.Jr: Cy, I want you to stay, because Gaston's away. I want to show something to you and to Schwarz. Get hold of Schwarz and the two of you read this (story about H.M.Jr. by Cal Tinney in New York Post of Saturday, November 13, 1937), will you? And after you've read this, I want to talk to you on this. Get hold of Schwarz.

Upham: Right after this meeting, or at once?

H.M.Jr: Well, let him read it and I want to talk to you, will you?

Upham: Surely.

H.M.Jr: Then come back. But I don't want you to go up on the Hill; I want you to wait until I handle that.

(Magill goes out)

Wayne?

Taylor: I was just asking Ros - this was a note that he gave me before. "The President suggested at the Cabinet meeting that the Treasury should cooperate with Agriculture and the R.F.C. upon the draft of the Commodity Credit legislation. He suggested that you"

H.M.Jr: Little louder.

Taylor: "He suggested that you" - meaning me - "should represent the Treasury in cooperating with the two other agencies in the drafting of the proposed legislation."

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H.M.Jr: Well, how is that being handled?

Oliphant: All under Bell. Bell's heading it all up.

Bell: Oliphant has drafted a bill.

Oliphant: Working for you.

Bell: That's right, for me; and I've sent a copy to Jesse Jones and asked him to look it over and designate somebody in the Commodity Credit to look it over. Then I said I assumed someone in the Commodity Credit Corporation would be designated to carry the ball, and I asked him to do it. I assumed that - now, you've (Taylor) seen that draft, haven't you?

Taylor: Yes, I went over it with Clarence last week - the latter part of last week - certain of the - one draft, which was the temporary; that was only the Commodity Credit itself, not having to do with the rest of the bill, you see.

Oliphant: Just Commodity Credit.

Taylor: This was the so-called emergency Commodity Credit, as against the permanent Commodity Credit. I told Clarence that I thought we ought to do both.

Bell: Well, I don't know anything about the permanent Commodity Credit, unless that photostat copy of the draft of the bill on my desk is

Taylor: That's it. I mean I haven't looked at that either.

H.M.Jr: Let me make a suggestion. Wouldn't this be a good time for me to call Jimmy Roosevelt? "Now listen, Jimmy, there seems to be some crossing of wires here. This is an independent agency as far as the Treasury is concerned, and if the rule still works which used to work last year, on a thing like Commodity Credit, we prepare it and give it to the Director of the Budget, and under the rules laid down by your father, he is supposed to be the clearing house for legislation. Now, I think you better take it up when Congress is starting and let's see where we're at. I'd like to continue to work that way. Makes it much easier for me. "

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- Bell: You mean work through the Budget.
- H.M.Jr: Yes.
- Bell: Well, I assume that we're going to do something like that. You remember last year I submitted a weekly statement to him as to the status of legislation, and I'm going to do that again.
- H.M.Jr: Jimmy on these independent agencies - let him talk to his father, let him get it straightened out. What?
- Taylor: These are two different things, I think. One is the temporary bill, which is the so-called "independent agency"; and the other is the permanent program.
- Oliphant: On that permanent program, I'd like to say just a word. There's been some thought of the possibility at this time of - not after the reorganization bill passes, but at this time to draft a bill that would concentrate and pull together all agricultural lending agencies. Frankly, I'm very fearful of that, that if we try at this time we are likely to defeat the reorganization bill by tipping off somebody's hand there on the Hill as to what we propose to do when we get the reorganization bill.
- H.M.Jr: But here Congress is starting and I get a message from the President that I'm going to get together with Jesse Jones and - who else? Let me see that.
- Taylor: Apparently he doesn't - the way it was, I asked Ros about it, and he doesn't say that you should, he says that I should.
- H.M.Jr: Did he mention you by name?
- Taylor: Yes, that's what I
- H.M.Jr: Well, I still say that just because the President says it doesn't make it that it's perfect. And I think I should call Jimmy's attention to it. Congress is starting, and let's get this thing - I think you ought to get it straightened out; wouldn't you (Bell) like to have it straightened out?

-10-

- Bell: Yes, but I take it what the President means is that Wayne should get together with them and draft a bill, and then it would go through the regular channels; it would come to me after the three representatives finish with it.
- H.M.Jr: I still say I think if we call him, it would be helpful.
- Taylor: I think very, because I don't know what to do.
- H.M.Jr: If you don't mind my saying, I don't - well, I think you'll find that the President has forgotten.
- Oliphant: Do you mind, just before you call him
- H.M.Jr: Just let me get this.
(On White House phone) Jimmy Roosevelt, if he's in, please.
- Oliphant: That is, there's two things floating around town: taking care of Commodity Credit and pulling all the lending agencies together.
- Taylor: Three things, you might say; there are three things.
- H.M.Jr: (On White House phone) Good morning to you. - - Fine. - - Jimmy, there is this matter which has come up which I think you could be very helpful on. I got a note from Cabinet meeting, which I wasn't at, on the question of getting this Commodity Credit bill in shape, you see. Now, what we've been doing here in the past is, we've been working on it - Taylor's been working on it with Jones and Agriculture, and then when we get it whipped into shape, under a lot of rules and regulations that your father laid down last year, it would go to Bell as Director of the Budget. Now, the reason I am calling up is, we are starting here; I think possibly your father may have forgotten some of the rules and regulations that he laid down in writing last year as to how legislation should clear for all agencies, including regular departments, and I think it would be a good thing to clear that up and let's see whether he wants us to follow the old rules or is he going to give us some new rules. Don't you think so? - - Well, I

-11-

think for his sake, see, that it is much better to have the focal point the Bureau of the Budget, and then - from his standpoint, and then it makes one person responsible; and otherwise, people go up on the Hill and they lobby just like any outside agency and they cut each other's throat and your father always suffers by it, see? And so, from his standpoint, I think he'd have much better control if it went through the Bureau of the Budget. - - And if you could, then - I mean in the meantime we're going ahead and working on it, you see. But it would be helpful if that was cleared up. - - Thank you very much. (Conversation finished)

Now, that - you see why, Herman, I didn't - the permanent doesn't interest me. This other thing, at the eve of Congress - question of procedure rather than ... Huh?

Oliphant: Yes.

H.M.Jr: See what I mean? All right?

Bell: (Nods yes)

H.M.Jr: What?

Bell: Yes, sir.

H.M.Jr: Is that a good method of procedure, Mac?

McA: Yes.

H.M.Jr: Be wonderful if they lived up to it.

Bell: It was pretty successful.

H.M.Jr: What?

Bell: Pretty successful.

H.M.Jr: He asked me how did I prefer to have it, the old way or the new way. I said, "The old way, the way it used to be."

Bell: What's the new way?

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McR: If the independents are concerned, they'd probably clear it through Jimmy's hands.

Bell: The circular is still in full force and effect.

H.M.Jr: Mac's got the point.

McR: That's the reason the boss wanted to say that to Jimmy.

H.M.Jr: That's what I was after.

McR: No question in my mind what he was after.

Bell: I wondered what Jimmy meant by the new way.

H.M.Jr: Want me to get a drawing board and piece of crayon? What?

Bell: I know what he means.

H.M.Jr: I thought it was a very nice way to put it up to Jimmy. I mean is he going to be the clearing house on legislation, or are you? Get me?

Bell: Surely.

H.M.Jr: Are you satisfied, Mr. Oliphant, on that? I mean you see what I'm getting at - question of procedure. Now let's go on.

All right, Wayne?

Taylor: Well, do I wait until I hear from these two boys then?

H.M.Jr: Oh, I wouldn't wait; I'd go ahead.

Taylor: And continue with what we have been pushing.

H.M.Jr: Sure, so that they don't say, "We're waiting." Now, go right ahead and push the thing, so at least - I mean they might call up at any minute and say, "We can't do the Agriculture bill; we're bogged down. Let's do the Commodity Credit bill." And I don't want them to say, "Well, the Treasury isn't ready." See?

-13-

- Taylor: Well, I think we're in pretty good shape, don't you (Oliphant)?
- Oliphant: Well, I do too. But I'm going to be frank; now, if we don't agitate at this time bringing all the lending agencies together
- H.M.Jr: Well, who's Maybe you and I - what I'm talking about is to set up Commodity Credit as a permanent agency, each year take an inventory, each year make good their capital, and run it as a separate agency.
- Oliphant: Leave everything else alone until the reorganization bill passes.
- H.M.Jr: Absolutely.
- Taylor: Yes, but set up Commodity Credit in such a way that it can fit in, whatever is done.
- McR: Oh, it can fit in on your reorganization program as an independent agency.
- H.M.Jr: Hasn't anything to do with lending agencies at the present time. And if the President wants to bring all lending agencies together, that's something again.
- Oliphant: After he gets his reorganization bill.
- Taylor: Yes, but just in case you can't get the reorganization bill, let's have this thought out so we can
- H.M.Jr: But Wayne, you've been worrying right straight along about the future of Commodity Credit and its relation to the other lending agencies. You've talked about all the lending agencies being pulled together under Jesse Jones. Now, that's not ready yet.
- Taylor: Well, I realize that perfectly.
- H.M.Jr: But this thing - we get an order from the President to have legislation ready so this commitment which R.F.C. has made can be taken over and made a commitment of Commodity Credit. And don't let's worry today about what's going to happen to the lending agencies.

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Taylor: I wasn't worrying about it, but I said not to forget that in case the other thing doesn't work out, that's all.

H.M.Jr: Everybody moderately happy? Herman?

Oliphant: Perfectly. I'm not quite awake, but I'm happy.

H.M.Jr: Some time tomorrow I'm going to give you about an hour. I've got a lot of stuff that's accumulated - lot of things.

Oliphant: I'd like to see you if I can get a minute after this meeting.

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

Haas: Nothing in particular.

H.M.Jr: You're coming in at 11 to talk about business, etc.

Haas: Yes, sir.

H.M.Jr: Bring in your gang, will you?

Haas: O.K.

Gibbons: Did you see Lieutenant Burke this morning? His picture is in the

H.M.Jr: What did he do?

Gibbons: He flew over that ship, picked up - was responsible for dropping that smoke bomb that scared the sharks off and saved two fellows that were floating on the

H.M.Jr: What paper is that?

Gibbons: The Herald.

H.M.Jr: Washington Herald?

Gibbons: Washington Herald. It's on the third page. His picture is there, with the goggles.

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Lochhead: Most of them gave the Navy first call on that, though.

Gibbons: They got the right story in the Herald.

H.M.Jr: Is that right?

Gibbons: He flew over the thing and these fellows were in life belts, you know, and kicking around - about fifteen sharks surrounding each one of them. He swooped down and scared the sharks away, dropped the bomb, and then kept hovering over until the Mendoza came up.

Lochhead: Those fellows had been floating for twenty-four hours.

Gibbons: Yes.

H.M.Jr: In the Herald. I'll get it.

Gibbons: Might have been an early edition.

H.M.Jr: (To Kieley) Mr. Gibbons says that there is a story in today's Washington Herald about Lieutenant Burke making a rescue. Will you get it for me please?

Kieley: Yes, sir.

H.M.Jr: What else, Steve?

Gibbons: Nothing else. Everything's

H.M.Jr: Got a nice telegram from your friend Hague of New Jersey on this speech.

Gibbons: Uh-huh.

H.M.Jr: Very nice telegram.

Gibbons: I think we should send Herman into Wall Street as an apprentice in a brokerage shop.

H.M.Jr: Another way around: send Wall Street down as an apprentice in Herman's shop.

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Gibbons: I mean you go into any brokerage shop in the country and say, "Such and such a railroad is a good buy."
"Well, is that so? Well, how much do they earn? Where do they run?"
They can't tell you a thing about it; they just know it's a railroad.

Oliphant: Well, what was this, a dirty dig? Your (H.M.Jr) suggestion I like, but

Gibbons: No, but going back to the Wilson Administration, Carter Glass was practically in the same position in Wall Street from 1912 to 1920 as the President is now; now Carter is an economic royalist. I can't take the thing seriously.

McR: Steve wants you (Oliphant) converted.

Taylor: I don't see why Herman's surprised.

Gibbons: That's my reaction.

Taylor: What the hell did you think they were going to be like?

H.M.Jr: I said you (Oliphant) can take care of yourself.

Oliphant: Sure. I've been thinking about it.

Gibbons: But going up into that camp did you a lot of good. You ought to do it again.

H.M.Jr: No, I don't want to go again. I'm not going to go again. Be a hell of a long time before

Oliphant: You betcha! The point is, we work with our friends.

Taylor: The surprise would have been if they had been any different than they were.

Gibbons: My reaction is that it would have done us a lot of harm if they had acted differently; the people in the sticks would have said that "Morgenthau is going over to Wall Street."

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H.M.Jr: Well, the answer is

Gibbons: When you count up the votes, those fellows up there don't count very much.

H.M.Jr: Well, it's being a gentleman that's - but it's all right.

Upham: (Nods nothing)

McR: It was a foolish performance. You had a right to expect a little more gentlemanly conduct.

H.M.Jr: Well, it's all right.

Lochhead: We have a telegram from Tokio on the last gold shipment - the three gold shipments I mentioned - and as usual, they say "This is the last gold shipment."

H.M.Jr: Let me have it. Like Sara Bernhardt's last appearance.

Dan? What's the matter that your balances keep going up?

Bell: Yes.

You remember the President spoke to me one time about a month ago of moving some of the War Department out of the State Department building in order to get room for the State. He found out for the first time that our organization down at the Munitions Building was involved, so I suppose we'll never get it moved now. Well, I've found a building down at 9th and K - 9th and H, I guess - Printcraft Building, which we can rent by moving out some commercial people and moving out Soil Conservation. Give us about 50,000 square feet, just about right, for a dollar a foot. With your approval, I'll go ahead and move that emergency accounting organization and then tell the President he can move the whole War Department out of there.

H.M.Jr: What you going to do with the people in Soil Conservation?

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Bell: Well, they only occupy a small space, and Guthrie can find space for them. It's easier to do that. Guthrie has a ...

H.M.Jr: Who has?

McR: Guthrie, of the Park Service.

Bell: He can find a space for them. As a matter of fact, we can get in the Commercial National Bank or the District National Bank. We can put the whole accounting organization in this one big place; otherwise, it means we have to go in several buildings.

H.M.Jr: I don't like Soil Conservation, you know.

Bell: Well, I'll go ahead.

Now, the audit of the Stabilization Fund is completed and ready for you to take to the President, and that's the usual letter to the President (Handing to H.M.Jr).

H.M.Jr: Well, I don't know if I'm invited for lunch. Mac, tell the girl to let you know, and see that I take it over today and lay it on his desk. He just sort of touches it and says, "O.K."

Gibbons: There's a cute story going around Washington about the President. Dan Roper goes in to see him on a proposition. He said, "A hundred percent right."

Ickes comes in to see him on the same proposition, diametrically opposed to Roper. President says, "A hundred percent right."

Then Eleanor says, "Franklin, that isn't right. You told Mr. Roper 'a hundred percent right' and you also told Mr. Ickes 'a hundred percent right'."

He says, "Eleanor, a hundred percent right."

H.M.Jr: (Laughing) That's all right. That makes Dan and me a hundred percent right too.

Bell: Lot of times.

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H.M.Jr: I thought I was pretty cute on this Jimmy Roosevelt thing, this story; I didn't know how many of you would tumble to it.

All right, O.K.?

Bell: That's all I have.

H.M.Jr: Mac?

McR: Nothing.

H.M.Jr: Herman, you want to see me a minute.



TREASURY DEPARTMENT

WASHINGTON

NOV 15 1937

Dear Mr. President:

Section 10 of the Gold Reserve Act approved January 30, 1934, establishes the Stabilization Fund in the amount of two billion dollars out of the increment resulting from the reduction in the weight of the gold dollar, and provides that an annual audit of such fund shall be made and a report thereof submitted to the President. In accordance with this direction, there is transmitted herewith a detailed audit of the fund covering the period June 30, 1936, to June 30, 1937.

The administrative supervision of this fund has been under my immediate direction, and all transactions thereunder have had either my approval, the Under Secretary's or the Fiscal Assistant Secretary's. Of course you know the financial transactions in this fund are not subject to review by any other officer of the Government. In view of this fact, I have appointed a committee of three Treasury officials who are not connected in any way with the office having supervision of the administrative accounts to make an independent audit. The report is, of course, strictly confidential, and I suggest that when you have looked it over it be returned to the Treasury for safe keeping until the fund has served its purpose, at which time the complete record may be made public.

Faithfully yours,

A large, flowing handwritten signature in dark ink, which appears to read "Henry Morgenthau Jr.".

Secretary of the Treasury.

The President,
The White House.

November 15, 1937

HM, Jr today sent for Lubin to inquire the progress he was making in the survey in connection with Government purchases which might be made at other than the peaks of seasonal demand. The Secretary had suggested that such a survey be made when he held a conference on the subject in his office in March of this year.

Lubin reported that he had been working on it, but that the War Department had been hedging on furnishing the information from their Department and because of this lack of cooperation, Lubin was not ready to report.

The Secretary then telephoned to Secretary Woodring and Admiral Leahy and requested them to give him the amount of unexpended funds available out of this year's appropriations for the purchase of textiles and shoes. Both promised to get the information to the Secretary before the day was over. The Secretary then telephoned to Admiral Peoples to ask for identical information concerning relief organizations.

The Secretary's idea is to try to have the Government use available funds from these Government activities for the purchase of textiles and shoes in order to take up the slack in these two industries which are at their worst at this season of the year, thereby lessening the unemployment situation.

HM, Jr also discussed with Mr. Lubin the thought that had occurred to him of having someone like General Woods, of Sears-Roebuck, or some other big merchandising man, come down to Washington to work out a plan for disposing of various commodities. He cited as an example the present surplus stocks of cotton, and suggested a campaign on a nation-wide scale for the utilization of cotton and a publicity campaign which would popularize the use of cotton in the public mind, resulting in its increased consumption.

November 15, 1937
10:33 a.m.

Operator: Governor Harrison. Go ahead.

H.M.Jr: Hello.

George
Harrison: Hello.

H.M.Jr: Hello, George.

H: Good morning, Henry.

H.M.Jr: How are you?

H: First rate, thank you.

H.M.Jr: When you coming to town?

H: Well now, that's what I wanted to talk to you about.
When I spoke to you the other night

H.M.Jr: Yes.

H: .. I - I had understood and hoped that we were having
a meeting of our full Committee on tomorrow.

H.M.Jr: Yes.

H: But that's been postponed, much to my regret ...

H.M.Jr: Yes.

H: ... until next week.

H.M.Jr: Yes.

H: But I still am very anxious, if it's agreeable to you,
to have a quiet chat with you some time before that
meeting.

H.M.Jr: Well, what time is your meeting next week?

H: It's on Tuesday.

H.M.Jr: Tuesday.

H: Tuesday morning.

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H.M.Jr: Well, may I look up my schedule for next week and call you back?

H: Yes, that's what I thought - I'll come any time you want; I mean this week or then or any time you suggest.

H.M.Jr: All right. May I do that?

H: It's - what's that?

H.M.Jr: May I do that, George?

H: Yes, would you?

H.M.Jr: Yes, sir.

H: Except that I do have an engagement for sort of a memorial dinner to Justice Holmes in Baltimore on Thursday; I could get out of that if that's the only night.

H.M.Jr: Well, let - let me look into my program and see what I can do.

H: All right, thank you very much.

H.M.Jr: I'll call you back.

H: Thank you.

H.M.Jr: Thank you.

November 15, 1937
10:43 a.m.

Operator: Operator.

H.M.Jr: Secretary of War, please.

O: Right.

(Long pause)

H.M.Jr: Hello.

Harry
Woodring: Good morning, Henry.

H.M.Jr: How are you, Harry?

W: All right.

H.M.Jr: Good. Harry ...

W: Yes.

H.M.Jr: I wondered if I could work with you on the following proposition. I'm calling up yourself and the Navy and also the Veterans, and I wondered under existing appropriations how much money the Army has got that they could buy now textiles and shoes, if they were to take all of the unexpended funds in this year's appropriation for textiles and shoes and to advertise for contracts now.

W: You don't mean by that money that was appropriated for any other purpose?

H.M.Jr: No, no, no, no.

W: Just the money that we haven't expended that's al - that was already under that category.

H.M.Jr: That's right.

W: Well, I tell you, it won't be very much, because I went into it on wool; for instance, the wool people came down ...

H.M.Jr: . Yes

W: .. and we bought - I think it was last year we bought about two or three years' supply in order that - to

-2-

help the wool industry.

H.M.Jr: Yes.

W: Now, you want - you want me to look it up on textiles and shoes.

H.M.Jr: Tex- - yes; textiles would be all-inclusive. I mean it would include wool and

W: Yes.

H.M.Jr: ... whatever - sheets and everything that I understand that comes under the ...

W: Yes.

H.M.Jr: ... textiles.

W: Yep. Well, I don't believe it will be very much, because as I say, we went into yardage for overcoats last year, and wool blankets, and everything like that, in order to help the wool people out.

H.M.Jr: Well ...

W: But I'll look into it.

H.M.Jr: How long - well, how about the C.C.C.?

W: Well, that - I think - answers - answers it for C.C.C. But I'll look it up on all textiles and all shoes.

H.M.Jr: How long do you think it'll take you?

W: Oh, it'll take us during - oh, it will take us over during the day.

H.M.Jr: It would?

W: I think so - maybe before two o'clock.

H.M.Jr: Well, that'd be marvelous.

W: I'll get you an answer just as soon as I can.

H.M.Jr: Will you call me personally?

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W: Call you personally, yes.

H.M.Jr: You - you see what I've got in mind?

W: I know; I see.

H.M.Jr: All right.

W: We'll - we'll work with you, and we'll do - we'll go ahead and handle it - all the funds that we have unexpended, ...

H.M.Jr: That's the idea.

W: ... unauthori- - unobligated.

H.M.Jr: Unobligated.

W: Yes. But I don't believe that they'll be very large, but we'll go ahead and work with you.

H.M.Jr: Well, whatever you've got I think would help.

W: Yep. All right.

H.M.Jr: Very much obliged.

W: I'll call you.

H.M.Jr: Thank you.

W: Goodbye.

November 15, 1937
10:50 a.m.

H.M.Jr: Hello.

Operator: General Hines, but he's in Mr. Bell's office.

H.M.Jr: General Hines. Well, all right, let me talk to him.

O: Right. Go ahead.

Frank T.

Hines: Yes. Hello.

H.M.Jr: Hello, General.

H: Yes, Mr. Secretary. How are you?

H.M.Jr: Fine.

H: Yes, sir.

H.M.Jr: General, I wonder if - if - if you could help me out a little bit.

H: I'll do everything I can.

H.M.Jr: I'd like to know from you how much money you've got out of this year's appropriation which is not obligated which could - we could designate it for the purchase of textiles and shoes.

H: Uh-huh.

H.M.Jr: How much money you've got left that - that....

H: On those two items particularly?

H.M.Jr: Textiles and shoes.

H: Yes.

H.M.Jr: Well ...

H: I have already indicated to Mr. Bell a reserve along the lines, you know, the President indicated, out of our - every item where we thought we could make a saving. The sum total of that he has here, but on those two items I'd have to check up a little on it.

H.M.Jr: No, I'm just today interested in - in what is covered

-2-

in - in the word "textiles" ...

H: Yes.

H.M.Jr: ... and shoes.

H: I see.

H.M.Jr: How much money you've got that you could use for purchasing now, right now.

H: I see. That we could go in and purchase our supplies ahead, in other words.

H.M.Jr: Right.

H: All right, let me look it up and I'll call you back.

H.M.Jr: How long will it take you?

H: Won't take very long. I'll ...

H.M.Jr: Some time this afternoon?

H: Yes. I'll - I'll call you as soon as I get through with this hearing; I'll call my people now and tell them to get busy on it.

H.M.Jr: Fine.

H: And then I'll call you as soon as the data comes to my desk. But it will not be later than this afternoon.

H.M.Jr: Fine.

H: All right.

H.M.Jr: Thank you.

H: You're welcome.

November 15, 1937
10:58 a.m.

HMJr: Hello.

Operator: Mr. Edison is out of the city until tomorrow.

H.M.Jr: Ah - Admiral ---- oh, who's the Number One Admiral?

Operator: Oh - Standley?

H.M.Jr: No, it's his successor, Standley's successor; you're six months behind times.

Operator: All right; well, I'll get him.

H.M.Jr: Find out who it is.

Operator: All right.

H.M.Jr: Find out who it is.

Operator: All right, I'll get him.

H.M.Jr: Right. And let me know his name.

Operator: Yes, I will.

(Pause)

H.M.Jr: Hello.

Operator: Admiral Leahy.

H.M.Jr: Right.

Operator: Go ahead.

H.M.Jr: Hello.
William D. Leahy: Admiral Leahy speaking.

H.M.Jr: Henry Morgenthau, Jr.

L: Yes, Mr. Morgenthau.

H.M.Jr: Admiral, I tried to get somebody in the Secretary's

-2-

office and I wasn't successful, and I wonder if you'd help me out.

L: Yes, sir.

H.M.Jr: What I'd like to know from you is this: How much money you've got left in your appropriation that could be used now for the purchase of textiles and shoes for the Navy.

L: How much money we've got in our appropriation...

H.M.Jr: Yes.

L: ~~that we could use to buy textiles and shoes.~~

H.M.Jr: Yes, out of this year's appropriation - unexpended, unobligated funds.

L: That - that is for - for the Navy, textiles and shoes for the Navy.

H.M.Jr: That's right.

L: Yes. Yes, I'll find out and let you know in a - in a few minutes.

H.M.Jr: That'd be wonderful. You - you understand what I mean; I mean if I said - or the President said to you, "Now, Admiral, I want you to go ahead and buy shoes and textiles now and not wait until May or June," you see, how much money would you have available?

L: Yes, sir; I'll let you know that in half an hour.

H.M.Jr: Thank you very much.

L: By telephone, Mr. Secretary.

H.M.Jr: I'd appreciate that.

L: Yes, sir.

H.M.Jr: Thank you.

L: Right.

November 15, 1937
11:02 a.m.

H.M.Jr: Hello.

Operator: Admiral Peoples. Go ahead.

H.M.Jr: Hello.

C. J.
Peoples: Good morning, Mr. Secretary.

H.M.Jr: Good morning.

P: Good morning, sir.

H.M.Jr: Admiral, I have personally contacted Army, Navy, and General Hines on textiles and shoes, and I'm going to ask you to find out how much money is available in the relief organizations for textiles and shoes that is unobligated and unexpended out of this year's appropriations.

P: In the relief - yes, sir, in the relief - - ..

H.M.Jr: The buying that you have actually under your control.

P: Yes.

H.M.Jr: I mean so if the President should say, "I want to use up all the funds that are available in the Hopkins organization for textiles and shoes," how much is there available?

P: Yes, sir.

H.M.Jr: Is that clear?

P: Yes. Yes, Mr. Secretary.

H.M.Jr: All right. Now -

P: I've got - Mr. Secretary.

H.M.Jr: Yes.

P: I've got a memorandum ready for you on this question of anticipated purchases and that sort of thing, showing what - how far they've gone already.

- 2 -

H.M.Jr: Well - well, that's what I've been waiting for for four months.

P: Well, it shows what they might be able to do, and what they have done already, see.

H.M.Jr: Well, supposing you have it here at 11:30.

P: At 11:30?

H.M.Jr: Yes.

P: Yes, Mr. Secretary.

H.M.Jr: You and Collins.

P: Yes, sir. I'll be there.

H.M.Jr: Better make it a quarter to twelve.

P: Quarter to twelve.

H.M.Jr: Yes, you and Collins.

P: Sure to be.

H.M.Jr: Now - but now this other thing, this thing that I'm asking you on textiles and shoes out of relief - everybody else that I called up said they'd give it to me this afternoon.

P: All right, sir, fine and dandy; we'll

H.M.Jr: Admiral Leahy said he'd give it to me in 30 minutes.

P: (Laughs) Well all right, sir.

H.M.Jr: So let's see if you're as good as the Navy.

P: All right, Mr. Secretary.

H.M.Jr: All right.

P: Thank you, sir.

H.M.Jr: Goodbye.

November 15, 1937
12:14 p.m.

H.M.Jr: Hello.

Operator: Admiral Leahy.

H.M.Jr: All right.

Operator: Go ahead.

H.M.Jr: Hello, Admiral.
William D.
Leahy: Mr. Secretary.

H.M.Jr: Talking.

L: I've found the answer from a rough estimate to your question about the money that's available for obligation for textiles and shoes.

H.M.Jr: Yes.

L: It is \$1,910,000.

H.M.Jr: Now, what part of that is textiles?

L: \$1,400,000 textiles and \$510,000 for shoes.

H.M.Jr: One million four for textiles, and shoes is how much?

L: Five hundred and ten thousand.

H.M.Jr: Five hundred and ten.

L: We already have outstanding obligations of \$943,000 for textiles.

H.M.Jr: Yes.

L: And \$518,000 for shoes.

H.M.Jr: But that's not included in this figure.

L: No, that is not; we have still available for obligation the \$1,910,000 that I gave you first; and we have obligated \$1,461,000 already.

- 2 -

H.M.Jr: But - in other words, if you wanted to, you could still have available for textiles a million four and for shoes five hundred and ten. Is that right?

Leahy: That's correct, Mr. Secretary.

H.M.Jr: Ah - that's - that's just exactly what I wanted.

Leahy: Well, you don't want it any closer than that, do you?

H.M.Jr: No, no.

Leahy: That's approximately correct; of course, it may be off a small amount.

H.M.Jr: No, that's exactly what I wanted.

L: Yes, sir.

H.M.Jr: Thank you very much.

L: You're quite welcome, Mr. Secretary.

H.M.Jr: I appreciate speed.

L: Goodbye, sir.

November 15, 1937
12:30 p.m.

H.M.Jr: Hello.

Operator: General Hines.

H.M.Jr: Right.

O: Go ahead.

Frank T.
Hines: Hello.

H.M.Jr: Hello, General.

H: Yes, sir. Mr. Secretary, I find we have under contract for textiles and shoes, both woolen and cotton textiles

H.M.Jr: Yes.

H: \$291,000.

H.M.Jr: Yes.

H: Now, the amount available I haven't at this time; I'm having them check that up. But I do know on one item of blankets, which we just recently awarded, we could probably go in the market for about \$61,000 worth of those.

H.M.Jr: But you haven't got the whole picture yet.

H: How's that?

H.M.Jr: You haven't - you don't know just how much more money you'd have - I mean to spend.

H: No.

H.M.Jr: Do you think you'd know late this afternoon?

H: Yes, I can get you that amount; they're working on that now. But the amount of contracts awarded on all of those items since the first of July amounts to \$291,000.

H.M.Jr: Oh. What I was thinking of - about is stuff which is not yet awarded.

- 2 -

H: Yes. Now, there's one thing that you should keep in mind on the item of shoes.

H.M.Jr: Yes.

H: All of our shoes come from Justice.

H.M.Jr: I see.

H: And unless they give us a clearance to buy outside of the prisons

H.M.Jr: Yes.

H: why, it wouldn't help industry outside much.

H.M.Jr: I see. I see.

H: If you could indicate about what items you want the dope on, I think probably we can work something out.

H.M.Jr: Well, if you could call me again between four and five, I'd appreciate it.

H: Between four and five?

H.M.Jr: Yes.

H: All right.

H.M.Jr: Thank you very much.

H: Goodbye.

November 15, 1937
12:45 p.m.

H.M.Jr: Hello.

Operator: Talk to Mr. Babcock?

H.M.Jr: Yes.

O: Go ahead.

H.M.Jr: Hello.

Ed Babcock: Yes, hello, Henry.

H.M.Jr: How are you?

B: Fine, thank you. Want to congratulate you on your speech.

H.M.Jr: Thank you very much.

B: I think you got a grand reaction, didn't you?

H.M.Jr: Yes, it was awfully, awfully good, Ed.

B: I think it's the best job you've ever done, and you've done many, but this just brought you right out in the front row.

H.M.Jr: Well, thank you very much.

B: That's straight. Say, you know, Henry

H.M.Jr: Yes.

B: He'll have to stay there all of this week, ...

H.M.Jr: Yes.

B: maybe longer. He has a streptococcus infection of the bronchial tubes.

H.M.Jr: Gosh.

B: He's under the best care in the country, I think.

H.M.Jr: Yes.

-2-

B: He's nervous.

H.M.Jr: Yes.

B: He's worried about being left with a bad chronic asthma; that's what's really got him down.

H.M.Jr: Yes.

B: Hill was here yesterday.

H.M.Jr: Yes.

B: I'm very much impressed by his clear thinking and his decisive manner of handling things.

H.M.Jr: Yes.

B: I don't think it's worth while taking up with Bill direct the matter of any trip or anything until he gets out of the hospital.

H.M.Jr: Well, I'd let it ride.

B: I think I'd let it ride. I have one suggestion.

H.M.Jr: Please.

B: Do you mind my giving it to you?

H.M.Jr: No, I don't; I'm asking for it.

B: In the Farm Credit Administration you've got those four Commissioners over there, ...

H.M.Jr: Yes.

B: ... one or two a little hard to handle.

H.M.Jr: Yes.

B: I think if the proper person would designate Hill as Acting Governor - he's signing himself as Acting Governor....

H.M.Jr: I see.

B: ... but if there was an indication went through that

-3-

the President was behind him

H.M.Jr: Yes.

B: There's quite a lot of work accumulated over there.

H.M.Jr: I see.

B: And some of it has got to have firm handling.

H.M.Jr: I get it.

B: Yes.

H.M.Jr: I get the idea.

B: Yes.

H.M.Jr: I'll see the President at lunch and I'll speak to him about it then, and if - then if I have anything for Hill I'll ask him to drop over and see me. How's that?

B: Yes - ah - the indication wants to go so the other men know that the Administration looks to Hill.

H.M.Jr: I get you. I think it can be taken care of.

B: Yes. Anything I can do for you?

H.M.Jr: Not a thing just now.

B: Well, you're - you're doing a swell job, and I congratulate you.

H.M.Jr: Thank you, old man.

B: O.K.

H.M.Jr: Thank you.

B: Goodbye.

November 15, 1937.
2:57 p.m.

Operator: Go ahead.

Dr. C. T.

Murchison: Hello.

H.M.Jr: Dr. Murchison?

M: Yes.

H.M.Jr: Henry Morgenthau, Jr.

M: Yes sir, how are you today?

H.M.Jr: Where are you, in Washington?

M: Yes.

H.M.Jr: Dr. Murchison, I want to make sure I've got - you're the former economist over at the Commerce Department, aren't you?

M: I was former director of the Bureau of Foreign and Domestic Commerce.

H.M.Jr: No, what I'd like to talk to you about it, and see you, in confidence, is this. I want to talk about the possibility of greater use of cotton, see.

M: Yes.

H.M.Jr: And I'd like to see you and Max Gardner, tomorrow, if it's convenient for you.

M: Yes, it would be.

H.M.Jr: But I don't want this publicized, yet.

M: No, not at all.

H.M.Jr: So that -

M: Have you talked with the Governor?

H.M.Jr: You mean Mr. Roosevelt.

M: No, you - you said that you wanted -

H.M.Jr: No, I have not. No, I thought that you might tell him.

M: Why, yes, I'll be very glad to do that and whatever hour is agreeable to you now, you just say, and we'll -

H.M.Jr: 10:15 at the Treasury tomorrow.

M: At - at what time?

H.M.Jr: Quarter past ten.

M: Quarter past ten.

H.M.Jr: But I - I - I don't want this publicized, see.

M: Oh, not at all.

H.M.Jr: I mean, I - I'm doing - I'll tell you I'm doing this with the knowledge and the approval of the President.

M: Well, we'll keep it absolutely confidential, Mr. Secretary.

H.M.Jr: And you might come prepared to tell me very frankly what's your opinion why people are not using more cotton and what can be done to get them to consume more cotton, and that's what I want.

M: Fine.

H.M.Jr: See.

M: Well, we'll be glad to throw whatever light we can on that.

H.M.Jr: What can be done - I mean to increase consumption.

M: Yes.

H.M.Jr: Now that's what you people are interested in, isn't it?

M: It definitely is.

H.M.Jr: What?

M: It certainly is.

H.M.Jr: All right.

M: That's - that's our major concern.

H.M.Jr: Well, as far as I can find out, I've checked around, nobody in the Government is doing anything. Am I right?

M: Well, of course the Department of Agriculture has been a great deal of help to us.

H.M.Jr: Well, I mean a particular - but I mean on a big, broad national scale.

M: Oh no, not at all.

H.M.Jr: What?

M: No, that work has been mostly experimental in character.

H.M.Jr: They've got that small - like that stuff on roads and that sort of stuff.

M: Yes.

H.M.Jr: Is Tolley the man you see over there?

M: Oh, Myers is the man we have most contact with.

H.M.Jr: Who's he?

M: Dr. Lawrence Myers, he's chief of the - oh, I think the Agricultural marketing division, I think of it.

H.M.Jr: Well, anyway, if you and Mr. Gardner would be here at 10:15 tomorrow, I'd appreciate it.

M: We'll be right there, and keep it very confidential.

H.M.Jr: Thank you.

M: Well, thanks very much to you.

H.M.Jr: Goodbye.

M: Goodbye.

November 15, 1937.
3:02 p.m.

H.M.Jr: Hello

Operator: Secretary Wallace. Go ahead.

H.M.Jr: Hello. Hello.

W. Secy: Just a second, he's coming right on.

Secy.
Wallace: Hello.

H.M.Jr: Henry?

W: Yes.

H.M.Jr: Henry Morgenthau.

W: Yes.

H.M.Jr: Look, Henry. When I had lunch with the President today, I told him that I'd like to try and see what I could do, very confidentially and very quietly, about increasing the consumption of cotton, and he said I could have a little try at it, see.

W: Yes.

H.M.Jr: He - I - said anything I wanted to do, naturally I wanted you to know about it, and I wouldn't want to do anything at crosswise with you, but I did have some success at it, when I was in -

W: With wheat, yes.

H.M.Jr: Yes, and in talking about it, the President wondered if you wanted to send Mr. Tolley over, or if not that, anybody which you had confidence in.

W: Why, I think Mr. Myers would be our best man on that.

H.M.Jr: All right, well, I am going to have a little meeting, very quietly, at 10:15 at my office tomorrow.

W: All right, I'll send Myers over, or, I tell you I'll confer with Tolley first and find if he has a better man, but Myers, I know, has been putting a lot of effort on that very problem.

- 2 -

H.M.Jr: Well, you don't mind, do you Henry?

W: No. Fine.

H.M.Jr: I mean I'm doing it for the good of all and I don't want any -

W: We've been doing a lot of work here on that very problem.

H.M.Jr: Yes.

W: It's a - it's one that's full of unexpected difficulties, I may say.

H.M.Jr: I know it is, but I simply feel this way that -

W: He has - we have some suggestions how to pick up - oh a few hundred thousand this way and that way, it doesn't amount to much, but -

H.M.Jr: Uh-huh. Well, I want your man to be here and I'd like you to feel free that if at any time you don't like it, see, you just tell me so, will you?

W: All right, Henry.

H.M.Jr: I am very sincere about that. If you feel I'm going too far or interfering -

W: We have - it's nice to get a little help once in a while.

H.M.Jr: Yes, I'm going to keep 'way in the background on this.

W: All right.

H.M.Jr: But, you -

W: I - if any unexpected ramifications turn up that worry me, I'll let you know.

H.M.Jr: Good. Do it at once, will you?

W: All right.

H.M.Jr: Thank you.

W: Goodbye.

November 15, 1937.
3:37 p.m.

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H.M.Jr: Hello

Operator: Secretary Wallace.

H.M.Jr: Hello.

Secy.
Wallace: Hello Henry.

H.M.Jr: Yes, sir.

W: I forgot, when you were on before, I forgot to ask you about one matter that came up in Cabinet meeting.

H.M.Jr: Please.

W: Secretary Magill may have told you about it. This matter of Treasury, Interior, Commerce and Agriculture trying to discover the total wealth of the holdings of the United States Government.

H.M.Jr: No, he didn't tell me anything about that.

W: You might check with him about it.

H.M.Jr: What?

W: Inasmuch as you're the ranking department, why I assume the initiative rests with you now.

H.M.Jr: On the wealth of the nation. Hello.

W: No, it's not the wealth of the nation, it's the wealth of the Government.

H.M.Jr: How wealthy is the Government.

W: Yes, how much - how much, in agriculture for instance, with value of the forest lands.

H.M.Jr: Oh, I see. How much is the Government worth.

W: That's right.

H.M.Jr: Well that ought to be easy.

W: Do you think we're in the hole.

- 2 -

H.M.Jr: No.

W: You don't? Good.

H.M.Jr: Absolutely.

W: Fine.

H.M.Jr: If they send me up to New York to speak a couple times more, I'm going to go red.

W: (laughs) I understand that they didn't give you - I talked before that crowd once - and what do to you! I understand they didn't give you an absolutely completely rousing reception.

H.M.Jr: No, they did not.

W: But they thought Senator Byrd was just grand.

H.M.Jr: Perfectly lovely.

W: Yes.

H.M.Jr: Well, I'll talk to Magill and thank you for reminding me.

W: I -

H.M.Jr: He may have started something on it.

W: He probably started something on it, but I assume that the next move would come from your shop.

H.M.Jr: All right.

W: Goodbye.

H.M.Jr: Thank you.

W: O. K.

November 15, 1937.
4:22 p.m.

H.M.Jr: Hello.

Operator: Secretary Woodring. Go ahead.

H.M.Jr: Hello.
Secy.
Woodring: Hello.

H.M.Jr: Hello, Harry?

W: Yes.

H.M.Jr: Henry Morgenthau.

W: Yes.

H.M.Jr: Am I pushing you too hard?

W: I was just reading this memorandum that came up to me, and let me call you back in about ten minutes.

H.M.Jr: Thank you very much.

W: Will you be there?

H.M.Jr: I'll wait.

W: All right.

H.M.Jr: I'll wait for you.

W: All right.

November 15, 1937.
4:23 p.m.

H.M.Jr: Hello.

Operator: General Hines. Go ahead.

H.M.Jr: Hello, General?

General

Hines:

Mr. Secretary, this morning I gave you the contracts under way since the first of July as two ninety one thousand.

H.M.Jr: Yes.

H:

Our anticipated needs, purchases for the rest of the year. In cotton goods we contemplate two hundred and seventy five thousand, eight hundred and sixty six dollars.

H.M.Jr: Just a moment, cotton goods, how much?

H: 275,868.

H.M.Jr: I'll just take the round numbers, two hundred and seventy five thousand.

H: That's right. And woolen goods, about two hundred and four thousand.

H.M.Jr: Woolen -

H: Round numbers, the whole thing amounts to four hundred and eighty thousand dollars.

H.M.Jr: Let's see, woolen goods, how much?

H: Two hundred and four.

H.M.Jr: That's two hundred thousand.

H: Yes.

H.M.Jr: And two hundred thousand for woolen goods and cotton goods, two seventy five.

H: That's right.

H.M.Jr: Yes. Now is there any reason, if the President so wished it, why that couldn't be - those orders couldn't be placed right away.

H: Why, we could expedite them, of course, and if you

- 2 -

could tell. Now they cover quite a broad field, blankets, and men's clothing, bedspreads, and towels and all sorts of things, washcloths, pillow cases. If I got some indication of what particular line, I could anticipate that all right.

H.M.Jr: Well, it just would be that the President would shoot the works right now, get out bids on the whole business, it could be done, couldn't it?

H: Oh, yes. No reason why we couldn't.

H.M.Jr: Cotton goods two seventy five, woolen goods two hundred thousand.

H: That's right.

H.M.Jr: Well, thank you very much General.


H: All right. You're welcome.

November 15, 1937
Monday

Ambassador Wang called today and met Assistant Secretary Taylor and Mr. Lochhead.

Mr. Wang explained that China continued to be in need of foreign exchange to maintain their currency under the present circumstances and requested that if possible we make a further bid for 10,000,000 ounces of silver.

Acting under Secretary Morgenthau's instructions, Mr. Taylor advised Ambassador Wang that the Treasury would make a bid today for 10,000,000 ounces of silver through the Federal Reserve Bank of New York under the same terms and conditions as the previous two purchases had been made. There was some discussion as to whether the shipment should be made from Hong Kong to San Francisco, or from London to New York, and Ambassador Wang was given to understand that shipment from either point would be satisfactory to the Treasury but that it would probably be of advantage to the Chinese Treasury if some of these shipments at least were made to San Francisco.



COTTON

- D. W. Bell's memo to the Secretary giving latest obtainable figures on commitments and expenditures under the cotton program (undated) 11/13/37
- Memo in Secretary's handwriting giving purchases of textiles by W.P.A., Navy, Veterans' Administration and War Dept. (Approximate date - 11/15/37)
- Minutes of meeting in Secretary's office on COTTON CONSUMPTION 10:15 a.m. 11/16/37
- Herman Oliphant's memo of 11/17/37 to Secretary re: limitations to which use of 30% of Customs' receipts appropriated for agricultural purposes is subject.
- Minutes of meeting in Secretary's office on COTTON CONSUMPTION 11:00 a.m. 11/18/37
- U. S. Department of Agriculture Summary on cotton dated 11/17/37 including "Suggestions for Increasing Cotton Consumption"
- Tables prepared in Division of Research & Statistics giving "Cotton Imports by Countries of Origin" for following countries:
- | | | |
|-------------|----------|----------------|
| Switzerland | U.S.S.R. | Italy |
| Spain | Canada | Germany |
| Belgium | China | United Kingdom |
| Netherlands | Poland | Czechoslovakia |
| Austria | Japan | France |
- Letter to Secretary from Jesse Jones, RFC, dated 11/18/37 re: sale of cotton to France, England or Japan
- Table dated 11/19/37 prepared in Division of Research & Statistics re: United States: Cotton Exports by Country of Destination
- Table dated 11/22/37 re: Cotton: Commercial production, carryover, and consumption of all cotton and of American cotton, by crop years, 1932 to 1937 - to which is attached list of suggestions submitted looking toward an increased use of cotton.
- Minutes of meeting in Secretary's office on COTTON CONSUMPTION 11:10 a.m. 11/23/37 to which is attached "Memorandum on Proposals to Increase Domestic Consumption of Cotton by Restricting Imports of Jute Products"

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Memo Re Jute vs Cotton (undated)

- Letter dated 11/23/37 addressed to Wayne C. Taylor from Robert Stevens to which is attached memo, "Reasons for Restricting the Increasing Imports of Jute, Manufactured and Unmanufactured, into the United States," submitted by Donald Comer, 11/23/37 to Mr. Wayne Taylor.
- Copy of letter dated 11/29/37 to the President from the Secretary enclosing plan to increase consumption of cotton goods in the United States
- Memo to the Secretary from Dr. Haas dated 12/1/37 re: Reported Large Shipments of Cotton to British India.
- Memo to the Secretary from Dr. Haas dated 12/1/37 re: Statement as to present financial interest of the Government in the cotton crop.
- Copy of letter to the President dated 12/1/37 signed Henry Morgenthau, Jr. and Henry A. Wallace re: Government participation in advertising to enlarge the demand for cotton.
- Herbert Gaston's memo to the Secretary dated 12/2/37 re: The Government's Stake in Existing Cotton Stocks.
- Dr. Haas' memo to the Secretary dated 12/2/37 re: Is this an opportune time for a cotton sales promotion campaign?
- Copy of letter to the President dated 12/7/37 from the Secretary re: It is feasible for Commodity Credit to spend \$1,000,000 to increase the consumption of cotton through advertising.
- Dr. Haas' memo to the Secretary dated 12/6/37 re: The Cotton Situation
- Dr. Haas' memo to the Secretary dated 12/13/37 re: The Cotton Situation (Two memos of this date on same subject.)
- Copy of letter to The Commodity Credit Corporation from the President re: Has determined that CCC should undertake to increase consumption of cotton through an advertising program and through other action.
- Photostat of Jesse Jones' letter of 12/7/37 to the Secretary re: Provisions of by-laws of the Commodity Credit Corp. re loans which it can make on such commodities

Memo dated 12/14/37 to the Secretary from Robert T. Stevens
re: Cotton Promotion Plan

Dr. Haas' memo to the Secretary dated 12/20/37 re: The
Cotton Situation

Cotton Textile Institute, New Uses Section, attached material
in newspaper form showing efforts being made to stimulate
increased consumption of cotton. April 1, 1938.

*Approved
Mar 15, 1937*

BUREAU OF THE BUDGET
WASHINGTON

MEMORANDUM TO THE SECRETARY:

With respect to the commitments and expenditures under the cotton program, the following are the latest obtainable figures:

Commodity Credit Corporation

Loans to date, by banks (guaranteed by Commodity Credit Corporation)	\$103,300,000
Estimated additional loans, by banks ...	<u>100,000,000</u>
Total loans, by banks	\$203,300,000
Direct loans by Commodity Credit Corporation, to date	\$ 22,400,000
Estimated additional loans by Commodity Credit Corporation	<u>25,000,000</u>
Total loans by Commodity Credit Corporation	<u>47,400,000</u>
Total cotton loans, direct and guaranteed	\$250,700,000

Of the total loans the direct loans by Commodity Credit amounting to \$47,000,000 will be a direct expenditure of the Government in the fiscal year 1938. It is unlikely that any payments will be made by Commodity Credit under the guaranteed loans to the banks until the fiscal year 1939 under the terms of the existing contracts. Any expenditure of the Commodity Credit in the fiscal year 1939 to take up such loans as the banks may not wish to hold will, of course, depend on the cotton market in June 1938.

Department of Agriculture

Cotton price adjustment payments authorized by Third Deficiency Act	\$130,000,000
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The latest estimate made by the Department indicates there will be little, if any, cash expenditures in the fiscal year 1938. The cash withdrawal expenditures for 1939 are estimated at \$100,000,000, with about \$30,000,000 carrying over into the fiscal year 1940.

sub

The following table shows a summary of the situation with respect to commitments and expenditures:

Total estimated commitments	Cash Withdrawals 1938	Cash Withdrawals 1939	Cash Withdrawals 1940
Commodity Credit Corp. \$250,700,000	\$47,400,000	\$203,300,000*	-
Agriculture <u>130,000,000</u>	-	<u>100,000,000</u>	<u>\$30,000,000</u>
Total program \$380,700,000	\$47,400,000	\$303,300,000	\$30,000,000

* Maximum expenditure.

swtB

November 15, 1937

90
A

W. P. F.
textiles \$1,500,000.
13, million yards

Mary textiles \$1,400,000
shoes \$510,000

General Lines
cottons goods 275,000.
woolens goods 200,000.

November 15, 1937

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War Dept -
#13, mill textile
already given C.C.C.,
500,000 pairs of shoes
in next two weeks.

RE COTTON CONSUMPTION

November 16, 1937
10:15 a.m.

Present: Mr. Taylor
Mr. Haas
Mr. Daggett
Dr. Isador Lubin
Mr. Claudius T. Murchison, Cotton Textile Institute
Mr. Robert Stevens
Dr. Lawrence Myers, Agricultural Adjustment Admin.

H.M.Jr: I asked you gentlemen to come in for this - to go back to my Farm Credit days. I'm interested in commodities. And I want to do this thing very quietly - maybe we won't get anywhere - no publicity of any kind, if you don't mind.

In talking it over yesterday with the President, I asked him if anybody in the Administration, other than this work which I understand you (Stevens) are doing - experimental work for cotton, is that?

Stevens: Yes.

H.M.Jr: But I was thinking in terms of immediately getting this very large crop of cotton into use. And he said as far as he knew there wasn't - which is no reflection; I mean he knew - he told me the story about some young man over there that talked about using the cotton on beehives, to increase the production of beehives by ten percent. Do you know about that?

Stevens: I don't know about that, Mr. Secretary.

H.M.Jr: Well, that was the only suggestion he knew about that came... - Come in, Lubin.

(Dr. Lubin comes in)

I mean that - so what I wanted was you to talk at me; I'm not going to talk at you, Dr. Murchison. Is there anything that you can suggest that the Federal Government can do that you know of to increase the use of cotton? What do you know - I mean that the Federal Government can do in a big way?

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Murchison: Well, of course, the chief consumer of cotton is the textile industry in this country as it is set up - I mean the consumer of the American crop - and right now production for what might be termed normal uses is down approximately 40 percent from the level of the first six months of the year. And of course, in terms of an immediate program, the most urgent thing would seem to be a restoration of normal consumption. That would go farther than anything else so far as the immediate future is concerned.

As part of a long-time program, I think it would be very appropriate to ~~talk about~~ the possibility of developing new uses. Dr. Myers, from Agriculture, I think, thoroughly understands that, and I do believe that both the Department of Agriculture and the industry are seriously handicapped from lack of funds to promote new uses. That in itself is a very interesting topic, and I think Dr. Myers is probably better qualified to talk on that than I.

H.M. Jr: Well, if - I mean I'm sure that Dr. Myers of the Department of Agriculture has got that in hand, and I don't want to get in on that. I mean that's the long-time. What I'm thinking about is, you've got eighteen and a quarter million bales now, right now. And what Dr. Myers is doing, as I understand it, is just fine and it's all to the good, but he needs about five or ten years to work the thing out. But that isn't going to help the immediate thing that we have, this big, big crop, and I'd like to direct - that's what I'm interested in; I don't want to inquire into the work they're doing.

Murchison: Well, in the conversations, Mr. Secretary, that we have been having lately on this problem, we have all come to the conclusion that the cotton textile industry, as much as any other industry, is tied in with the entire industrial situation. Approximately half of all the goods produced by the cotton textile industry go into what we call industrial consumption. They are taken by other industries; as, for example, bags by the cement industry, tire fabric by the automobile industry, upholstery by the automobile industry, bags by the sugar industry and by the tobacco industry. And so the thing, too,

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which the cotton textile industry would respond to more than any other thing would be a program which will be stimulating to business as a whole; as business as a whole goes up, then we automatically increase consumption of cotton. And right now, if we could get back to the levels of the first half year - of course, that would be too ambitious a program to take seriously; couldn't get anywhere near that. But once we did, we could

H.M.Jr: Would you repeat the last sentence?

Murchison: If we get anywhere near back to the rate of consumption of the first six months, why, we can account for an additional million bales of cotton without any difficulty, because now, on an annual basis, we are probably running about two million bales under the consumption of the first half year.

H.M.Jr: But - I don't know this business, but - I mean if that's all - you don't mind my talking very plainly, do you? I mean if that's all the cotton industry can tell me, that it's going to wait until business picks up, well, you just go round in a circle and everybody says the same thing, and we all just sit here and wait until something happens.

Murchison: We didn't feel that way at all.

H.M.Jr: Isn't there something the matter? Haven't you people got any complaints? Isn't there something worrying you?

Stevens: There is one point - can I interrupt for just a minute, Mr. Murchison?

Murchison: Yes, go ahead.

Stevens: There is one spot where I should think an extra million bales of cotton could be used annually, irrespective of our normal consumption. I don't know whether it is possible to do anything about it or not. That is in the field now occupied by jute.

H.M.Jr: Explain now, tell me what you mean.

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Stevens: I mean that, for example, all of these 18 million of bales of cotton are now being wrapped in jute which is made in India and brought in here in tremendous volume for the purpose of wrapping our own cotton crop, which has always seemed to me a rather paradoxical situation.

Then, further, not only for baling the cotton crop itself, but baling of goods produced by all these mills - that is in turn wrapped in jute brought in from India. Again, in the bag industry, which Dr. Murchison has just referred to, a substantial part of that business has been taken away from the cotton textile industry by jute. Now, the jute is not manufactured in this country; it is brought in from India. And it's been calculated, I think fairly reliably, that there is a field there for a million bales minimum per year of American cotton if we could get at that market, but it hasn't been possible to do it.

H.M.Jr: Again - I mean I never - when I don't know, I don't know. Who knows what is our trade agreement situation on jute? I mean have we some trade agreement?

Lubin: There is none; we have no trade agreement with any of them.

H.M.Jr: What?

Lubin: No agreement.

H.M.Jr: I mean if I asked Dr. Feis of the State Department, "Why not a tariff on jute?" what would be the objection of the State Department? Do you know, Wayne?

Taylor: Sure.

H.M.Jr: What's the answer?

Taylor: Well, it would be the effect on the United Kingdom group trade agreement program.

H.M.Jr: Well, have we any agreement with India on jute or anything?

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- Taylor: No. But the price factor is of course very important in that field. Also, the same thing is true for various other things which are used for covering - certain types of paper of one kind or another - very, very important.
- Stevens: Not in this particular field.
- Taylor: Not the particular ones you mentioned.
- Stevens: Like baling cotton and baling - heavy cotton bags for cement.
- Lubin: What's the relative price disadvantage, do you know, in terms of the average cost?
- Stevens: I can't get - I'd want to submit those figures to you. Of course, the jute is cheaper, and it comes in with practically no tariff. It's a strange thing, too, Mr. Secretary - the yarn, the jute yarn, some of which is manufactured in this country, is protected by a rather substantial tariff, but the jute cloth, which is not manufactured in this country, comes in without - I won't say without any tariff, but with very nominal protection. So that if a domestic consumer wants to buy jute yarn for string or anything like that, he has to pay a protective price for it, but on the cloth, no.
- H.M.Jr: Do you know about that, Daggett?
- Daggett: No, I don't know at what price cotton would become competitive with jute. But I'd like to mention that that seemed to me the most fruitful source of demand for cotton; and cotton cooperatives have been working for some time trying to get cotton in use for baling, in place of jute.
- H.M.Jr: May I say, Mr. Daggett was with the ACCA* previous to the time he came to us. What were you there, an economist?
- Daggett: That's what they called me.
- H.M.Jr: He got out of there; I mean he was there up to six months ago. So he has that - he thought he'd rather work in Washington for less money than work in New Orleans.

* American Cotton Cooperative Association

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Stevens: Well, Mr. Daggett, I know, knows about this subject.

Daggett: Yes.

H.M.Jr: I just wanted to tell you what his background is.

Daggett: I think we have something there. If we could put a tariff on jute at a level that would make cotton competitive with jute for bagging, in years of large crops that would automatically take about a million bales off of the excessively large crops.

H.M.Jr: Is that - does that use the right kind of cotton, so to speak?

Daggett: It would take low grade

Stevens: You see, very heavy goods, using large quantities of cotton.

H.M.Jr: It would take the short fiber?

Stevens: Yes, it would.

Daggett: Yes.

Now, in addition, it would increase the competitive advantage of American cotton in the world markets.

H.M.Jr: Why?

Daggett: Cotton makes a cleaner bale than jute does. The fiber, if it got mixed in with the lint, wouldn't have the disadvantage that jute does now. And the cooperatives think that it would make a neater-looking bale and might demand a slightly higher price for that reason.

H.M.Jr: I see.

Lubin: When cotton was at five cents, did it have any effect on the use of cotton as baling, or did jute go proportionately down so there was no relative advantage?

Daggett: I don't recall of ever hearing of cotton being used on any scale even in '32 or in '26 - I think because

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jute went down correspondingly.

Murchison: There is a reason for that, if I may interrupt, Mr. Secretary. Cotton is sold on a gross weight basis in this country, and the jute wrapping for a bale of cotton weighs twelve and a half pounds, and the farmer thinks that he is being paid for that jute wrapping at the same price as he is being paid for cotton. Now, cotton covering for bales is much lighter. It weighs only about four and a half pounds. So that the farmer sacrifices the price, you see, of about seven and a half pounds of cotton when the cotton bale covering is used. Of course, the answer to the question, to my mind, is legislation making compulsory net weight trading in cotton, settlement on the actual cotton content of the bale. And if that step can be taken, then I think the road toward the use of cotton bale covering would be an easy one.

H.M.Jr: Well, could the Institute get me up a memorandum fairly quickly on that?

Murchison: We'd be delighted.

H.M.Jr: What?

Murchison: Be delighted.

H.M.Jr: And the Department of Agriculture.

Murchison: And that step, taken in conjunction with a higher tariff, would certainly do the trick.

Myers: We have gone into that a number of times, and the Agriculture Department has taken the position that it is in favor of net weight cotton trading. Now, Mr. Fulmer has introduced net weight trading bills for a number of years. His bills have also had a maximum weight of tare, which works against the interests of jute, and for that reason, I think, he has never gotten his bill through. If we were to put a tariff on jute, we of course would have to recognize that it would increase the cost of bagging to farmers, and in some years when the textile industry is active and making very high

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profits, it would put a pretty heavy expenditure upon the farmer.

H.M.Jr: Well, the - I mean talking in the office here - I mean I've arrived at a point where I think it's about time that all farmers began to help themselves a little bit.

Myers: Well, that's all right, if that's your . . .

H.M.Jr: I mean that's the way I feel, talking only for myself. I mean I think it is high time they began to think of a few ways to help themselves, and I just don't think we can do everything here to make it easy for them. I mean if - I'm not saying that I'm accepting this thing, but what I would like is - I mean here's an idea - a million bales of cotton - tariff - weighing the cotton on a different basis, and so forth and so on; now, I'd just like to get up a memorandum and take a look at it, and then after we've got it, say, meet again and let everybody poke holes in it. The next time, I'd have Dr. Feis here from the State Department so he could tell us why they would or wouldn't go along, you see. I mean I'm not jumping to the conclusion this is what I want to do, but I think it sounds like a possible suggestion.

Myers: That's true; it accounts for about 150,000 bales maximum for the bagging; the rest of the cotton, of course, might increase by as much as a million bales, as Mr. Stevens has stated.

H.M.Jr: Well, he'd have to prove his point.

Stevens: I think I can, Mr. Secretary.

H.M.Jr: I mean let everybody sort of get it together and let's take a look at it. How would that be?

Myers: Be all right.

H.M.Jr: I mean the Department could get up a memorandum, the Institute could get up a memorandum, and we could get one up. Agriculture could get one up. Then we could look at it and see. And I'd tell the State Department what we're doing and let them come and sit in on it and say why they could or couldn't go along. Let's say that's Suggestion A. How about that?

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Stevens: That's right.

H.M.Jr: Now, this is what I had in mind, which may be all - may be impossible, but that is the possible thought of putting on a nation-wide campaign for the utilization of cotton. "

Murchison: Well, we certainly accept that suggestion wholeheartedly and with great enthusiasm, Mr. Secretary.

H.M.Jr: Well, all right, now how would it be done? How would you go about it?

Murchison: Well, I would say offhand that there are two possible pathways. One is to intensify the experimental efforts that are now being made on a small scale. They can be stepped up tremendously - the things the Department of Agriculture is trying to do and the things we're trying to do. Now, for example, you take cotton housing. We have just completed some experimentations on cotton housing, and have come to the conclusion that that represents one of the most promising supplementary types of housing - that is, for summer purposes and resort purposes, for houses that are mobile - that have yet been suggested. I think there is the possibility there of a tremendous demand for cotton; it is just a matter of stepping up the program. Our own funds are limited, and if they could be enlarged, say, even by as much as a hundred thousand dollars, for some such project as that, that would mean a great deal.

A number of other suggestions of that same type can be made. Now, that's one way. And then, of course, along with that, a publicity program which would popularize the use of cotton in the public mind.

H.M.Jr: Well, let me ask this. From the standpoint - I'm not - I'll come back to this in a minute - I mean is there anything in this thing that the mills are waiting for the price to settle down before they'll go ahead.

Murchison: It's the buyers who are waiting for that, Mr. Secretary.

H.M.Jr: It's the buyers.

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- Stevens: Yes, Mr. Secretary, it's the buyers. The mills have now accumulated as large stocks as we have any record of during a period of quiet demand, running largely for the purpose of keeping their organizations together and their people reasonably employed. They are not waiting for any reduction in price of either cotton or anything else. They are all set to go and they have been going.
- H.M.Jr: Well, for instance, have you people - for instance, could you get together a committee of people - maybe you're all merchandising men, I don't know; I suppose some of you men are manufacturers and some are merchandising men - I mean the best merchandising brains in the group, and lay out a publicity campaign for the greater use of cotton, and let's take a look at it and see what it looks like and see what it would cost.
- Stevens: Yes, sir, I think we can do it.
- H.M.Jr: A nation-wide campaign.
- Murchison: We'd be delighted.
- H.M.Jr: What?
- Murchison: We'd be delighted.
- H.M.Jr: If you don't mind again, a thing like houses just leaves me cold. I mean I don't know what - I can think of something, why I should use more cotton stockings, shirts, underwear, stuff that I'm used to, when the price is right - something - handkerchiefs, etc. But you start about cotton houses; I can't picture it, see, and this is - I mean ... Well, take what we have done with Baby Bonds; I mean we have just merchandised that the same way as anybody else would merchandise anything else. I mean we've had the best advertising brains in America; we paid them. We have two agencies, one in St. Louis and one in New York. And we have a carefully planned magazine and direct-by-mail campaign, just as though we were merchandising shoes. We've got a million customers now, and we've sold a billion dollars worth of merchandise. I mean

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that's what I've got in mind; I mean just the way any merchant would sit down and - except you want to sell the whole country.

Stevens: I think that's a wonderful idea, Mr. Secretary.

H.M.Jr: Now, I'm not a merchandising man. I have got a little advertising and publicity sense. But in the industry there must be the people ... Mr. Cannon had the brains to put up a nice package and send everybody here at Christmas time some towels. Everybody talked about it. I mean it was a publicity stunt, but it was good. Everybody - I don't know how many people in Washington he sent a package of towels, very prettily wrapped up. I took it home. We talked about it. Do you (Murchison) know how many people in Washington he sent towels to? Do you know how many?

Murchison: Beg pardon?

H.M.Jr: At Christmas when Mr. Cannon sent these Christmas packages of towels.

Murchison: No, I don't know how widely he used that device.

H.M.Jr: But I mean he's got publicity.

Stevens: He's got good merchandise and good publicity - one of the best in the industry.

H.M.Jr: Mr. Cannon - I just mentioned him because it happened to hit me; but there must be other people like that. If they could get together and say, "All right, now, the Secretary has asked for it. Well, we're going to hand it to him and see what happens." See?

Stevens: Yes, sir, I think it is a great opportunity for us to hand it to you.

H.M.Jr: And I'm not thinking in terms of a hundred thousand dollars either; I'm thinking of the whole country. You couldn't make a dent with a hundred thousand dollars.

Murchison: I was thinking then only in terms of the cotton housing development.

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- H.M.Jr: Well, as I say, now - now, that was the main thing I had in mind. I just got the germ of an idea, but I wondered if the industry itself couldn't work on it.
- Murchison: We'd be glad to. Now, this cotton textile industry in some respects is like agriculture. It is composed of so many small units, most of whom do no direct selling to the public at all, and in consequence they don't have the motive there to engage in advertising; they don't have the volume to justify it; they don't have the funds. And so the industry is greatly handicapped because of its own organization in that respect. It is so unlike the automobile industry or tobacco industry, where the units, you see, are sufficiently huge to make possible these publicity programs. The cotton textile industry can't do it operating as separate, independent individuals. In our own efforts - the efforts of the Institute in that direction have been so recent - it's been a very difficult procedure.
- H.M.Jr: Well, maybe this would be a good excuse to get them together.
- Murchison: I think it would be a dandy excuse.
- H.M.Jr: What?
- Murchison: We've been making wonderful progress during the past few months on it.
- H.M.Jr: Well, it certainly isn't rushing you fellows too much to ask you to come back with a story Thursday on jute, is it? Today's Tuesday. Our own people could have a memorandum ready by Thursday. You (Myers) could have yours ready. George, you could have yours ready. What?
- Haas: Uh-huh.
- H.M.Jr: What?
- Haas: Yes, sir.
- H.M.Jr: Could you (Murchison) have yours ready?

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Murchison: Yes, we could, Mr. Secretary. If we could have another day - you see, our industry is so widespread

H.M.Jr: No, I don't mean on publicity; just on the jute.

Murchison: Oh, yes.

H.M.Jr: Just the jute.

Stevens: I think we have a great mass of information on that.

H.M.Jr: Just the jute. And the publicity thing we can put over to next week; a memorandum by Thursday wouldn't be worth anything. But certainly we could have something by Thursday on jute.

Murchison: Yes, we have that data all assembled.

H.M.Jr: Well, supposing you do this; I'll put down "Cotton, 11 o'clock, Thursday," and why don't you meet with Mr. Taylor at ten and go into the thing for an hour before and kind of maybe save my time by putting the thing together, you see, for an hour before you meet with me, so that - if it is feasible to put it on one page, it would help a lot. What? You could have an hour before you came in here.

Taylor: Fine.

H.M.Jr: Have you people got anything that you could help with on that?

Lubin: We've got some dope that might be of some interest, on labor consumption.

H.M.Jr: Would you like to follow on this?

Lubin: Yes, I would.

H.M.Jr: What?

Taylor: Take other competitive

Lubin: Products.

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Taylor: ...products at the same time.

H.M.Jr: Now, would you tell Herbert Feis what we're doing?

Taylor: (Nods yes)

H.M.Jr: And let him travel along at the same time with us.

Taylor: My impression is that

H.M.Jr: Wayne, will you?

Taylor: Yes, I will. ...that the jute aspects of their whole trade program aren't nearly as important as a great many others.

H.M.Jr: Well, let's - would you tell Herbert what we're doing and have him here Thursday?

Taylor: Yes.

Lubin: Nobody has said anything about the international market situation.

H.M.Jr: Well, I was waiting on that - just - could you wait just one second? Now, you're (Taylor) going to carry Herbert Feis along, then meet in your office at 10 Thursday morning, then come in here at 11. Now Dr. Lubin.

Lubin: I don't know enough about that end of it, but Myers does. What's the problem?

Myers: What do you mean?

Lubin: With the international market on cotton - problem of exports.

Myers: Exports. Well, we have had in the past an export market for perhaps as much as four hundred thousand bales of cotton in terms of manufactured goods. We have lost out on that simply because the American industry is not in a position to compete on the world market basis. Japan in particular has been underselling us, and of course, as I presume everyone here knows, forced this country to increase its own tariff on

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certain textiles. So we have not been in a position to export manufactured goods. We have had in Agriculture a number of requests for an export subsidy, but that gets so involved that we haven't been able to see our way clear to go into that sort of program.

Lubin: How about your raw cotton?

Myers: Raw cotton. Well, we do not have an export subsidy on raw cotton, and there again we have attempted to avoid getting export subsidies. Once we get these things started ...

Lubin: I mean what is the situation? Are exports going down, and if so, how do they stand as compared to former years?

Myers: Our exports went down very sharply following '33. Last year they amounted only to about five and a half million bales, as compared to seven and eight in previous years. This year, with the lower prices, we are having a somewhat better export movement to Europe, but smaller to Japan, because of the situation over in the Orient. Fortunately, by letting prices go down enough, we have been able to retain exports to about the level of last year, despite the practical loss of the Japan market.

H.M.Jr: That's gone.

Myers: It is.

H.M.Jr: I follow it here. Every week we have special reports on it. That's completely gone - your Japanese cotton.

Myers: We'll be very fortunate if we export half as much cotton this year to Japan as we did a year ago.

H.M.Jr: Well, in October it just melted away to nothing.

Lubin: Larry, what's the problem there? You say it's price phenomena. Do you mean Europe, or other countries, can produce all the cotton Europe needs at a price below what we can produce and sell it at?

Myers: Well, foreign cotton production has increased

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tremendously in the past few years, and the cotton has been available for sale in world markets at prices which were attractive in comparison with American cotton. This year, with a lower price for American cotton, that is not so true, and we are having better success at selling in Europe than we did last year or the year before.

Of course, in addition to the price, there is the exchange problem, which I suppose everyone here knows much better than I do; no need of going into it.

- Taylor: That's very important. You have three great potential users of cotton, natural users of cotton, which happen to be Italy, Germany, and Japan, and they do their business a little differently. I mean that's where the largest loss of your markets has been - in those three countries.
- Myers: And that's where exchange restrictions are involved.
- H.M.Jr: Well, where do they get their cotton?
- Taylor: From the other nations that have made these arrangements.
- Stevens: The substitutes in Italy and Germany have hurt the consumption of cotton in those two countries. They have forced the development of synthetic fibers to the point where clothing in Italy today is for the most part made out of synthetic fibers rather than cotton or wool.
- Myers: A part of their war preparations. They want to be ready to supply their own fibers. Substitutes are the answer. They have actually used less fibers; I am quite confident of that. And then, third, of course, to some extent there has been barter, of course, between Germany and Brazil especially.
- H.M.Jr: Dr. Myers, have you got anything that you could sort of pop out of your head that would be useful right now to use a lot of cotton?
- Myers: Well, our program is rather modest for this year. We already have a hundred thousand dollars from Section 32 funds which we are using to promote some of these new uses. We have also

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H.M.Jr: There's some young fellow from Rheinbeck

Myers: Mr. Hemley. He happens to have worked out a beehive scheme.

H.M.Jr: You know, it just happened to hit him, hit me so terribly funny.

Myers: Sounds very absurd, I agree.

H.M.Jr: He had the whole thing solved, and the President sat in his chair waiting and we were all waiting for it and everybody praying for the answer, and it was "beehives." Don't tell the boy about it, will you, because I understand he's very serious and very much in earnest.

Myers: Oh yes.

H.M.Jr: But he told it as a funny story.

Myers: I don't have any control over their activities outside of the office.

We have developed a program involving quite a little expenditure trying to put cotton into cotton mattresses by these relief workers, and also to enlarge our cotton bagging program, which we are trying out experimentally this year. So far, those programs have not been approved, for obvious reasons; the expenditure, involving several millions of dollars, has to receive very careful consideration. One problem that we have had in all of these programs where we go out to force cotton into consumption is the tremendous expenditure that is involved, even at the low prices and wages of 1933. I figured out how much it cost for a million bales of cotton; it cost about 150 million dollars at that time to utilize a million bales of cotton. So you see what it gets into if we go out and try to force it in, as contrasted with your suggestion of advertising, getting consumers to purchase.

H.M.Jr: Yes. Well, that was why I called this meeting. I don't know anything about jute; I don't know that. But I was thinking of this thing as a straight merchandising, advertising thing. We've got

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something to sell; let's get the people to use it. "here we're going to get the money is something else. But that's the way I was thinking of this thing. I think of Mr. Cannon because he gave me a couple dollars worth of towels. It was a clever merchandising idea, and there must be others like him in the industry that would most likely jump at this opportunity of putting their heads together and working out a national advertising campaign and merchandising cotton products.

Stevens: They would.

H.M.Jr: What?

Stevens: I think they would.

H.M.Jr: That's what I'm asking.

Taylor: Jacques - Jacques - is he cotton or wool? Textile ...

Stevens: At Lowell? I don't know.

Taylor: Up in New England.

Stevens: That's a hosiery and underwear crowd.

H.M.Jr: How about ships? Is there enough space in ships to take all the cotton that they want to out of this country?

Murchison: I think so. There's no problem of cargo space.

H.M.Jr: There isn't.

Myers: There was for a short time, but that's a temporary phenomenon.

H.M.Jr: Now, gentlemen, thanks very much. If you come back Thursday at 11 o'clock, we'll talk about jute. And you (Murchison) get the word around very quietly; I don't want any publicity on this. This is out of my field.

Murchison: May I suggest on ...

H.M.Jr: Remember, no publicity, please. Time enough when we get the results.

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- Murchison: ... if I may, in thinking about positive methods of making cotton move more freely into consumption, I think we should also give some attention to the negative features of the situation, as the obstacles that stand in the way; as, for example, the use of a processing tax, which is now being talked about so much.
- H.M.Jr: Do you want a processing tax?
- Murchison: I say the use of a processing tax on cotton would defeat all these things we have been talking about this morning, because right there you'd have immediately an increase in cost of anywhere from possibly 20 to 40 percent. *
- H.M.Jr: Do you want to know where I stand on processing tax, in this room? I'm "agin" it. But I don't want anybody to quote me. I'm "agin" it.
- Murchison: Nothing would more effectively defeat the program that you have in mind.
- H.M.Jr: Well, I'm "agin" it, but it's - that's how I feel.
- Murchison: That's very reassuring, Mr. Secretary.
- H.M.Jr: Now, don't take - I wouldn't - I don't want to be quoted, but that's - I mean that's the way I feel, and I was against it originally. I think I have always felt that the answer to the cotton problem is to get people to use all we can grow, and I know that isn't what some of my friends think in Agriculture. But that's the way I approach it. I mean let's get the people to use it; then we don't have to worry. I don't want to see any processing tax on cotton; I don't want to see any processing tax on anything.
- Murchison: Well, that will be a great triumph if we can stop that.
- H.M.Jr: Well, that's the way I feel, but I'm only one.

November 16, 1937.
9:20 a.m.

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Sen. Byrnes: Senator Byrnes.

H.M.Jr: Yes, how are you? This is Henry.

B: Fine, glad to hear your voice.

H.M.Jr; I got your two very nice letters.

B: Well, I listened to your speech over the radio, and you made a darned good speech under somewhat adverse circumstances. I only wish I had been alongside of you and could have asked you to consider from your manuscript long enough to say when you mentioned an expenditure over and above the budget because of the action of the Congress in overriding the veto of the President, and causing the taxpayers to pay the interest to farmers.

H.M.Jr: Yes.

B: That they were - that that additional expenditure was due to the fact that some very fine gentlemen, who talked a lot about economy, were willing to override the attitude of the President to economize and vote of a few people in America.

H.M.Jr: That's right.

B: That damn fellow voted that way. Did you know that?

H.M.Jr: Did Byrd vote for that forty million dollar?

B: Yes. Voted to override the veto of the President.

H.M.Jr: I didn't know that.

B: Yes. Great economist.

H.M.Jr: Well, for heaven's sake.

B: And there's forty million dollars over your budget, and main thing you've got to stop writing checks, but my God how can you stop writing checks, not for all of the people, but for the debts of a group of people.

H.M.Jr: Yes.

B: You send it up to me, and -

H.M.Jr: It's - it's

B: You can rely on it, that thing is going to be heard from, because that made an impression. It made an impression on my wife, we were sitting there and she asked me about it, and I couldn't answer her.

H.M.Jr: Well, there is - there is an answer, and a very good answer.

B: All right.

H.M.Jr: Now on this processing tax thing, see, that's quite a subject.

B: It is that.

H.M.Jr: Now Magill's handling taxes for me.

B: Yes.

H.M.Jr: And I'll do either way, I mean, either if you'd care to stop by early in the morning and see Magill and me or we'll drop up and see you, either way.

B: I have got this reorganization. What time do you get down? I'll stop there.

H.M.Jr: Well, I'm here by nine o'clock.

B: Well, I'll come there at nine to - between nine and nine-fifteen.

H.M.Jr: Tomorrow morning?

B: Say nine-fifteen. Give you a chance to get your hat off.

H.M.Jr: Tomorrow morning?

B: Right.

H.M.Jr: Tomorrow morning.

B: Yes.

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H.M.Jr: Well, Magill and I'll both be here.

B: Right.

H.M.Jr: Yes.

B: While I'm talking to you, I - you - I might have known that you
I just said, well I wonder if Henry Morgenthau is going to talk to me about reorganization and complain about it, and you're always good, you haven't done it.

H.M.Jr: No.

B: (laughs)

H.M.Jr: Why should I.

B: But I told I said, "Well, you know you can - the American Bankers Association started a propaganda, and because of the control of the currency, you wouldn't be the first member of the chapter who has -

H.M.Jr: What, to bother you on that.

B: Oh, yes, complain -

H.M.Jr: Oh, Hell, that's - the condition the country's in that's peanuts now.

B: The thing - to me it's peanuts.

H.M.Jr: And I'm doing everything I can to help the thing back on the track again.

B: My God, it's -

H.M.Jr: And if anybody wants to take half the Department away because somebody else can handle it better, God bless them.

B: Isn't it terrible.

H.M.Jr: I mean they - they can - anybody can have any piece of the Treasury they want.

B: Well, that's -

H.M.Jr: If they think it belongs some place else, they -

B: What gets me is. The President of the United States appoints me, and there isn't a thing in the bill taking anything from anybody, except they're giving him the power hereafter to conduct hearings and decide.

H.M.Jr: Yes.

B: And they're unwilling to trust the man who appointed them to office.

H.M.Jr: Yes.

B: If I was President, I'll be doggoned if I'd appreciate it, because -

H.M.Jr: But as far as I'm concerned I'm doing everything I can to help get it started again.

B: Well grabbers - and let these other

H.M.Jr: Hell, they think - they - if Congress thinks that a part of the Treasury belongs some place else, somebody else can do it better, God bless them, that's the way I feel.

B: Well, that's - I'm liable to quote you.

H.M.Jr: What?

B: I'm liable to quote you.

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

B: That's such a good quotation.

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

B: All right, I'll see you tomorrow morning.

H.M.Jr: Righto.

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B: Goodbye.

H.M.Jr: Goodbye.

November 16, 1937.
9:30 a.m.

H.M.Jr: Hello.

Operator: Senator Harrison.

H.M.Jr: Hello.

Sen. P. Harrison: Yes, Hello, Henry. . .

H.M.Jr: How are you?

H: Oh, I'm pretty good. I just got in.

H.M.Jr: I got your very nice telegram, I want to thank you.

H: Well I thought you made a good speech, Henry.

H.M.Jr: Well, it was darned nice of you to send me that telegram.

H: Very, very fine, and I thought I'd better send it and give you a little encouragement and so forth.

H.M.Jr: Well, I can use all the encouragement that I can get.

H: Yes. Well I'll have a talk with you sometime soon.

H.M.Jr: How would you like to come tomorrow and have lunch with Magill and me.

H: Well, Henry, let me kinda survey the situation, I don't know what my status is or anything, you see.

H.M.Jr: Well I know what your status is all right.

H: Well, the trouble is I don't know what's coming up on this floor.

H.M.Jr: Well, I'll tell you what I'll do.

H: If it's the reorganization committee, I've got to stay and help Jim Myers on it, and I can't leave during the session.

H.M.Jr: Well, I give you - give me a twenty four option on it, how's that?

H: Fine. I'll let you know.

H.M.Jr: You'll let me know tomorrow morning?

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H: Yes. Where do you want to eat?

H.M.Jr: Well, we eat right here in the Treasury.

H: Why can't you come down here and eat with me, up here in my private room.

H.M.Jr: I can.

H: That would probably be better because Magill's with the Committee, isn't he?

H.M.Jr: Yes.

H: I'll give you a ring.

H.M.Jr: Give me a ring, Pat.

H: All right.

H.M.Jr: Thank you.

November 16, 1937.
9:44 a.m.

H.M.Jr: Hello.

Operator: Congressman Vinson.

H.M.Jr: Hello.

O: Go ahead.

H.M.Jr: Hello.

Vinson: Hello.

H.M.Jr: Henry Morgenthau.

V: Yes, Mr. Secretary.

H.M.Jr: How are you?

V: All right, sir.

H.M.Jr: You seem to be getting along fine?

V: It looks to me like we're moving right along.

H.M.Jr: I'd like to make a suggestion, if you don't mind.

V: Be happy to have it.

H.M.Jr: I wondered if it would be possible to let our boys off in the afternoons so they'd have a chance to prepare for the next day. I'm afraid that some of them are going to crack up if they don't.

V: Well of course we've just -

H.M.Jr: It's coming awful fast.

V: We just have to do it. If we can't -

H.M.Jr: I mean - you see they don't get any chance except nights to prepare for the next day, and it's - it's awful tough on them, and last summer I had a couple of them go to the hospital.

V: Well, of course, we be - we'll just have to govern ourselves that way. We've been driving - terribly hard.

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H.M.Jr: I know.

V: All through the year - and of the wear and tear I know by my own -

H.M.Jr: Wouldn't it better - take your own case, I mean, just going - you've - you've got to study and prepare also.

V: Well, that doesn't - oddles that can be done.

H.M.Jr: Yes.

V: But -

H.M.Jr: I mean the boys are willing to go from ten to one, but they would kinda like to have the afternoons to prepare for the next day.

V: Well, we can - we can - now to whom does that refer?

H.M.Jr: Well, I'm speaking about - mainly about Magill.

V: I see. Well, of course that - with the ground that we've got to cover now, Mr. Secretary, working a couple of hours in the morning, we're going to come up to it some of these days when we - think we ought to be reporting it.

H.M.Jr: I know.

V: And I have a lot of work that'll have to be done then in a hurry.

H.M.Jr: Well -

V: But I - I certainly am glad to get the suggestion, and-

H.M.Jr: It's purely personal -

V: And I wouldn't - I wouldn't -

H.M.Jr: It's just between the two of us.

V: Yes, I wouldn't put an extra ounce of worry that Magill couldn't carry because I think he's a - I just think he's tops.

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H.M.Jr: Well, I - I do too, -

V: We've been getting along wonderfully well, we haven't had a dissenting -

H.M.Jr: Yes.

V: Of course, now we've had arguments and things of that kind in the committee, but even - they haven't had a dissenting vote on anything yet.

H.M.Jr: Well, Fred, here's the thing that I'm worrying about, and this is going to last several months, and nobody can take it and do it all day and then work all night preparing for the next day, you see.

V: Some of us have been doing that -

H.M.Jr: I know.

V: For years. It may be that after you get in the habit of doing it, but I don't know when I ever had any rest. I didn't even have any this summer, but we'll watch that.

H.M.Jr: Well, if you could. As I say it's a purely personal suggestion and I'll leave it - I'll leave it in your hands.

V: Well, we'll do that. We're not going to - we're not going -

H.M.Jr: All right.

V: We're not going to break down on Ros Magill, he's too valuable.

H.M.Jr: All right. Well - so then you will do it.

V: Yes, sir.

H.M.Jr: I'm very very much obliged.

V: All right, sir.

H.M.Jr: Thank you.

November 16, 1937.
9:50 a.m.

Operator: Go ahead.

H.M.Jr: Hello.
Dr.
Riefler: Hello.

H.M.Jr: I just thought I'd call up and say goodbye. I hope you have a good trip.

R: Thank you. How's everything coming?

H.M.Jr: Pretty good. Nothing special. Is there anything you want to ask me?

R: No. There isn't.

H.M.Jr: Well I have nothing. If you get anything interesting, go to one of the Embassies and cable it to me, will you?

R: Yes, I will.

H.M.Jr: Will you do that?

R: I will, and will you please keep me informed.

H.M.Jr: All right.

R: I mean it's - I get awfully lost over there.

H.M.Jr: You do.

R: And I like to know that things haven't changed particularly.

H.M.Jr: Now, will the State Department know where you are?

R: Oh, yes, I keep in contact with the Embassy all the time.

H.M.Jr: All right. Well, if anything happens of any importance, I- I'll get you on the wire.

R: Good.

H.M.Jr: How long will you be gone?

R: I'll be back on the 23rd.

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H.M.Jr: Of December.

R: Yes.

H.M.Jr: Righto.

R: Goodbye.

H.M.Jr: Good luck.

R: Thank you.

H.M.Jr: Goodbye.

R: Goodbye.

November 16, 1937.
11:46 a.m.

H.M.Jr: Hello.

Operator: Mr. Jones. Go ahead.

H.M.Jr: Hello.

Jesse
Jones: Hello.

H.M.Jr: Jesse?

J: Yes.

H.M.Jr: Good morning.

J: Good morning.

H.M.Jr: Jesse, I have a French gentleman in here by the name of Du Pasquier who was sent in through Mr. Bonnet, see, on cotton. Hello.

J: Bonnet?

H.M.Jr: Well, Bonnet, the Finance Minister of France has sent him here to see me.

J: Oh, yes, yes.

H.M.Jr: See.

J: Yes.

H.M.Jr: Now, I won't go through all the gory details, but I arrived at this point, but supposing, - would it be possible for United States Government to offer a fixed number of bales at a fixed price, to sell it say, to a group of spinners?

J: Yes.

H.M.Jr: Where they'd agreed to take it and put their name on the paper, and their own banks would guarantee it, I mean, so it's not a question of money, but at our end can we say we'll sell so many bales at a fixed price - is there any place that you could lay your hand on a quarter million bales?

J: Well, our situation is exactly this. We said in June that we would not make any concessions on this million six hundred and fifty thousand bales.

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H.M.Jr: Yes.

J: On which we've got loans until after January.

H.M.Jr: Yes.

J: Now if we should call any part of that loan, that cotton now, we've got to call the loans.

H.M.Jr: Yes.

J: That means we would be violating what we've said. Now they wanted, I assume, at a price.

H.M.Jr: At a price.

J: Yes. Well, now, another thought I have, Henry, here is -

H.M.Jr: Yes, sir.

J: If we give them a price on it -

H.M.Jr: Yes.

J: It will simply take, probably, that much cotton out of the - that much demand out of the market.

H.M.Jr: Demand?

J: Well, I mean if they've got to buy - if they wanted a quarter of a million bales -

H.M.Jr: But they - they didn't get any cotton from the United States last year.

J: They did not.

H.M.Jr: Not a bale. They got it other places. Now this would be giving us two hundred and fifty thousand bales in a market that we did not have.

J: Well, now we just - we'd have to unwind ourselves a little.

H.M.Jr: I know.

J: And find some way to do it.

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H.M.Jr: Well.

J: And if you think well of it, I'd be very glad to -

H.M.Jr: Well, he came yesterday with an entirely different proposition.

J: Yes.

H.M.Jr: About putting the stuff over there in storage and all that sort of stuff -

J: Yes.

H.M.Jr: I said, "Well, we're not interested in that".

J: Yes.

H.M.Jr: So I said, "Have you got a group of spinners who would put their name on the paper, plus their own banks, use their own representatives, would guarantee to take a quarter of a million bales provided we could give it to them with a fixed price" and he said, "We could", and I said, "That France uses a million bales of cotton, and they didn't get any - practically any of the cotton from us, they used Egyptian cotton and other cottons last year." And the way I looked at it was this, if we could take two hundred and fifty thousand bales off this market at a price which may, three months from now, look cheap -

J: Yes.

H.M.Jr: Still, when you take it, using say eight cents, and all the benefits and all the storage still that stuff is going into consumption.

J: Yes.

H.M.Jr: And I - if he didn't come with a letter from Bonnet I wouldn't bother with him.

J: Uh-huh.

H.M.Jr: But, I - I think it's worth looking into and possibly unwinding and reversing ourselves.

J: Well, I'll be very glad to - to study it a little bit and go over it with you.

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H.M.Jr: Well, supposing I do this. I- I'll keep him on ice until you've had a chance to think about it.

J: All right.

H.M.Jr: And then when you have a chance, within reasonable time, will you give me a call?

J: A day or two?

H.M.Jr: A day or two, but let's do it between now and Friday noon.

J: All right, between now and Friday noon.

H.M.Jr: But the whole thing, my approach is, that may be all wrong, - is to approach it from - yes, we will sell them so many bales at a fixed price to be paid for in cash in dollars over a period of six months.

J: And that's - that - they go to France.

H.M.Jr: It goes to France.

J: I see. I'll call you then and be ready to talk with you, certainly by Friday morning and maybe earlier.

H.M.Jr: All right. And I'd like to handle it with you direct.

J: All right, I'll do it with you.

H.M.Jr: I thank you.

J: Goodbye.

November 16, 1937.
12:12 p.m.

Operator: Yes, sir.

Randolph
Burgess: Hello, Henry.

H.M.Jr: Hello, Randolph.

B: Well I just wanted to report to you what we're doing. We haven't bought anything since last Friday.

H.M.Jr: Uh-huh.

B: So our total purchases this week, so far, are eighteen million.

~~H.M.Jr:~~ Yes.

B: Now the market is very bare of short

H.M.Jr: Yes

B:

H.M.Jr: Yes.

B: 144, and the banks got forty five million of that, you noticed.

H.M.Jr: Yes.

B: The dealers only had five.

H.M.Jr: What's that?

B: The dealers only got five million.

H.M.Jr: Yes.

B: Of that. I am told that an insurance company took twenty million.

H.M.Jr: Yes.

B: Of those bonds.

H.M.Jr: Now I think the market has behaved pretty well under that. It took some. It took them between a quarter and an eighth, I would say.

H.M.Jr: Yes.

B: And there's a little more buying and longer bonds -

H.M.Jr: Yes.

B: Reported. A little more interest in the longer bonds.

H.M.Jr: Yes.

B: Now, we've been having some discussions with Marriner about how much further our program should go, and I understand he's going to have lunch with you.

H.M.Jr: Yes.

B: Now I just wanted to tell you how we felt, I've already told him. Our feeling is that we probably ought to stop buying at this point until after the financing.

H.M.Jr: Yes.

B: Because, if we bought beyond this week, the purchases would show on the report that comes out, the - 25th.

H.M.Jr: Yes.

B: Of November.

H.M.Jr: Yes.

B: Which is awful close to your financing.

H.M.Jr: That's right.

B: And I'm afraid it would give artificial prices, which would make it difficult to know just what prices to put on the new offering.

H.M.Jr: What have you bought? Seventeen million?

B: We bought eighteen this week.

H.M.Jr: Yes.

- 3 -

B: And ten last week.

H.M.Jr: Did you have anything run off this week?

B: We had maturities of fourteen that we replaced.

H.M.Jr: I see, but you show a net gain of -

B: A net gain of eighteen, this week.

H.M.Jr: Eighteen.

B: And of ten last week.

H.M.Jr: Uh-huh.

B: Now that's been enough to show our goodwill, and to show we were on the job.

H.M.Jr: Oh, I'm satisfied.

B: Yes. Well, I just wanted to give you our general reaction on the thing.

H.M.Jr: And you're not by any chance hinting that I should say that to Marriner Eccles.

B: Not the slightest.

H.M.Jr: Oh, no.

B: He might, in the discussions-

H.M.Jr: Yes.

B: He's - he's heard what we had to say, and I just wanted to be sure you had all sides of the picture.

H.M.Jr: Now you're not by any chance horse shedding me?

B: Not - (laughs) yes, damn it, I am. (laughs)

H.M.Jr: O.K. That's much better. All right.

B:

H.M.Jr: All right. Attaboy.

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B: Well the market is so thin of - so bare of short stuff.

H.M.Jr: Righto.

B: That it's hard to pick up stuff, and it does have -

H.M.Jr: I love to be horse shedded by Randolph Burgess.

B: That's fine.

H.M.Jr: All right.

B: I'm perfectly willing to admit it. Right.

H.M.Jr: Goodbye.

B: Goodbye.

November 16, 1937.

MEMORANDUM

Mr. Pierre Du Pasquier called this morning at 11:30, presenting a card as Government Advisor to France's Foreign Trade, with address at 79 Quai D'Orsay, Paris. Mr. Du Pasquier had been received by Mr. Taylor yesterday and had called on Mr. Warren Lee Pierson of the Export-Import Bank earlier this forenoon. The letter of introduction which Mr. Du Pasquier presented was signed by M. Bonnet, Finance Minister of France, who stated that he desired to discuss general financial conditions.

Mr. Du Pasquier opened the conversation by saying that his friend, M. Bonnet, had heard all the rumors which had reached Paris from London and Amsterdam, particularly, in regard to possible raising of the gold price in the United States. The Minister of Finance did not take much stock in these rumors but still desired that Mr. Du Pasquier take advantage of his visit to the United States to inquire personally of the Secretary of the Treasury in regard to the outlook. The Secretary replied that he understood from Mr. Taylor that Mr. Du Pasquier was especially interested in cotton.

Mr. Du Pasquier then presented his cotton proposition, without the Secretary giving any reply in regard to the monetary situation. Mr. Du Pasquier first talked of the possibility of sending a certain amount of cotton, owned or controlled by the United States Department of Agriculture, or some other Government agency, to France for warehousing at the ports of Havre and Dunkirk. Upon pressing for more specific details, it was developed that the prime idea was for the cotton spinners in France

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to acquire approximately one-quarter of a million bales of cotton, out of their normal needs of one million bales per annum, through one purchase from the United States at a fixed price. Mr. Du Pasquier contended that France's needs had been supplied recently by cotton from Egypt, India and sources other than the United States. He thought that with improving credit conditions in France, and particularly in view of the reduction of the Bank of France's discount rate to 3 per cent two days ago, it would be possible for French banks to finance the complete transaction. Credits might be required up to six months, but bank guarantees would be provided and the documents would be signed by the individual members of the Cotton Spinners Association, who would be the eventual purchasers.

In reply to the Secretary's inquiry as to whether the spinners acted as a group in making their purchases, Mr. Du Pasquier recalled that he had been a member of the Tardieu mission to the United States during the War and had had much personal experience in making French purchases of cotton, copper, and foodstuffs in the United States. At present the spinners do not ordinarily work as a body in making their foreign purchases and there would be some objection to such a scheme as he proposes on the part of the import firms at the important cotton ports of Havre and Dunkirk. At the same time Mr. Du Pasquier thought that a group purchase could be arranged if satisfactory prospects developed on the American side.

The Secretary asked Mr. Taylor to come in after the conversation had proceeded a little while. Mr. Cochran had been in the Secretary's

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office when the visitor called and remained through the conversation. Shortly after Mr. Taylor came in the Secretary asked Mr. Du Pasquier to step into the other room while the Secretary endeavored to ascertain whether one-quarter million bales of cotton could be found for such a sale to France. Mr. Taylor explained, after Mr. Du Pasquier had left the room, that the proposition which the visitor had put up to the Secretary this morning had differed somewhat from the one which had been presented to Mr. Taylor yesterday. The Secretary was aware of the differences and was also acquainted in advance with the proposition which had been presented to Mr. Pierson by Mr. Du Pasquier. The Secretary telephoned Jesse Jones and briefly summarized the idea. He asked Mr. Jones whether the latter could put his hand on one-quarter million bales to supply this order. Mr. Jones explained that his organization had mortgages on more than one million bales of cotton, but had given the promise that no action would be taken toward disposing of any of this cotton before next January. Furthermore, he inquired as to whether such a sale of cotton to France might not reduce the normal export cotton trade by just that amount. The Secretary replied that Mr. Du Pasquier had reported that in the past year France had not taken any significant amount of American cotton. The Secretary raised the question as to whether it might not be good business to put one-quarter million bales of cotton firm at even a price which three months from now may seem low, if thereby France purchases a larger percentage of American cotton than would otherwise

- 4 -

be the case. Mr. Jones replied that such a transaction would involve a certain amount of "unwinding" on the part of his organization. He promised to look into the matter and call the Secretary back directly before Friday noon.

After talking with Mr. Jones, the Secretary called Mr. Du Pasquier back into his private office and told him that he had taken up the proposition and that he should be able to give him a reply within the next two or three days.

The Secretary then telephoned Mr. Haas and asked for a report by Wednesday noon as to the sources and amounts of France's imports of cotton during the past two or three years and as much information as possible in regard to the types of cotton used.

The Secretary asked Mr. Cochran to send a cablegram to Paris to ascertain the exact status of Mr. Du Pasquier.

H.M.S.

W. Fuchsel
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12 NOV 1957

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 16, 1957.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF FRANCE.

Mr. Cariguel called at 11:35 today and requested that we ship by Steamship Champlain, sailing on November 20, about \$10,000,000 worth of gold for which he had arranged for freight and insurance. The market in Paris today, he continued, was very much quieter so that he had not found it necessary to operate either way. Yesterday, they had gained a little sterling. I suggested that, that being so, the gold and foreign exchange holdings of the Fund must be close to 12,000,000,000; this, Cariguel confirmed.

He then mentioned that next Thursday's Bank statement would in all probability show an increase in gold as a result of a transfer from the Fund's holdings.

I inquired as to the status of the £40,000,000 loan which, according to newspaper reports, was going to be paid off. Cariguel confirmed this. I asked whether the French Fund would give up the gold necessary to make this payment. Cariguel replied that although the Fund had more than enough gold to pay out this amount, this question had not even yet been discussed. Nor did he seem willing to venture a guess on this point.

LWK:KMC

MBo

GRAY

London

Dated November 16, 1937

Rec'd 2:11 p.m.

Secretary of State,
Washington.

719, November 16, 5 p.m.

FOR TREASURY FROM BUNGERWORTH.

Although responsible individuals in the City place, from the point of view of economic improvement in the United States, a favorable interpretation on the message to Congress the influential London newspapers have not done so. Consequently London marked down American stocks traded in here by about two points before the New York stock market opened at 3:00 p.m. London time. The TIMES editorial is mainly a paraphrase of the most important aspects of the message which however, it describes as "encouraging business proclamation". The only other comment is to be found in the opening sentences: "President Roosevelt's message to Congress is noteworthy for the frankness with which he recognizes the decline in business activity and the responsibility of the Government to take prompt action to check it. Equally noteworthy is the emphasis which he lays upon the necessity for cooperation between Government and private enterprise."

The

2- No. 719, November 16, from London.

THE FINANCIAL TIMES takes the view that it "gave no intimation of any practical advance towards business *** the President reiterated as his central purpose the achievement of higher living standards and a more just distribution of the gains of civilization. These aims in themselves are wholly praiseworthy. The lesson which all recent experience teaches but which seems still to be studiously ignored officially is that bludgeoning the big man is not an infallible method of helping the small man. There seems little doubt that given an assurance against antagonistic action, a little real help in the matter of taxation, industry might begin to expand again."

THE FINANCIAL NEWS finds the message "a little disappointing" and "as compared with some recent utterances from Washington which showed a distinct advance in the understanding of what the financial and industrial mechanisms required the message appears to be a retrograde step."

THE LIBERAL NEWS CHRONICLE, however, sees it as "a welcome contrast with the ostrich-like attitude of British Ministers towards the prospects of a trade slump" and terms the British attitude foolish and dangerous; "we prefer the cautious common sense of Mr. Roosevelt, a man big enough to know his own limitations."

THE Socialist DAILY HERALD predicts "American business will be encouraged but not exhilarated by yesterday's

Presidential

3- No. 719, November 16, from London.

Presidential message. With his usual good sense and courage Mr. Roosevelt offers business every legitimate opportunity for profitable working while not giving away one particle of the essential new reforms."

The dollar weakened rapidly before fixing at which the gold premium was increased to one shilling one ~~half~~ penny. The announcement that the 40,000,000 pound credit would be paid has caused some uneasiness and the British control supported the franc sporadically throughout the day.

BINCHAM

SMS:CSB

CA

Gray

PARIS

Dated Nov. 16, 1937

Recd 3:34 p.m.

Secretary of State,
Washington

1612, November 16, 6 p.m.

FOR THE TREASURY

Comparatively little business was transacted on the exchange and security markets here today and trading showed no particular trend either way. In official trading this afternoon the pound eased to 147.42 after 147.51 this morning and the dollar to 29.42 after 29.49. It seems that the fund did not enter the market at any time during the day.

The security market was depressed and rentes were fractionally lower. Internationals were particularly weak.

WILSON

NPL RCC

MBo

TELEGRAM SENT

GRAY

November 16, 1937

4 p.m.

AMEMBASSY,

PARIS (FRANCE),

URGENT.

576.

Treasury requests telegraphic report on standing
and connections of Pierre DuPasquier, 79 Quai d'Orsay.

HULL
(HF)

EA:FL:BMF

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE November 17, 1937.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KNOKEBANK OF ENGLAND

Mr. Bolton called Mr. Knoke at 11:30 today. There was noticeable in Europe today, he said, a rather more bearish psychology about American business and its future outlook which would, of course, continue to affect to some extent the dollar-sterling rate. There was not any serious thought today about further devaluation of the dollar; that was not talked about in Europe to any extent at all, or, at least, it was a question which was a very long way down on the list. The thing that affected European opinion primarily at the moment was the possibility of an enormous budget deficit. Not that Mr. Morgenthau was not taken at his word when he promised an early balancing of the budget; what was worrying people was whether he would be able to make good on his promise. This then was one reason for the weakness of the dollar; another one very definitely was the fact that, for the moment, at least, the political conditions in Europe were better.

The demand for gold in London for hoarding purposes, Bolton said, continued at about £200,000 to £300,000 per day. I explained that we had not renewed our selling order for the balance of our gold in London simply because prices had dropped so much that our limit of 35.09 did not seem realistic. Nevertheless, I felt the order would be renewed the moment it looked as if there were a chance of making that price. I asked whether he had any idea as to the total of gold that had so far gone into hoarding since the beginning of October. He replied it was very difficult to determine this because a fair amount of the gold purchased in London was taken by people who would turn it in to some of the small central banks in Europe in exchange for gold coin which they

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 17, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knobe

BANK OF ENGLAND.

- 2 -

would then peddle out to the small hoarder. This transaction continued to be profitable because gold coins were still at a premium of from 2 to 5%. That this peddling out of coin was a very real thing, he seemed to conclude from the fact that they were getting back a lot of their banknotes, which evidently had been held by the small fellow who was now exchanging them for coin. Urged by me to make a guess, Bolton thought that since the low level of about £100,000,000 for gold hoarded in London had been reached in August, this amount had again been increased altogether by £15,000,000 to £20,000,000. I replied that that did not check at all with a comment I had read in one of the London papers at least a month ago, when the amount was given at £30,000,000. Bolton promised that he would look over his figures again and give me another ring in the near future.

I commented that I could not quite understand how, in spite of the continued sustained demand for gold in the London market, the gold price in London, in terms of sterling, had dropped from 140s 8d early in October to 139s 10d today. Bolton replied that this was rather a long story and difficult to explain on the telephone and continued somewhat as follows:

"Over here, everybody is dealing in gold in terms of your import parity (\$34.77). With sterling appreciating from \$4.95 in August to a recent high of \$5.03, in the ordinary way, everybody would expect the price of gold to depreciate to some such figure as 138s 6d which I, for instance, have often had in mind. (N.B. It is interesting to note that this figure calculated

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 17, 1937.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnobeBANK OF ENGLAND.

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at our selling price of \$35 plus a quarter per cent, would be equivalent to a sterling rate of \$5.0867.) However, in view of the fundamental change in conditions - recently Europe has turned a buyer of gold in the London market instead of selling as heretofore (for shipment to New York) - we have been trying to get the London price up to your export parity. As a result, there is a constant tug of war between the hoarding demand for gold, which would push the sterling quotation for gold up, and the natural tendency for the sterling price for gold to go down to the extent that the sterling-dollar rate moves up. This being the situation, we have tried to establish a rising premium over your import parity so that the London price would gradually work up to your export parity and conditions would eventually make intervention for you possible. This is, of course, really quite a difficult process that has to be kept up all day long every day since the gold market continues to function long after the fixing. It requires a sort of education for the market that is going on all the time. As I have repeatedly and frankly mentioned to you we have no definite idea as to what would be the proper level for the sterling-dollar rate. As long as there is a reasonable market for dollars and people can reasonably cover their requirements and carry on business, nothing much need be done by us. If the dollar is wanted and therefore strong, gold, of course, is shipped to New York for sale there and dollars are thus created. This has been the case

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 17, 1957.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoks

BANK OF ENGLAND

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for the last two years or so. If the dollar is weak, as we have had it recently, and our premium on gold over your import parity is maintained, it leads to purchases of gold in New York for shipment to Europe. Actual trading operations are, of course, very difficult for us due to the fact that both the dollar rate and the gold price in London are floating. We do not mind the difficulties arising therefrom; that is a situation which we have to face. But, because of the spread between the buying and selling price of gold in New York of about 1.5%, including shipping charges, sterling in terms of the dollar can fluctuate about 7 cents, say from \$4.95 to \$5.05. Now we are trying, as I have said before, to bring the London gold premium in line with your export point (\$5.20+), but it is a difficult thing to do, particularly since nobody knows how long this present weakness of the dollar will continue. After all, it might turn out to be very short-lived if, for instance, your President should make friends of the business community. Meanwhile, we are perfectly willing, as you know, to take moderate dollar positions from time to time but our powers of intervention are limited.*

As regards the present technical position of the market, Bolton thought quite a number of people seemed to be short of dollars. They would come in in a hurry to get cover the moment the situation changed. Meanwhile, it seemed to him that the present range for sterling lay between \$4.95 and \$5.05.

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE November 17, 1957.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnobeBANK OF ENGLAND.

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He then referred to my recent suggestion that we would be glad to operate for his account in this market after London was closed if, at any time, he thought this desirable and stated that he thought that, as a matter of principle, he would not like to ask us to intervene for him because it would probably be best for them to keep to their own market. What they wanted to try and do was to make conditions in the London market absolutely favorable to enable us to operate for our own account if we wished. In other words, they would try and get the London gold price in line with our gold export point so that we could operate in gold if we felt so inclined. I pointed out that, as matters stood at the moment, the only thing we could do to stop a further weakening of the dollar would be to sell sterling forward, which, of course, would be a pure gamble since we had no more gold to speak of in London. Bolton thought that another means of dealing with the situation would be for them to buy gold from us for forward delivery. I asked whether he thought they would be prepared to do that and Bolton replied, he thought so, if that would help the situation: It was an idea which ^{had} suddenly occurred to him while he was speaking to me. I pointed out that that might ultimately prove a solution although, at the prevailing gold prices for forward delivery, such transactions would not yet be possible.

I mentioned that we continued to lose foreign capital and that the total figures for five weeks ending November 10 were now in excess of \$200,000,000. "If things settled down in Europe, you might easily lose that every week," he said.

LWK:EMC

Regraded Unclassified

LMS

GRAY

Paris

Dated November 17, 1937

Rec'd 3 p. m.

Secretary of State,
Washington.

1618, November 17, 4 p. m.

FOR THE TREASURY.

The exchange and security markets here today were once more inactive and featureless. Both sterling and dollars moved within narrow limits and showed little change from last night's closing quotations. It is thought that the fund may have purchased a small amount of sterling. Forward rates were practically unchanged.

A waiting attitude is being followed on both the exchange and security markets pending developments in Parliament and the outcome of the problem raised by the demand of civil servants for higher pay. Complaints are numerous that business is weighed down by excessive fiscal and social charges which paralyze initiative and hold in check any real improvement in the financial situation.

The suggestion appears more and more in the financial press that responsible elements of the extreme Left do not in reality desire the success of what they refer to
as the

LMS 2-No. 1618, November 17, 4 p. m., from Paris.

as the "Bourgeois" financial policy (for instance as advocated by Bonnet) and that such elements claim that if the policy of Auriol had not succeeded it was because he had not first of all made necessary "structural" (constitutional) changes. In other words the impression appears to prevail that such quarters are working to bring about a collapse present reconstruction efforts so as to eliminate conservative radical socialist direction of the government and to proceed to more far-reaching revolutionary reforms.

However this may be, the repatriation of French capital has recently slowed up.

(END SECTION ONE)

WILSON

JLS:CSB

MBo

GRAY

Paris

Dated November 17, 1937

Rec'd 3:58 p.m.

Secretary of State,
Washington.

1618, November 17, 4 p.m. (SECTION TWO).

Interest is evident regarding ways and means envisaged by the Treasury to pay for the sterling which is apparently to be supplied by the exchange equalization fund for the settlement of the British credit ^(by?) with December. At the present rate of exchange about 6,000,000,000 francs will be required. Suggestions appear that the railways (the theoretical borrowers) might take up the necessary sterling from the fund to deliver to London, and repay the fund with Treasury bonds, negotiable at the Bank of France, or that the railways will issue franc obligations, the proceeds of which will be turned over to the fund. The rumor of a loan operation on the Amsterdam market has also appeared once more.

There has been little comment so far in the financial press on the President's message to Congress. Some surprise is apparent that the dollar is weak against sterling at the moment when the President seems decided to leave more liberty of action to Congress for the settlement of the
problems

2- No. 1618, November 17, from Paris (SECTION TWO).

problems which have arisen from efforts of the Government to place the financial and economic situation of the United States on a solid basis. With expressing the view that such first reaction leading to a flight from the dollar appears to be hasty, the financial press considers it a good omen that the President "shows signs of abandoning part of his executive dynamism to return to the more democratic line of Congressional opinion."

END OF MESSAGE.

WILSON

SMS:YPL

NOV 17 1918
RECEIVED
U.S. DEPARTMENT OF STATE
WASHINGTON

MBo

GRAY

London

Dated November 17, 1937

Rec'd 3:22 p.m.

Secretary of State,
Washington.

720, November 17, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

In announcing that the fiduciary issue in the Bank of England which was reduced from 260,000,000 pounds to 200,000,000 pounds last year has been raised to 220,000,000 pounds the Chancellor of the Exchequer particularly explained that "this arrangement is to meet seasonal demands and it is therefore contemplated that it will obtain for about 2 months; that is to the middle of January 1938." The circulation has been running some 40 million pounds ahead of that at this time last year and the reserve in the banking department is not much more than 42 million pounds as compared with 63 million pounds twelve months ago, the ratio being 26.8 against 40.7 per cent. During the six weeks preceding Christmas 1936 27,500,000 pounds more notes went into circulation.

This action has provoked little comment in the city as it is regarded as a temporary bookkeeping device with which to meet a temporary bookkeeping problem.

The

2- No. 720, November 17, from London.

The London financial press reports a resurgence of rumors regarding dollar devaluation but inquiries in the city do not bear this out. It is however reported on fairly good authority that the forthcoming statement of the Bank of France will show an increase in gold holdings of over three milliard. This gold is said to be part of that obtained in recent weeks from the Bank of England and that the Bank of France has reached an agreement with the French equalization fund by which it is taken over on certain conditions.

BINGHAM

CSB:

From Jules Henry.

Tenant Embassy.

ANCES

PIERRE DU PASQUIER

Government Advisor
to Frances Foreign Trade

Carlton Hotel -
842 E. 42nd St.

18 October 37

Mon cher Ministre et ami,

Je vous serais très reconnaissant de
recevoir, s'il vous est possible, M. Du
Pasquier qui voudrait s'entretenir
avec vous des problèmes financiers
généralistes.

Je vous prie de croire, mon cher,

toute la joie que j'ai eu de collaborer
avec vous comme ambassadeur et
toute la gratitude que j'éprouve pour
l'amitié que vous m'avez témoignée.

Acceptez, Mon cher Miroslav et aussi,
l'assurance de mes sentiments tout
dévoués.

Georges Bonnet

November 17, 1937.
10:30 a.m.

H.M.Jr: Hello
A.
Barkley: Hello
H.M.Jr: Good morning.
B: Mr. Secretary.
H.M.Jr: Henry to you.
B: Yes, sir. How are you?
H.M.Jr: Fine.
B: I'll tell you what I called you about. You've got a Secret Service man down in Louisville, who's been in the service about eighteen years.
H.M.Jr: Yes.
B: The new Mayor down there wants to appoint him Chief of Police, and I think it's to his credit that he wants to get somebody who's trained and who's not been engaged in politics.
H.M.Jr: Yes.
B: But he has to get your consent that he'd be given leave of absence.
H.M.Jr: Yes.
B: He doesn't want to lose his Civil Service status. Now I think it would be a good thing if you could do that.
H.M.Jr: Well, somebody, I don't know who, at the White House already asked me - I think you must have -
B: I took it up with the President, just incidentally, because I thought it might get up to him, and I talked to him while I was over there the other day. I told him I was going to take it up with you.
H.M.Jr: That shows how good service you got, because the President already sent a memo over.
B: Well, that's fine.

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H.M.Jr: And we're working on it now.

B: Well, they wanted - you see the new - new Administration I think, changed hands down there yesterday.

H.M.Jr: Right.

B: They wanted to announce, as soon as possible, they really wanted to do it yesterday.

H.M.Jr: Golly -

B: But of course they couldn't do it.

H.M.Jr: How long will you be available at your office? I mean before you go into session.

B: I'll be here until 11:30.

H.M.Jr: I'll try to give you a ring before that.

B: All right, and if you can't, why you can call me over on the floor.

H.M.Jr: All right. I'll - I'll do the best I can.

B: How's - how's everybody?

H.M.Jr: Well, we're all right. - - We've got our chin up, but we're - we're working damned hard.

B: Well, that's all I did. Keep it up. You're young and vigorous.

H.M.Jr: Yes. I'm coming up to have lunch with Pat at one o'clock in - in the - what's - Halsey's room.

B: Uh-huh.

H.M.Jr: Pat asked me to come up there at one o'clock.

B: Yes. Well, maybe I can drop in and shank hands with you.

H.M.Jr: Well, - that - that would be awfully nice, if you would.

B: Well, I'll try to do that.

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H.M.Jr: Thank you.

B: Well, I'll be seeing you.

H.M.Jr: I'll call - I'll - I'll see if I can't fix this up.

B: You - you do the best you can on that. I think it would be a good thing.

H.M.Jr: Righto.

B: All right.

H.M.Jr: Thank you. Goodbye.

November 17, 1937.
9:28 a. m.

H.M.Jr: Hello

Operator: Senator Harrison.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Sen.
Harrison: Henry.

H.M.Jr: Hello Pat.

H: What's a convenient time for you to take lunch?

H.M.Jr: Oh, about one o'clock.

H: All right.

H.M.Jr: Where'll it be?

H: Well, we've got this fillibuster on up here -

H.M.Jr: Yes.

H: I've got to be pretty close in on this end

H.M.Jr: All right, tell me where you want me.

H: Well, suppose you meet us at Ed Halsey's office,
Secretary of the Senate.

H.M.Jr: Right.

H: And we'll eat in the room next to it.

H.M.Jr: At one o'clock.

H: One o'clock. Will you have - get in touch with
Magill?

H.M.Jr: He's sitting right here.

H: All right.

H.M.Jr: I'll tell him.

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H: All right.

H.M.Jr: I'll be there as the clock strikes one.

H: All right.

H.M.Jr: Thank you.

November 17, 1937.
10:41 a.m.

H.M.Jr: Hello.

Operator: Senator Barkley.

H.M.Jr: Hello.

Sen. A.
Barkley: Hello.

H.M.Jr: Alvin?

B: Yes.

H.M.Jr: Henry.

B: Yes.

H.M.Jr: I have in my office here Mr. Wilson, the head of Secret Service and McReynolds, my Administrative Assistant, and if you could see them, if they came right up now, they'll give you this long technical explanation, you see.

B: Yes.

H.M.Jr: And we can do it either way, but they say that, - I want you to get the explanation of let's say, a subsequent Secretary of the Treasury, four years from now, even if this fellow had a leave of absence wouldn't have to put him back, you see.

B: Uh-huh.

H.M.Jr: And I - I think for the man's sake you ought to have that explanation.

B: Well, it's now - well, yes, I -

H.M.Jr: They can be up there in fifteen minutes.

B: Oh, I've got - just so they come in before 11:30, because

H.M.Jr: Where are you now? At

B: I've got three or four fellows waiting now, with reports.

H.M.Jr: Tell me, what - what time -

B: I'd say - suggest they come up here about quarter after eleven.

H.M.Jr: Which -

B: We at fifteen minutes after eleven.

H.M.Jr: Which office are you in?

B: I'm in room - in office 205.

H.M.Jr: 205 - Senate Office Building?

B: Yes.

H.M.Jr: They'll be there as the clock strikes 11:15.

B: All right.

H.M.Jr: After you've heard the story we'll do anything that you want.

B: Well, all right.

H.M.Jr: We will or won't give the fellow a leave of absence, whichever you think is in the man's interest.

B: All right.

H.M.Jr: How's that?

B: That's all - that's fair enough.

H.M.Jr: All right.

B: Now listen - understand he is not an applicant for this place.

H.M.Jr: I understand.

B: They wanted him.

H.M.Jr: But the point that I wanted you to get, for the man's sake, is that a subsequent Secretary of the Treasury, and a subsequent chief of the Secret Service, even if this fellow did have a leave of absence.

B: Yes.

H.M.Jr: Refuse to put him back.

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B: Oh yes.

H.M.Jr: See.

B: Yes.

H.M.Jr: After you've heard the story, we'll do anything you say.

B: All right, that's fine. Thank you.

H.M.Jr: Thank you. Goodbye.

November 17, 1937.
11:07 a.m.

H.M.Jr: Hello

Operator: Vice-President coming on.

H.M.Jr: Thank you.

O: One moment please.

V.P.
Garner: Hello.

H.M.Jr: Henry talking.

G: Yes Henry, how are you, my boy?

H.M.Jr: Well, I'm all right. Still got a little money in the bag, not much.

G: Well by God keep it, don't let it get away from you, if you can.

H.M.Jr: Well, that's what I'm trying to do.

G: Well, they'll - they'll get it from you though, I'll tell you that, now. I'm with you for keeping every damned nickel of it, and getting some more and keeping that, but by God they'll take it away from you.

H.M.Jr: Well, it's - it's going to be harder this year for them to take it. I was - Pat Harrison asked me to come up to have lunch with him at one o'clock.

G: Yes.

H.M.Jr: And I'd like to pay my respects to you, either before or after that.

G: Well, all right. Any time you come around to my place, you're always welcome as the sunshine that comes into the window.

H.M.Jr: Well, that's awfully nice, now - would you rather see me after around -

G: Well, I don't know just what the Senate situation will be, and I'll try to get out of the Chair by half past twelve. Now if you were here just before one o'clock, it would be a good time.

H.M.Jr: Well, supposing I come up there a little bit before one, and I'll go to your room.

- 2 -

G: Yes, come right on in, I'll tell these boys - put your coat and hat here so you can have it when you want to get out.

H.M.Jr: All right, well I'm having lunch in Ed Halsey's room, that's where Pat said.

G: Yes, I know it.

H.M.Jr: Well, I'll - I'll come to your place a little bit before one.

G: All right.

H.M.Jr: Thank you very much.

G: All right. Good.

November 17, 1937

11:57 a.m.

Operator: Go ahead.

H.M.Jr: Hello. Hello.
R.

Doughton: Hello.

H.M.Jr: Hello, Bob?

D: That you, Mr. Secretary?

H.M.Jr: In person. Henry to you.

D: How's that?

H.M.Jr: This is Henry talking.

D: - How are you feeling.

H.M.Jr: Oh, I'm fine.

D: Want to say you made a mighty fine speech up there. I didn't send you a wire right over. I thought you'd come back, but you didn't get back for a day or two. I want to tell you though you made a mighty fine speech at an opportune time and in a very tactful way.

H.M.Jr: Well, that's awfully nice, and it was awfully kind of you to have it put into the Congressional Record.

D: Yes, that's good reason, it belongs there, that's the information the country needed. Of course they had it suppressed pretty well, but helps it to go out through the record, too.

H.M.Jr: It helps a lot.

D: What I wanted to talk to you about, you know, I talked to you once about that matter that they were trying to put over on me about those three investigators.

H.M.Jr: Yes.

D: You know about that.

H.M.Jr: Yes

D: Well now if that thing is not entirely stopped, I'd like to come down and talk about it. I understand

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it's in the formal way before the Civil Service Commission.

H.M.Jr: Uh-huh.

D: Now what is - what do you say about that?

H.M.Jr: Well, let me make some inquiries, may I?

D: You make some inquiries because I don't - that thing - that thing to get away and explode on me.

H.M.Jr: Oh, no.

D: And I know you won't let it.

H.M.Jr: Oh, no.

D: And you make some inquiry and then if it's necessary I want to come down and talk to you about it.

H.M.Jr: All right.

D: It's - I either want it stopped and killed dead or else go forward in a way that somebody else won't dynamite me.

H.M.Jr: All right.

D: As they said they would attempt to do.

H.M.Jr: Right.

D: Would you look into it and call me back.

H.M.Jr: I certainly will.

D: Thank you very much.

H.M.Jr: Thank you, Bob.

D: Goodbye:

November 17, 1937.
2:57 p.m.

H.M.Jr: Hello
R.
Doughton: Hello.

H.M.Jr: Henry talking.

D: How's that?

H.M.Jr: Henry Morgenthau.

D: All right, Henry. How are you feeling?

H.M.Jr: Oh, I'm all right.

D: Well.

H.M.Jr: I'm calling you up to say that we just learned, today, that the Civil Service Commission reported adversely on your three boys.

D: Reported adversely.

H.M.Jr: They reported adversely.

D: Now what does that mean?

H.M.Jr: That means that the chances are ninety nine out of a hundred that the White House will do nothing.

D: Uh-huh.

H.M.Jr: I can't imagine that in the light of the facts that the President would do anything.

D: Now then they keep writing me, down there, about it, - that's satisfactory to me, I understand the situation.

H.M.Jr: Yes.

D: Now then shall - is there anything else that I can do about it in another way, do I need any letter or anything from you, stating the status of it.

H.M.Jr: Well, supposing I write you a letter giving you a copy of the Civil Service report.

D: How's that?

- 2 -

H.M.Jr: I'll - we don't get that, that goes to the Bureau of the Budget, I - I think you should just forget it. That's all.

D: How's that?

H.M.Jr: I think you could just forget it.

D: Just forget it.

H.M.Jr: Well, we can't do anything.

D: The only thing that worries me - I understand that - the only thing that I want to - you know I had all the interest a man could have in it until I was told it wouldn't be ~~be~~ consistent to reappoint them.

H.M.Jr: That's right.

D: Then I dropped it, then somebody else took it up and tried to have it done over my head, round - around me.

H.M.Jr: Nothing -

D: Not over my head.

H.M.Jr: Nothing will be done.

D: I was just wondering if a letter from you showing my interest and the action the Commission has taken mightn't put us all in better shape. What do you think about that?

H.M.Jr: Let me think about that.

D: Eh.

H.M.Jr: Let me think -

D: All right.

H.M.Jr: Let me think about that.

D: All right. I think it's - I think it's taking a proper turn and in view of all the facts connected with it.

H.M.Jr: O. K.

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D: Well, thank you very, very much.

H.M.Jr: Not at all.

D: Right.

November 17, 1937.
3:30 p.m.

H.M.Jr: Hello.

Operator: Secretary Ickes. Go ahead.

H.M.Jr: Hello.

Secy.
Ickes: Hello.

H.M.Jr: Henry talking.

I: Hello, Henry.

H.M.Jr: Harold, we've had some informal talks with Ed Foley.

I: Yes.

H.M.Jr: About his coming over here.

I: Yes, I know you have.

H.M.Jr: And before I make any definite proposition I want to ask you if it would be agreeable to you.

I: Yes. Yes, I told him that I thought it would give him a chance, better chance than we could offer him here with Public Works dying. He's a very good man.

H.M.Jr: You have - there's nothing in the time he's worked for you but what is satisfactory.

I: Oh absolutely not, he's an awfully well aware.

H.M.Jr: And you mean everything's been -

I: Housing would have him if taken him.

H.M.Jr: But I mean there's nothing in his record but what's O. K.

I: No, not a thing.

H.M.Jr: Fine.

I: Quite the contrary.

H.M.Jr: Well, I had contact with him once last summer when I was doing that housing work.

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I: Yes.

H.M.Jr: And I found him - that's when I took a shine to him.

I: Yes.

H.M.Jr: And he's willing to come in Sundays, holidays and work all that -

I: Oh yes. Yes, he's willing to work.

H.M.Jr: Well.

I: And he has ability and he has character.

H.M.Jr: Well, it wouldn't - if that's all right, we'll make him a formal offer.

I: All right, Henry.

H.M.Jr: Thank you.

I: Goodbye.

November 17, 1937.
4:16 p.m.

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Marvin Jones: All right.

H.M.Jr: Marvin Jones?

J: Yes.

H.M.Jr: They said you called me.

J: Well I did call you, but I got in touch with Bell, and got the information.

H.M.Jr: Oh!

J:

H.M.Jr: Oh!

J: And I - in fact it was just a question about this - what amount - these boys were a little bothered about how much we were going to have for next year's farm program.

H.M.Jr: I see, but I -

J: I don't know whether they'd be bound by it anyway, but I wanted to be able to furnish them and I think he gave me about as definite as we can get.

H.M.Jr: Well, I didn't - I was up on the Hill.

J: Yes, but I thank you for calling, and -

H.M.Jr: Thank you Marvin.

J: That's all right. How are you getting along?

H.M.Jr: Oh, pretty well.

J: - I - I don't see how you lived through it, but I've got a pretty bad job myself now.

H.M.Jr: I'll say so.

J: Yes, there's - these wolves are hungry.

H.M.Jr: They're hungry.

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J: (laughs) Well, we'll live through it someday -

H.M.Jr: Well -

J: They used to say about England, we'll muddle through somehow.

H.M.Jr: Well, we lived through the last five years, I guess we can go three more.

J: I think so.

H.M.Jr: Yes.

J: Yes. Good luck boy.

H.M.Jr: Thank you.

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Ribbon copies of this memo were sent to the following - letters of transmittal dated 11/18/37 - signed by the Secretary:

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 17, 1937

TO Secretary Morgenthau
 FROM Mr. Haas *CH*

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

United States trade with Japan during first two weeks of
 November 1937.

(1) United States exports to Japan during first two weeks of November were considerably lower than during the first two weeks of October of this year.

United States exports to Japan

	<u>First two weeks of November 1937</u>	<u>October 1937</u>	<u>Month of November 1936</u>
1st week	\$1,180,000	\$1,727,000	For whole month
2nd week	<u>4,813,000</u>	<u>5,746,000</u>	
Total 2 weeks	\$5,993,000	\$7,473,000	\$24,100,000

(2) United States imports from Japan during the first two weeks of November were somewhat less than the imports during the first two weeks of October.

United States imports from Japan

	<u>First two weeks of November 1937</u>	<u>October 1937</u>	<u>Month of November 1936</u>
1st week	\$3,245,000	\$3,328,000	For whole month
2nd week	<u>3,654,000</u>	<u>3,984,000</u>	
Total 2 weeks	\$6,899,000	\$7,312,000	\$15,340,000

Note: Ribbon copy of this memo sent
 to President 11/18/37
 to Secy. of State 11/18/37
 to Secy. of War 11/18/37

Secretary Morgenthau - 2

(3) United States export of cotton to Japan remains negligible.

November, 1937:	1st week	\$ 97,000
	2nd week	149,000
		<u>\$246,000</u>

November, 1936: Whole month \$14,701,000

(4) There apparently has been a shift in the composition of our exports to Japan during the first two weeks of November, compared with the first two weeks of October.

(a) The following items show large increases in our exports to Japan, comparing the first two weeks of November with the first two weeks of the preceding month.

	<u>First two weeks of November 1937</u>	<u>October 1937</u>
Petroleum products	\$1,694,000	\$1,289,000
Copper	738,000	577,000
Vehicles, parts and accessories	481,000	149,000
Industrial machinery	526,000	265,000
Hides and skins	311,000	186,000
Industrial chemicals	191,000	33,000
Ferro-alloys	331,000	189,000

(b) The following items show sharp decreases in our exports to Japan during the first two weeks of November compared with our exports during the first two weeks of October.

	<u>First two weeks of November 1937</u>	<u>October 1937</u>
Iron and steel semi-manufactures	\$512,000	\$2,639,000
Scrap iron and steel	44,000	419,000
Pig iron	25,000	354,000

Secretary Morgenthau - 3

(5) The composition of our imports from Japan remains without significant change. Raw silk imports were \$3,916,000 during the first two weeks of November, compared with \$4,127,000 during the first two weeks of October, which is very similar to the \$2,000,000 average per week importation during the whole of 1936.

(6) Of the total of \$5,993,000 of exports to Japan during the first two weeks of November 1937, the following items account for almost all:

Petroleum products	\$1,694,000
Copper	738,000
Industrial machinery	526,000
Iron and steel semi-manufactures	512,000
Vehicles, parts and accessories	481,000
Ferro-alloys	331,000
Hides and skins	311,000
Paper base stock	260,000
Cotton, unmanufactured	246,000
Industrial chemicals	191,000
Fertilizer	118,000
Naval stores, gums and rosins	84,000
Coal tar products	81,000
Scrap iron and steel	44,000
Pig lead	41,000
Wood, unmanufactured	40,000
Other	295,000
	<u>\$5,993,000</u>

Secretary Morgenthau - 4

(7) Of the total of \$6,899,000 of our imports from Japan during the first two weeks of November, the following items account for almost all:

Raw silk	\$3,916,000
Cotton manufactures	411,000
Silk manufactures	227,000
Tea	214,000
Fish	183,000
Pyrethrum flowers	164,000
Chinaware and porcelain	144,000
Rayon manufactures	129,000
Paper and manufactures	111,000
Wool manufactures	100,000
Perilla oil	86,000
Food products	83,000
Glass manufactures	78,000
Earthenware	74,000
Metal manufactures	64,000
Flax, hemp and ramie manufactures	62,000
Wood and manufactures	50,000
Chemicals	50,000
Lily bulbs	36,000
Other	717,000
	<u>\$6,899,000</u>

Secretary Morgenthau - 5

United States trade with China during first two weeks of November.

(1) United States exports to China and Manchuria during the first two weeks of November were considerably less than during the third and fourth weeks of October 1937 (which is the only available basis of comparison of weekly figures). The decrease was particularly severe for South China and Hong Kong.

	<u>United States exports to</u>		
	<u>North China and Manchuria</u>	<u>Shanghai, South China and Hong Kong</u>	<u>Total</u>
1st 2 weeks of Nov. 1937	\$ 854,000	\$ 770,000	\$1,624,000
3rd and 4th weeks of Oct. 1937	1,022,000	2,575,000	3,597,000
	<u>For whole of China, Manchuria and Hong Kong</u>		
Whole month of November 1936			\$3,769,000

(2) United States imports from China and Manchuria during the first two weeks of November were somewhat less than during the third and fourth weeks of October 1937.

	<u>United States imports from</u>		
	<u>North China and Manchuria</u>	<u>Shanghai, South China and Hong Kong</u>	<u>Total</u>
1st 2 weeks of Nov. 1937	\$ 797,000	\$1,498,000	\$2,295,000
3rd and 4th weeks of Oct. 1937	1,067,000	1,680,000	2,747,000
	<u>For whole of China, Manchuria and Hong Kong</u>		
Whole month of November 1936			\$4,659,000

Secretary Morgenthau - 6

(3) Leading export items to China

(a) North China and Manchuria, 1st 2 weeks of Nov.

Iron and steel semi-manufactures	\$467,000
Tobacco	166,000
Petroleum products	114,000
Vehicles, parts and accessories	35,000
Other	72,000
	<u>\$854,000</u>

(b) Shanghai, South China ports and Hong Kong

Iron and steel semi-manufactures	\$375,000
Petroleum products	110,000
Edible vegetable products	74,000
Fish	36,000
Vehicles, parts and accessories	33,000
Medicinal products	23,000
Other	119,000
	<u>\$770,000</u>

(4) Leading imports from China during the first two weeks of November 1937.

(a) From North China and Manchuria

Bristles	\$308,000
Wool and manufactures	271,000
Perilla oil	63,000
Leather	57,000
Other	98,000
	<u>\$797,000</u>

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

Tin	\$463,000
Inedible vegetable products (other than wood oil)	198,000
Raw silk	155,000
Flax, hemp and ramie manufactures	149,000
Wool and manufactures	82,000
Wood oil	73,000
Inedible animal products	70,000
Edible vegetable products	64,000
Cotton manufactures	41,000
Other	203,000
	<u>\$1,498,000</u>

November 17, 1937

I said to Bell and Taylor this morning, "I do not want to argue with you about the next financing. I am going to tell you this in secret. I know I am 90% right but I will let you talk to me about it once more on Monday, after you have had a chance to think it over. Things may get very much worse. If they do, I want the bill market empty of Treasury paper so that I can use it as a last resort. Therefore, if conditions in the government market stay the way they are now I want to sell 400 or 500 million dollars worth of notes on the 15th of December and give the February holders of maturing notes the right to convert into this issue. This will mean that we will borrow that much less money from bills and if we find that we have to use 400 or 500 million dollars for Relief this winter I can go to the bill market and get it. I am going to be prepared for the worst".

* * * * *

When I saw Hogate the other day he said to me, "What are you going to do about raising money if things should get very much worse?" That helped to crystalize my thinking on the next financing.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 17, 1937

TO The Secretary
FROM Mr. Taylor.

In your office this morning at 9:15 there were present Senator Byrnes, Messrs. Magill, Bell and Taylor.

Senator Byrnes first called attention to the statements made by Senator Byrd on November 10th regarding the method of handling the relief expenditures through R.F.C. accounts and the confused and unreliable picture which this method had given to the public. After some discussion it was agreed that Dan Bell would prepare a letter containing all the factual information as to why the matter had been handled in this way and the efforts which had been made by the R.F.C. and the Treasury to clarify the situation; that this letter would accompany a draft of a bill which would provide the necessary remedial legislation. The Treasury agreed to have this letter and the bill in Senator Byrnes' hands by Saturday so that he could introduce the bill not later than Monday of next week.

The discussion then turned to the question of processing taxes. Senator Byrnes referred to meetings which had been held in 1933 during which the effects of the processing taxes had been explored, and stated that he had come to the independent conclusion that the processing tax was really a sales tax and there was no question but that not only the amount of the original tax was passed on to the public but that an additional percentage was added at practically every step, particularly in the distributing end of the business and that the impact on low grade

- 2 -

goods which utilized most cotton was greater than on the higher quality goods, and that from practically every standpoint he felt that this particular method of taxation was undesirable. You then stated the Treasury point of view, namely, that \$500,000,000 should be ample for a crop control program in all its ramifications; that the successive additions of Section 32 money plus the suggested new addition to processing taxes merely serve to confuse the picture and that, in your opinion, the \$500,000,000 itself should be ample. Dan Bell called attention to the fact that approximately \$70,000,000 which represented the normal running expenses of the Department of Agriculture should be included and from a practical standpoint added to the \$500,000,000 for crop control purposes.

The discussion then turned to the possibility of handling all appropriations for the agriculture program as a unit and that in this way it would be possible to go over carefully every item in the program and eliminate unnecessary expenditures and thereby avoid the necessity of imposing any new tax, processing or otherwise. I got the impression that Senator Byrnes was enthusiastic about this suggestion and that he felt the \$500,000,000 plus the Section 32 funds plus the necessary administrative expenses should be ample. He stated that he intended to see Secretary Wallace and give him his views.

uef.

* The Secretary stated very emphatically to Senator Byrnes that he personally was opposed to any form of processing taxes and that, as far as he knew, members of the Treasury agree with him.

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United States Senate

COMMITTEE ON APPROPRIATIONS

Spartanburg, S. C.

November 11, 1937

KENNEDY F. REA, CLERK
 JOHN W. R. SMITH, ASST. CLERK

Honorable Henry A. Morgenthau
 Secretary of the Treasury
 Washington, D. C.

PERSONAL

Dear Henry:

Press reports indicate that you have been considering the processing tax to meet the agricultural benefits. I must say that I do not like the processing tax. It is nothing but a sales tax, but insofar as cotton is concerned, it operates just opposite to all other sales taxes. Other sales taxes increase with the increased value of the article sold. The processing tax on cotton was highest on the cheapest goods.

The reason is that more raw cotton is used in the manufacture of cheaper cotton goods going into overalls and such articles. The finer the goods and the greater the value, the less the amount of raw cotton and, consequently, the less tax. In addition, the cheaper or heavier goods, there is greater waste and the tax was levied upon the total amount of cotton, including the waste. Furthermore, the previous tax was pyramided.

If consideration is given to this tax, I submit we should consider levying it upon the value of the goods when invoiced by the manufacturer. This would be simple in administration, and would avoid the constant disputes arising under the old law. It would be in accord with the view that taxes should be paid in accordance with capacity to pay.

In any event, if it is levied, there should be compensation taxes levied upon competitive fabrics. We should not, by levying a processing tax, increase the price of cotton goods so as to force such goods in competition with rayon and silk. If we do, we will lessen the amount of cotton used and so increase the amount of benefits or subsidies to be paid the farmers that we will nullify the revenue produced.

I know of two cotton mills located within thirty miles of my home that have within the last year been converted into rayon mills. This furnishes some evidence of the competition.

I will appreciate it if you will call this matter to the attention of the department officials you have considering this particular question. I doubt the wisdom of attempting to enact revenue legislation as a part of the farm bill. However, if it is to be done, we should consider this matter carefully and endeavor to avoid the objections of the old law.

Very truly yours,

James F. Byrnes
 JAMES F. BYRNES

MAC says they had a
 conference. 11/19/37
 mas

JFB cec

COPY

November 18, 1937

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

Dear Mr. Secretary:

Newspapers quote you as favoring a processing tax upon cotton and wheat to provide the revenue necessary to pay agricultural benefits.

The processing tax is a sales tax to be levied upon cotton and wheat in order to secure money to pay farmers engaged not only in the production of cotton and wheat but of tobacco, rice, and other commodities. The money received by the farmers as benefits would not be spent solely in the purchase of cotton and wheat products. That money would be spent for automobiles as well as for flour and clothes. If other industries are to benefit by the increased purchasing power of the farmers, I know of no reason why cotton and wheat should be taxed in order to provide benefits to other industries. As all industries will benefit, all should bear the burden of raising the revenue.

When the processing tax is levied upon cotton, it must increase the price of cotton goods. When you increase the price of cotton goods, you lessen consumption. When you lessen consumption, you lessen demands for raw cotton and depress the price of cotton. The more you depress the price of raw cotton, the greater subsidy you will have to pay to the farmers, and the increased subsidy will offset the revenue you raise.

When you tax wheat and cotton, you tax bread and breeches. You tax necessities and you lay the tax burden upon the poor instead of upon those best able to bear the burden. More cotton is used in the manufacture of coarse or cheaper cloth than is used in the manufacture of fine or high priced cloth. The finer the goods, the less cotton used and, consequently, the less tax paid. All other sales taxes are levied in proportion to the cost of the article sold. The processing tax reverses this principle and levies the heavier tax upon the cheaper commodities.

The processing tax was levied upon cotton as it entered the mill. In the manufacture of goods there is a certain percentage of waste. The processing tax was paid upon that waste which never entered into the manufactured goods. When the manufacturer invoiced goods to the selling agent for sale, he included in the sale price the tax upon the cotton entering into the cloth sold, but could not include the

- 2 -
C O P Y

tax on the waste, which was a loss to the manufacturer.

The selling agent based his selling commission upon the value of the goods, which included the tax paid to the United States Government. His commission was added to the cost of the goods. The tax was pyramided in every transaction until it reached the consumer.

Unwise as I believe the processing tax to be, if it is to be levied, it should be levied as all other sales taxes are, at the time the goods are sold by the manufacturer, and should be based upon the value of the article sold. Certainly if a processing tax is levied upon cotton goods, a tax should also be levied upon such competitive fibers as rayon and silk. If it is not done, the cotton farmer as well as the cotton manufacturer will be seriously injured.

I believe that adequate funds for agricultural benefits can be secured without levying additional taxes. If, however, this should be found impossible I will favor raising additional revenue in order to balance the budget. I submit, however, that we should profit by our experience with the processing tax as it operated a few years ago and not reenact a tax which not only was difficult to administer, but unfair in the burdens it placed upon the taxpayer.

Very truly yours,

JAMES F. BYRNES.

MEMORANDUM OF THE DAY'S ACTIVITIES

November 17, 1937

To: Secretary Morgenthau

From: Mr. Magill *RM*

1. Ways and Means Subcommittee.

The Committee virtually concluded its consideration of the tax on capital gains this morning. The method adopted, as it will appear in the law, may seem complicated but in several respects it is an improvement over the existing plan. The main features are the following:

- (1) Net losses from sales of property, in excess of gains for the particular taxable year, are allowable as a deduction against capital gains of the next year following. For this purpose, however, speculative losses on property held less than a year are separated from losses on property held more than a year; the former class of losses may be deducted against the speculative gains of the following year and the latter against gains from the longer term transactions.
- (2) The present percentages used in calculating the amount of gains and losses which are to be taxed or deducted has been improved, with a resulting net gain in revenue.
- (3) The Committee adopted a series of optional maximum rates of taxes on capital gains which decrease according to the number of years the property sold has been held. Thus, if the property sold has been held five years or more the taxpayer may, at his option, be taxed on the gain at a rate of not to exceed 16 percent. If the property sold has been held only two years the maximum rate of tax is approximately 30 percent. Taxpayers with smaller incomes receive lower rates of tax approximately the same as at present.

The Committee expects to take up the normal tax on corporations tomorrow with a view to determining how much additional revenue can be raised by increases of these rates, with a view to balancing proposed reductions in the revenue from the undistributed profits tax.

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As a matter of fact if a series of graduated rates ranging from 12½ percent to 19 percent were adopted \$300 million of additional revenue would be raised. This is approximately the total loss of revenue which would be occasioned by the repeal of the undistributed profits tax; and it is also approximately the total amount of revenue now received from corporations on account of the capital stock tax and the undistributed profits tax.

2. Conference with Mr. Wertheim.

Attached hereto is an outline of Wertheim's proposal and a supporting memorandum in two parts. Mr. Wertheim suggested that if you could not read both of the supporting memoranda it would be better to read part two. I will have Mr. Wertheim's plan studied by Mr. Shoup.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 17, 1937

to Secretary Morgenthau
from Herman Oliphant

The use of the 30% of Customs' receipts appropriated for agricultural purposes is subject, in effect, to the following limitations:

- I. They are to be used by the Secretary of Agriculture or by the Federal Surplus Commodities Corporation.
- II. They may be used only for:
 - A. Encouraging export of agricultural commodities by
 - (1) Paying benefits in connection with exportation;
 - (2) Paying indemnities for losses on exportation; or
 - (3) Paying producers in connection with domestic consumption;
 - B. Encouraging domestic consumption by diversion from normal channels of trade by
 - (1) Payments of benefits;
 - (2) Payments of indemnities;
 - (3) Other means, including
 - (a) Purchasing agricultural commodities and donating them for relief purposes, and
 - (b) Through Surplus Commodities Corporation, purchasing, exchanging, processing, distributing, disposing, transporting, storing, and handling agricultural commodities;
 - C. Reestablishing the farmers' purchasing power by payments in connection with normal production for domestic consumption.

The Secretary of Agriculture's determination of what constitutes "diversion" and what constitutes "normal channels of trade" and "normal production" are to be final; and the expenditures for the purchasing, processing, distribution, and donation, etc., may be made without regard to other provisions of existing law restricting expenditure of public funds.

Apparently the best possibility of justifying expenditures for strictly merchandising purposes would be under II(B)(3)(b) above, by having the Federal Surplus Commodities Corporation expend funds for "distributing". Presumably the Secretary of Agriculture would have to be convinced that such expenditures would result in the diversion of agricultural products from "the normal channels of trade and commerce". His favorable decision on that point, however, would be "final".

RE COTTON CONSUMPTION

November 18, 1937
11:00 a.m.

Present: Mr. Taylor
Dr. Feis
Mr. Robert Stevens
Mr. Patton (State)
Mr. Daggett
Dr. Lubin
Dr. Myers
Mr. Calloway
Mr. Haas

Taylor: I think that the best way to proceed in this is to have Mr. Stevens read off his list of suggestions.

H.M.Jr: All right.

Taylor: And then at various points, why, different people will comment. For example, on Number Two, why, I think Mr. Calloway should tell the story on that particular end of it, because he is very familiar with it. And then Dr. Myers has a one-page, or about a one and a half page memorandum commenting on various possibilities, which he can read at whatever time you want it done.

H.M.Jr: I've got plenty of time.

Stevens: Shall I take One, and then Two, right down the line?

Taylor: I'd go right down the line. I'd read them all the way down first, and then take them up one at a time.

Stevens: All right.

Mr. Secretary, in answer to your original question of the other day as to what could be done with respect to increasing the use of cotton, in the short time that we have had we have put a lot of thought on that, contacted our associates in the industry, and come here with a list of suggestions which we claim no originality about, but which represent the best thought we have been able to put on it in this space of time. You have that in front of you.

And we warm up with one accord to the suggestion of an advertising campaign looking towards the increased use of cotton, and have no doubt that over a period

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of time that would be a wonderful thing in helping the cotton farmer and helping the industry and increasing the use of cotton. I hope that that can be worked out and be done, and we are ready to do anything that we can along the lines of submitting suggestions with respect to how that should be done.

The second point is the matter of jute, which we brought up here the other day, and which we have done a good deal of work on since Tuesday in trying to bring simple memorandums here for you, as well as having Mr. Calloway here, whom we consider the expert in that field from the point of view of ~~possibilities~~ of increased consumption of cotton by substitution for jute.

Of course, when we come to this third point, I am only putting that down as a layman, and I realize the work that's been done by the Administration and the various Departments, and I only mention that if the - in the handling of reciprocal trade agreement negotiations, that I assume that we will keep in mind the great surplus of cotton that we have. And I have also mentioned cotton goods in that point, not so much because I believe that it would be possible for us to export cotton goods even under a reciprocal trade agreement, but because I feel that we may be able to prevent too rapid an influx of cotton goods by reason of a reciprocal trade agreement, which of course would have an adverse effect on the consumption of cotton.

On the fourth point, it is the belief of this industry that there is a place for an immense quantity of cheap cotton goods in Russia. I have no doubt that's been explored fully by the Administration. Possibly there isn't anything could be done about it. But we believe that there is room for a billion yards of cheap cotton goods in Russia, which would be the equivalent of a million bales, roughly, of cotton. And the only thing I know about now a thing like that would be financed is that I do know that machine tool builders are selling very large quantities of machine tools to Russia and they are being paid cash in New York on receipt of the shipping documents. Now, how that is done or whether the same thing could be applied to cotton goods, I don't know. But there is a field there for the use of some cotton, if there was some way of working it out.

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We think that within the limits of the budget an early working out of governmental requirements on cotton goods would be extremely helpful. And in that connection I'd like to say, Mr. Secretary, that I think what has been done by this Administration in distributing cotton goods throughout this country in the way they have has permanently done the cotton farmer and the cotton industry a lot of good, because it has educated a great many people to the use of cotton goods that didn't use them before. I am thinking particularly of sheets; a great quantity of sheets and pillow cases that have been distributed have gone into homes where in many cases there never were any sheets or pillow cases before, and that has tended to build up a more permanent demand for an item like sheets that we might not have gotten in any other way.

We believe a hundred percent in the program of the Department of Agriculture looking towards the development of the road-building cotton fabric use and also in the housing program and the other efforts that they are making over there; and I think that in that road-building program there is a field for a substantial quantity of cotton, particularly in view of the fact that that is such heavy material that it runs into quantities of cotton pretty rapidly.

On the seventh point, I think that cotton farm organizations, cotton distributing organizations, and others should be able to stimulate the research on cotton and cotton products. If there was any way in which they could have assistance in doing it, I know where there are people willing to go to work on that, and work hard and intelligently, and I think something could be done along that line. That's a long-range matter and probably doesn't fit into what you have in mind at the moment.

Then we were discussing outside an eighth point which is not on this list - should be - and that is with respect to possibly carrying stocks of our American cotton at foreign points in order to facilitate deliveries, and possibly with some assistance in financing we may be able to build up cotton exports. That's a big broad subject that I'm not equipped to talk about, but I do want to include it on this list.

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And this is a summary, Mr. Secretary, of our effort to try to contribute something to the question that you raised here on Tuesday morning. We thought we'd continue to work on it.

- H.M.Jr: Well, I think I can tell by the feel very well - now I'd like to ask some questions, if I may. Let's take the most difficult one first and - at least, I think it is, because I don't know just how the State Department feels about it. Let's take this question of jute. I should think that would be about as difficult a one .. - is that all right with you, Wayne, to take that up first?
- Taylor: Fine.
- H.M.Jr: I mean it's the most difficult.
- Taylor: It's the most difficult one and the one with the most immediate possibilities, one way or the other.
- H.M.Jr: Do you want to state the case for jute, and then we could maybe hear Dr. Feis.
- Calloway: We just talked about this subject a little while, Mr. Secretary.
- H.M.Jr: You're not quite ready?
- Calloway: I hate to repeat to the gentlemen here that have just talked about it, but I think the subject has the possibilities where even repetition might not be out of order.
- H.M.Jr: Well ...
- Calloway: I'll have to repeat some.
- H.M.Jr: I'm sure they won't mind. They've got nice comfortable chairs.
- Calloway: I first became interested in jute four or five years ago, when the American Cotton Manufacturers Association picked as its objective the increased use of cotton, and we came to the conclusion that, instead of going over a wide field, we would definitely tie that year's

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work pretty well to one thing, hoping to heat one iron instead of warming up many; and I spent about half of my time as President of the Association that year on this subject.

Every time that we thought we accomplished something to increase the use of cotton, jute would come along and take our outlet away. So I wasn't born with a complex of jute; I acquired it through my interest in increasing the use of cotton.

I think, conservatively speaking, that if jute were kept out of the United States next year, it would increase American consumption (of cotton) a million bales.

H.M.Jr: That's what Stevens said.

Calloway: Now, this million bales would not be for one year; in five years it would be five million bales. It isn't a temporary thing, even though it is immense for the first year; it is continuous.

Now, I may be wrong, but I believe that the South has maintained its exportation of cotton through selling its natural resources. The top five or six inches of soil has been exported. I might put it that cotton takes the humus out of the ground and puts little in. And we have cut down our forests and used that fertility in order to compete, and we have competed at the expense of the personnel involved. And we won't have that natural resource much longer and I think we're going to lose our domination of world cotton no matter what we do. I do not think that we can any longer continue to export a material part of our cotton, any more than we can export a material part of our cotton goods, which we can't do. So I am particularly keen on the additional consumption of cotton in the United States as a temporary and a future measure.

H.M.Jr: Well now, may I interrupt a minute in order to save a little bit of time? Just want to ask - I got this story about jute a little bit the last time we met, see, and I just wanted to ask Dr. Feis, is this thing, in view of what you people are doing over there - is it possible, I mean - am I talking - just wasting

-6-

my time to consider jute? I mean are we wasting our time?

Feis:

I didn't know this was up for consideration until this morning. I knew the general subject was up, but I didn't know this particular proposal was up. And I don't think I ought to give an offhand reply, certainly not a completely negative offhand reply. We'd have to take it all up and down, both as an idea in itself, apart from any immediate negotiating situation in which we are interested - even as an idea in itself, all I know is that it's been submitted to consideration numerous times and still jute was permitted by Congress to compete in this country. Now, I have a hunch that that is not entirely owing to the fact that the cotton manufacturers were looking out of the window. I have a hunch that there are many elements in it, and rather complicated, both as regards the domestic use situation and as regards its relationship to our outside markets. So I think we ought to be given a chance to make a fresh and new examination of it, which we would do as rapidly as we could.

In addition to that, as Mr. Taylor, or Wayne, told Mr. Calloway, this isn't the best time in the world for this - stating it with much truth, this is no good place to have a boil, and I admit that.

H.M.Jr:

Well, from what standpoint isn't it a good time?

Feis:

Well, we are engaged in trying to see if we can reach, even in the roughest general way, an outline of the terms on which we and the United Kingdom might consider announcing the beginning of trade agreement negotiations, and that in its further development may involve considerably more. Now, whether right at that time action which of course would have direct deranging effects on an important part of the British Empire - probably affect the whole life and organization of thousands of farms in India; with Japan upsetting the Far East anyway, it wouldn't be greeted with acclaim in London. That is what makes it a particularly bad time.

H.M.Jr:

Well, maybe it also is a particularly good time.

Feis:

In what way?

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H.M.Jr: I mean if - if we - if it should be thought that you can increase the consumption of cotton in this country by a million bales, it might be a particularly favorable time to look at it before we commit ourselves to any trade agreement with Great Britain. I mean it's just a question of what our objectives are - domestic market or the foreign market.

Feis: Well, that would bring up for consideration the question of whether any prospective gain in the internal use of cotton as a result of shutting out jute would be in any way a certain or desirable enough compensation to warrant us breaking off a negotiation that's gone very far, that's going to be more or less the pivot of relationships between the two countries, and, furthermore, a negotiation in which there has been no more central purpose than the protection of the American cotton export market. If we

H.M.Jr: Well, if .. .

Feis: Another sentence.

H.M.Jr: But look what's happened to your market. I'll wait; then I want to read you some figures.

Feis: Well, if we do - my guess is - abruptly at this stage take action that gravely disturbs British India - now, I'm not committing myself to the statement that it would; that is one of the things I'd want to look into - if it should, and if as a result negotiations were either too gravely disturbed or interrupted, you would almost inevitably get a movement on to give aid to British India by further diverting British cotton purchases to India, and maybe to Egypt. You'd get into that type of situation probably.

H.M.Jr: Well, let me just - may I interrupt you a minute please. I haven't had a chance to look at these, but this is what's happened in the principal countries importing cotton. I asked them to prepare the figures for me.

From '32 to '36, Germany - in '32, Germany took 79 percent of its cotton from the United States; in '36, it took 30. British India went from 6 percent in '32 up to 12; Egypt from 9 up to 12. Now, that's the German.

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Czechoslovakia. In '32 we supplied them 34 percent; last year, 26. British India went from 5 to 14; Egypt, from 12 to 16.

Italy. In '32 we supplied them 77 percent; last year, we supplied them 72. India went from 8 to 7. Egypt, from 12 to 14.

Japan. In '32 we supplied them 71 percent of their cotton; last year, 39. India went from 22 to 44; Egypt just stood still - 3 percent.

Poland. In '32 we supplied them 88, last year 67. India went from 3 to 12; Egypt, from 8 to 11.

China. In '33 we supplied them 83 percent of their cotton; last year, 23. British India went from 12 to 51 percent; Egypt, from 2 to 15.

Canada. In '32 we supplied them 97 percent, last year 97 percent. Egypt went from 3 down to 2.

Russia. In '32 we didn't supply them any; in '36, 26 percent of their cotton came from the United States. In '32 they got 85 percent from Iran; in '36, 57 percent. That's a gain for us.

Austria. In '32, U. S. supplied them 80 percent; last year, 59. British India, from 6 to 13; Egypt, from 9 up to 16.

Netherlands. U. S., from 77 down to 35. British India, from 10 up to 18. Practically didn't buy any from Egypt.

Belgium. '32, we supplied them 52 percent; last year, 29. British India, from 19 up to 33. Egypt practically stood still.

Spain is out.

United Kingdom. In '32, U. S. 58 percent; last year, 40. British India, from 5 to 15. Egypt, from 19 down to 18.

So whatever we lost, generally speaking, has been picked up by British India and Egypt. Well, here, Brazil went from zero up to 10.

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- Feis: Brazil and China are the places where cultivation has increased most rapidly.
- H.M.Jr: That's the picture.
- Calloway: Mr. Secretary, I'd like to make an observation.
- H.M.Jr: That's what's happened to the world market.
- Feis: I just say that those figures cover a period during which or most of the time during which we were dealing with the other countries behind a tariff wall so high that the business of finding the funds to buy from this country was for many other countries a serious business; secondly, a period during which the price at which we were offering cotton to the rest of the world was high in itself, and the relative spread in its price compared with other foreign growths was exceptionally high.
- H.M.Jr: Also, what did our exports do, double? - total volume of exports?
- Haas: In which period?
- H.M.Jr: '32 to '36. Total exports of the country.
- Myers: Fell very sharply, about 7 million in ...
- H.M.Jr: No, total exports, our exports from out of the United States to the world.
- Stevens: On everything.
- Feis: Yes, doubled, roughly.
- H.M.Jr: I say, roughly doubled.
- Feis: That's right. If I may just say
- H.M.Jr: Roughly, I mean.
- Feis: In money terms - those figures, unless I am mistaken, are volume terms.
- H.M.Jr: Bales.

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Feis: And you are comparing it with a rise in total exports. Those are bale terms, and your remark about doubling of

H.M.Jr: Is dollars.

Feis: Is dollars, and that modifies it somewhat.

H.M.Jr: I'm just bringing it in.

Feis: Oh yes.

H.M.Jr: What I am trying to do is quietly, with no publicity, for the President, just to look into the question of one thing, cotton, that's all.

Feis: Yes, I see.

H.M.Jr: Just one thing.

Taylor: Prices has been the most important factor in that.

H.M.Jr: What?

Taylor: Prices.

Calloway: I think price had very little to do with it.

H.M.Jr: What's that?

Calloway: I don't think price has been very important. Just an observation: If we are living 15 years from now, I think we'll see an import duty on cotton coming to the United States in 15 years, and it will be necessary to keep out foreign cotton. I think that our market for cotton is in America. I don't believe that America - I think no matter what we do that America is going to lose its supremacy of cotton in the world. I don't think we can compete in the next twenty years any more than I could compete in making textiles with the rest of the world within the next twenty years. I think we must develop our home market. I think we could dispose of a million bales in the place of jute, and that is the best market that we could possibly find.

Incidentally, and in addition to the consumption of cotton, I think if jute were excluded we would run

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all the cotton mills in the United States full next year, which would be an advantage to others as well as the cotton textile industry.

H.M.Jr: Just say that again.

Calloway: I think if jute were excluded for the next twelve months, we would run all the mills full for the next twelve months.

Feis: Wouldn't guarantee it, would you?

Calloway: No, sir, but I would buy cotton mill stock if I had any money. I don't mean that's a point, but I mean I would be glad to - for the statement to be broadcast at that period of time, and let my judgment stand or fall. I couldn't guarantee it, of course.

H.M.Jr: What percentage do you personally do of the cotton business, your mills?

Calloway: I spin 140,000 bales a year, and America will spin about 7,000,000.

H.M.Jr: Well, that's a large piece.

Calloway: I know this. I buy a million yards of jute a year to wrap up my own cotton goods with, when my looms are idle. Now, that seems foolish, but we are in a competitive business and if jute is cheaper I must use it. We are in a competitive business in this country. When cotton was six cents a pound, and prior to the increase in our labor costs, I made for over a year every yard that we used to wrap up goods with - my own manufacturing - but since that time my labor costs have gone up around 80 percent. Now, I think that labor cost going up is fine. And Bob will bear me out that I've always believed in a higher price for labor in our mills.

Stevens: -That's correct.

Calloway: I think our lowering of hours is fine, and I have maintained that attitude. But we can't compete with jute. Now, if my hours are lowered, all of us are; it doesn't matter. But India's hours are not lowered. I wish they were, for the sake of those people. But we are dealing with facts, and while then we made a

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struggle, and a great many of us did, to substitute cotton for jute, and we're having a fair success - but we can't ask the farmer to take six cents a pound in order that we may compete with this jute, nor can we ask my labor to go back and work longer hours in order that I may make my own cotton goods instead of buying jute.

Now, the farmer has always wanted a low tariff - the cotton farmer - and naturally he does, and he is selling in a world market and buying his goods here. He has never had any of the benefits of the tariff, and has always had such increase of costs as tariff may bring. There is a tariff on long stapled cotton, but long stapled cotton is a very small part of the growth of this country. Now, if he could have a benefit from the tariff by stopping his competitions as well as the bad parts of tariff, that seems a simple way to do. I don't know of any benefit that he gets from it; yet he is expected to sell his product in the world market and he has no protection against his market, generally speaking, in this country. That seems to me the normal thing to do, and this thing we are doing is the unusual, not the normal.

And not only that. The new uses for cotton I know of, after being worked up - in many, many cases jute has come in and taken the market after it's worked up. Well, that not only spoils that market but spoils initiative to a large extent in working up new markets, because jute will come in and take them away.

I think labor costs are more likely to go up than down, and I think that's all right. I think protection is more important than it used to be. And I think this is the most opportune time to put a quota on jute. I say a quota instead of a tariff because, in the first place, the quota could originate in the Senate, whereas the tariff would have to originate in the House, if it were done on Capitol Hill. I think we'd have a low price of cotton, we'd have a great surplus, we'd have a great surplus of low-grade; all of that makes an auspicious time to do this job. I think we are cotton conscious. I think we have come to the knowledge that this top four or five inches of soil in the Cotton Belt has been used up. We can't export our natural resources. I think the labor in the cotton fields - the amount of wages

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they get will increase more in the next five years than it has the last five years. I think it is going to become more important. If we lose this opportunity and allow cotton to go back to 10, 11, or 12 cents, I don't think we can get our opportunity again. I think it is worth all it costs for this cheap price of cotton, and more, if it would be the occasion of getting a quota on jute.

H.M.Jr: Well, this is distinctly a State Department matter, and Dr. Feis has asked for a chance to consider the thing and I think that is only reasonable, and after all a lot of things are involved and they've got a lot of irons in the fire. What do you (Feis) call a reasonable time?

Feis: Oh, I should think - where are we, Thursday?

H.M.Jr: Yes.

Feis: I'd say next Tuesday or something like that.

H.M.Jr: All right. Would you say

Feis: I'm sure we could have something worked out.

H.M.Jr: Have something, say, by 11 o'clock Tuesday?

Feis: Yes.

H.M.Jr: What?

Feis: Yes, sir.

I ought to say, if I may say this, that in one sense it is a distinct State Department matter, because of the fact that we have the permanent responsibility for carrying forward the trade agreements program, trade agreements negotiations. In other senses, of course, involving as the idea does the whole future of cotton, it is of perhaps even more immediate concern to other branches of the Government than to the State Department. If the Department of Labor has the job of finding new employment for those Americans who have raised those five to eight million bales that we have always sold abroad; if Mr. Calloway is right that our foreign market for cotton is gone, I should think it

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would be a matter of some interest to the Department of Labor and to the Department of Agriculture. Of course, I believe that Mr. Calloway is far too pessimistic. I think that if we can grow 18 million bales of cotton without four or five inches of sub-soil, we ought to be able to do pretty well after we restore that sub-soil. But it is only in a negotiating sense that I think we'd want to take the responsibility.

H.M. Jr: Well, there is no argument about that. I mean I'm sure Mr. Hull would have no objection to my going into this thing fully for the President, and I'm doing it with no publicity; I don't want any publicity. But I'm looking at it purely from the standpoint of cotton. Every Department that it touches is here.

Feis: And I know I don't have to say to you, I know I don't have to say to Mr. Calloway, that if there was any one purpose in mind in launching the trade agreement program, if there's been any one purpose that's kept us at it so hard and so persistently despite all the opposition, it was cotton. So there is no difference in general objective. And the problem of American cotton more than anything else is behind the trade agreement program, and has been from the beginning.

Lubin: Mr. Calloway, I am very much interested in your general statement about the foreign cotton markets. But, for example, if it were possible to produce cotton in this country that we could deliver at Liverpool on a seven-cent basis, or eight-cent basis, do you think we could get much of that market back?

Calloway: I think whatever price we produce it at, the rest of the world will produce it cheaper, in time. I'm going to South America this winter, just to go somewhere, and I'd rather go where they aren't producing more cotton. But I don't think that we can with one hand raise our living standards, lower our hours, raise our wages, and with the other hand export a material part of our product that is largely done by labor. I think transportation is coming to the foreign countries, I think they learn how to raise cotton cheaper as we do. I think it has pauperized that section of the country for the last twenty-five years, selling cotton in the world market under lower labor costs than we can hope for in the future. I

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know for a fact, as I stated this morning, that the Cotton Belt does not have a tooth filled; it has it pulled, because it's cheaper; and that's been true for the last twenty-five years. That's not an exaggeration.

I do not believe the cotton farmer is going to be kept down at the standards he has lived under, nor am I anxious for him to be willing to maintain the standards that he's had in the past; I don't think he's going to do it whether I'm willing or not. And I think if it's true - perhaps I'm wrong, but if it is true that it is going to be more difficult to export a material part of our cotton, our own market should deserve even extra attention.

I think that if this were not true - I should think that if we kept all of our exports of cotton, the farmer who has to pay a tariff on his plow should receive the benefit of tariff on a substitute for cotton. Even if I did not believe that we were fighting a losing fight on world production, I should think the finest thing we could do would be to protect him against jute raised at from 11 to 16 cents a day, and give him some conception of tariff besides all on the bad side; seems reasonable to me. There is a good side to tariff for everybody except the exporter of things in this country, and the cotton farmer is the largest one. I think it is sound if we were increasing, and I think he should have some protection.

- Lubin: I'm thinking from the other point of view. I'm thinking of California, Arizona, Texas, and the Delta, where cotton people tell me you can produce cotton and pay good wages at a lower price.
- Calloway: Well, so can foreign countries; it's not private things we're learning.
- Lubin: And of course I wonder whether the State Department's attitude wouldn't - I don't want to be talking for the State Department - it wouldn't be, instead of increasing a tariff to offset that tariff on the plows, cut the tariff on the plow.
- Fels: Well, in general it is, if that tariff on the

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plow is an excessive tariff and we are fairly assured that American plow manufacturers can get along.

Calloway: I don't think it is excessive.

Fels: I don't know.

Calloway: I think your internal program is perfectly fine. I think your raising wages is fine. This raising wages has come to the South right in the Cotton Belt, and it's going to move to the farmer. I think it's swell. But he must have - if he doesn't have the protection against jute - jute is growing every year; I think that it would be worth this low price of cotton if it means a tariff on jute, and it would be the most fortunate thing that could happen to the American cotton farmer this year. I think we will in time consume ten million bales of cotton in this country. I think the one drawback to energy and emphasis on their hand isn't your high wages, isn't your low hours; it's competition with somebody who isn't playing under the same rules that we are.

If my wages are raised, it's all right, but we're just defeated when the rules are not imposed on our competition. And this whole thought in the industry - if we had only to cope with the circumstances where we are equal, it would mean additional consumption in other directions, it would mean a profitable industry. The textile industry lost money between 1900 and 1929. That's a fact. Everything in this country was prosperous except textiles and coal mining. Textile people haven't had the profit that goes with research and that type of thing.

Incidentally, the textile mills would in my opinion run full. I don't think there is any objection to that. I think that there is no other place in the world where we can put a million bales of cotton without subsidy on price or something which starts a very bad precedent. I think we could consume ten million bales in this country.

H.W. Jr: Dr. Myers, have you had a chance to speak with Mr. Wallace, or do you want to say anything - I mean how the Department of Agriculture feels about what

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I'm doing here.

Myers: Well, I've had no opportunity to speak to the Secretary, who was out of town yesterday and the day - or day before yesterday and yesterday was tied up on the Hill. I couldn't commit him, of course, in anything that I would say.

This is not a problem which is new to us, of course. We have worked on it a great deal in the past, and on the basis of some of the past work that we have done, I have formulated a little summary of certain factual information at your request.

H.M.Jr: You want to read it?

Myers: Covering your cotton bale covering: Cotton bale covering offers a potential outlet for 125,000 to 150,000 bales annually. A tariff of three cents per pound on all jute entering the United States, as containers or otherwise, would offset the present differential between the cost of cotton bagging and jute bagging. Net weight trading would be a prerequisite to the adoption of such tariff. I want to emphasize that if there were to be a tariff that would keep out the sort of jute that goes into bagging, it would have to be applicable to containers, bagging around other material that comes in, not merely the raw material. Most, if not all, of the present differential in cost between cotton and jute bagging might be offset by the additional economies and re-use value of cotton bagging. To establish it, proposals have been made to subsidize the manufacture of cotton bagging so that it can be sold in sufficient quantities to introduce it at the same price as jute bagging. I want to point out that we cannot determine what the subsequent effects might be of offering real cotton bagging competition to jute. That is, a waste material - it might go down to any figure; I just don't know. But at the present time and in the past it appears that a reasonable evaluation of the re-use value of the bagging, plus the economies in transportation costs, etc., should offset the additional cost of cotton bagging, if we have net weight trading.

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I might say that previous tariff proposals to put cotton - or require cotton to be baled in cotton by putting a tariff on jute have not been accepted in the South.

Too, the complete displacement of jute by cotton in the United States would require an increased consumption of approximately one million bales of cotton annually. The exclusion of jute would increase the consumption of cotton containers in bulk handling. Jute goes into a low value field of use, however, where if cotton isn't willing to go in there cheaply, something else will. Burlap is now selling in this country for eight cents per pound, with the one cent tariff already paid. A tariff of seven cents per pound on burlap would be necessary to permit cotton at present prices and margins to enter widely into the field now occupied by jute. A tariff of 11 cents would probably be necessary if cotton were ten cents per pound and manufacturing margins, excluding labor, were average.

I might say that when we arrived independently at costs of competing cotton articles, we got higher figures than this seven cent requirement. A tariff on burlap at the rate of seven to eleven cents per pound does not appear feasible, and would meet serious opposition. The widespread displacement of jute by cotton would require materially lower costs of manufacture, simply because the uses will not bear it.

I took the liberty of adding two additional points. Relief distribution of cotton articles would be helpful to the industry, but it is extremely costly for the quantity of cotton consumed. Except where materials are given to relief clients for making into mattresses and comforters, the cost would probably average around \$300 per bale for a distribution program. In other words, where we can give the relief workers the cotton, let them make mattresses out of it, we can get rid of it cheaply; otherwise, the cost is extremely high.

Four. Governmental purchases of regular requirements of cotton articles, if made now in accordance with the

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recommendation of the Cabinet Committee that such purchases be concentrated in periods of slack demand, would be helpful. I refer to the Cabinet Committee report on the cotton textile industry published in August, 1935.

H.M.Jr: All right. Did you ever see that, Lubin?

Lubin: He and I helped write it.

Myers: That's why I thought the recommendation was good.

(Hearty laughter)

I thought last night if I didn't quite paraphrase the Committee properly - well, that's what we intended when we wrote it.

H.M.Jr: Is that the whole thing? Could I have a copy of that?

(Myers hands H.M.Jr. copy)

Stevens: Mr. Secretary, we concede that, as Dr. Myers has pointed out, if we exclude jute, some of this container business would go to paper or perhaps other types of material. But our study of the situation leads us to believe that ten percent would be as good a guess as one could make as to the substitution of paper, and that 90 percent of the benefit would actually go to cotton. That's just a guess - you might wholly disagree with that, Dr. Myers - but that's the way we feel about it.

H.M.Jr: Now, may I - I don't want this, if you don't mind, to go more than an hour. I haven't allowed more than an hour. But when I see you're getting down to a real technical argument, I'll be sunk. I think the people here - Dr. Myers is available; I'm sure he'll be glad to be worked on, or worked over. Is that right?

Myers: That's happened very many times, and always welcome.

H.M.Jr: I think the thing I want to bring up - put it down 11 o'clock Tuesday. Is that right?

Feis: Yes, sir.

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H.M.Jr: We'll leave it that these gentlemen are available to talk jute - I mean other than Dr. Feis, and he's asked that he be given time, a reasonable request. And I can see, without having anybody draw me pictures, that this thing would go right to the heart of any trade agreement with Great Britain.

Now, on promotion, have you people had time to think of this idea for a promotion of the use of cotton?

Stevens: Mr. Secretary, the reason Dr. Murchison isn't here is because he's had this Executive Committee - direct conflict of time - but I think it's fortunate in a sense, because that brings together the responsible people in the industry, and I would hope very much that this would be a subject that we could take up and get the reaction of a cross-section of this industry right now on this promotion idea and begin to formulate some kind of a suggested program to present to you within a reasonable length of time. I don't know just how long it would take.

H.M.Jr: Well, let's leave it this way. When you're ready, let Wayne Taylor know. How's that?

Stevens: That's all right, sir.

H.M.Jr: But just let me give you one thought. In thinking of this thing, I wondered if the industry - if the United States Government could find the money, would the industry be willing to match it dollar for dollar?

Stevens: My answer to that, offhand, Mr. Secretary, would be that we could not match it dollar for dollar on the scale of campaign that I think should be entered into. I think, I know the industry will raise a substantial sum of money. Just what that will be, one can't yet tell. Perhaps we can get a little light on that today.

H.M.Jr: Well, that's what I'd like to know. I mean I wouldn't want your industry to come and just say, "This is swell, let Uncle Sam do it."

Stevens: I think the industry, in order to show good faith,

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would have to go a good long way. But in direct answer to your question, I don't think that we could raise a half of the amount of money that would be required to do this job along the lines that I think you have in mind.

H.M.Jr: Well, let's see what the industry would say they could do, and then besides the dollars - I mean the sales promotion which they could put on, that would be most important, and nobody could do the sales promotion work and the leg work except the industry.

Stevens: That's right.

H.M.Jr: I mean the getting of the extra effort directly through their own personnel. And I take it you'd take that into consideration too.

Stevens: Yes.

H.M.Jr: I think we can find the money.

Stevens: Well, I think that's one of the most encouraging thing that we could possibly hear.

H.M.Jr: In fact, I know where we can get it. I mean if I - I'm not bothering the President too early, but if the whole picture looks all right, I think I know where we can get the money.

Stevens: I think this is certainly an opportunity for us now to show you something that you will think is worth while.

H.M.Jr: Yes, but don't - I just want to say, don't let them make the mistake of saying, "Now here's a program; we want Uncle Sam to finance it." Whatever the industry can afford to do - stretch the point, see? Go just as far as you can. And whenever you gentlemen are ready, I'll be ready. And if you people would come back Tuesday, and Dr. Feis, why, I'd be more than pleased.

Taylor: Herbert, in that - I think that I would consider in that connection Mr. Calloway's suggestion of quota as compared to a tariff.

Feis: I had that in mind. That brings up a wholly different range of difficulty.

UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL ADJUSTMENT ADMINISTRATION
WASHINGTON, D.C.

November 17, 1937

SUMMARY

1. Cotton bale covering offers a potential outlet for 125,000 to 150,000 bales of cotton annually.

A tariff of 3¢ per pound on all jute entering the United States, as containers or otherwise, would offset the present differential between the cost of cotton bagging and jute bagging. Net weight trading would be a prerequisite to the adoption of such tariff.

Most, if not all, of the present differential in cost between cotton and jute bagging might be offset by the additional economies and reuse value of cotton bagging. To establish it, proposals have been made to subsidize the manufacture of cotton bagging so that it can be sold in sufficient quantities to introduce it at the same price as jute bagging.

2. The complete displacement of jute by cotton in the United States would require an increased consumption of approximately 1,000,000 bales of cotton annually. The exclusion of jute would increase the adoption of paper containers and bulk handling.

Burlap is now selling in the country for 8¢ per pound with a 1¢ tariff. A tariff of 7¢ per pound on burlap would be necessary to permit cotton at present prices and manufacturing margins to enter widely into the field now occupied by jute. A tariff of 11¢ would probably be necessary if cotton were 10¢ per pound and manufacturing margins, excluding labor, were average.

A tariff on burlap at the rate of 7 to 11¢ per pound does not appear feasible and would meet serious opposition. The widespread displacement of jute by cotton would require materially lower costs of manufacture.

3. Relief distribution of cotton articles would be helpful to the industry but is extremely costly for the quantity of cotton consumed. Except where materials are given to relief clients for making into mattresses and comforters, the cost would probably average around \$300 per bale for a distribution program.

4. Governmental purchases of regular requirements of cotton articles, if made now in accordance with the recommendation of the Cabinet Committee that such purchases be concentrated in periods of slack demand, would be helpful.

SUGGESTIONS FOR INCREASING COTTON CONSUMPTION

1. Cotton bale covering. If cotton material were used for covering cotton bales, it would provide an outlet for around 125,000 to 150,000 bales of cotton yearly. Cotton bale covering would be more attractive and less wasteful in handling than jute bagging, but it has not come into use for the following reasons:

- (1) Cotton is sold gross weight and as the jute covering weighs 12 pounds and the cotton covering only $4\frac{1}{2}$ pounds, farmers using cotton bale covering have been penalized by the value of $7\frac{1}{2}$ pounds of cotton, or 75¢ per bale when cotton is worth 10¢ per pound.
- (2) Cotton covering normally costs more per pattern (the quantity required to cover a bale) than jute bagging. On small experimental lots purchased recently the cost was 95¢ per pattern compared with 72¢ for new jute and 60¢ for re-worked jute bagging. The manufacturer of this cotton bagging, however, is using 15/16 inch Strict Low Middling so that a saving of 10 to 15¢ per pattern would be possible through the use of cheaper raw material. A further saving should be possible from reduced costs of manufacture if large quantities were produced.
- (3) A part, and perhaps all of the increased initial cost of cotton bagging should be offset by reduced freight costs, savings in raw cotton lost on jute bale coverings, and additional reclaim value of the bagging itself. However, it will require the use of cotton bagging in sizeable quantities to establish these savings and the reuse value of the bagging, and to get the proper allowances passed back to growers to offset their higher initial outlay for cotton bagging.

Cotton bale wrapping is essentially a low value field of use. Cotton cannot enter this field of use when the cost of cotton is high, when the cost of mill labor is high, or when mill margins are high. Although that is a disadvantage which has prevented the adoption of cotton bagging, it offers advantages in a stabilization program since it offers a dependable market for which mills could manufacture in periods of cotton surplus and depressed demand.

Jute bagging is made almost entirely from old reclaimed jute. It is impossible to determine how cheaply the present type of jute bagging might be sold under competitive conditions or what improvements might be made in jute bagging under the incentive of quality competition.

Current prices for jute bagging indicate that a tariff at the rate of 3¢ per pound on jute would be sufficient to permit cotton to enter this field of use if the tariff applied to jute materials, such as bagging and wrapping materials, entering this country as containers or wrapping for other products. If the tariff applied merely to imports of raw jute or jute butts, it would probably have little effect since new jute is primarily used in this field only in mixtures with old jute. Previous proposals for a prohibitive tariff on jute have been opposed by some cotton growing representatives on the ground that it would increase the cost of cotton bagging, especially when the cotton bagging costs are high.

A law requiring that cotton be sold on a net weight basis has been recommended by Southern Agricultural Agencies, the Department of Agriculture, and the Cabinet Committee, in its report on Cotton Textile Industry. Net weight trading would remove the greatest barrier against the use of cotton bagging and would be a necessary prerequisite to any tariff action designed to encourage the use of cotton bagging.

In the absence of a tariff it has been proposed that the use of cotton bagging be subsidized for a sufficient number of bales to establish the practice of baling cotton in cotton. Under such program mills would be paid the difference, arrived at on the basis of competitive bids, between the cost of cotton and jute bagging. In this way the cotton bagging could be sold for the same price as jute bagging and it is believed that mills would agree to make a proper weight allowance on cotton covered bales. By making such program available to producers of improved varieties of cotton who are members of "one variety" communities, the program would have the additional advantage of advertising such cotton and the existing community organizations would facilitate the passing back to producers of any additional allowances for cotton wrapped bales.

2. General jute tariff. It is estimated that approximately 1,000,000 bales of cotton would be required annually to meet the needs now filled by jute in the United States. In general this is a low value field of use from which cotton has been largely excluded because it is a higher priced raw material and is much more expensive to manufacture. Paper and bulk handling of many products offer cheap alternatives for cotton and jute in bagging and wrapping.

Presumably it would cost about the same to manufacture a bag from either burlap or cotton fabric. Therefore, the following comparison is made between burlap and two competitive cotton fabrics which could do the same work as burlap in the manufacturing of most bags. At present the tariff on burlap is 1¢ per pound. This has been omitted from the following calculations:

Comparative costs for jute, burlap and competing cotton fabrics

Material	Raw Material	Present manufacturing and importing margin	Selling Price	Tariff required for displacement of jute
	Cents	Cents	Cents	Cents
8 oz. Burlap (2 yds. or 1 lb.)	4.30	2.80	7.10	
8 oz. Osnaburg (2 yds. or 1 lb.)				
basis 8¢ mid. 7/8 cotton 3/4	6.73	7.27	14.00 ^{2/}	6.90
basis 10¢ mid. 7/8 cotton	8.97	7.27	16.24	9.14
basis 12¢ mid. 7/8 cotton	11.21	7.27	18.48	11.34
2.85 (5.61 oz.) Sheeting (2 yds) 4/4				
basis 8¢ mid. 7/8 cotton	6.18	7.82	14.00 ^{2/}	6.90
basis 10¢ mid. 7/8 cotton	7.74	7.82	15.56	8.46
basis 12¢ mid. 7/8 cotton	9.28	7.82	17.10	10.00

- 1/ The present market price is 8.10 cents because of the tariff of 1 cent per pound.
- 2/ Present market price.
- 3/ At 8 cents for middling 7/8 inch, the cotton used in manufacturing this material would cost 6 cents per pound, or 6.72 cents for the cotton required for 1 lb. of fabric after allowing for waste in manufacture.
- 4/ This material would require cotton averaging close to middling 7/8 inch in value.

From the above calculations it is evident that a tariff of at least 7¢ per pound would be necessary on burlap if cotton is to

become generally competitive in this field on the basis of present prices. A tariff of at least 9¢ per pound would be required if the price of cotton were to rise to 10¢ per pound basis Middling 7/8 inch staple. At the present time profit margins are comparatively low and some constructions are said to be selling at a loss. In September the average manufacturing margin, after allowing for labor costs, was approximately 5¢ per pound below that of last March.

A tariff rate of 100 percent or more on burlap is of doubtful feasibility. The opposition of consumers and manufacturers of jute products has prevented the enactment of less drastic tariffs in the past. Moreover, in addition to its general international trade implications, such measure would constitute a serious precedent in connection with cotton which is relatively free from tariffs and which must remain free if our export trade is to continue.

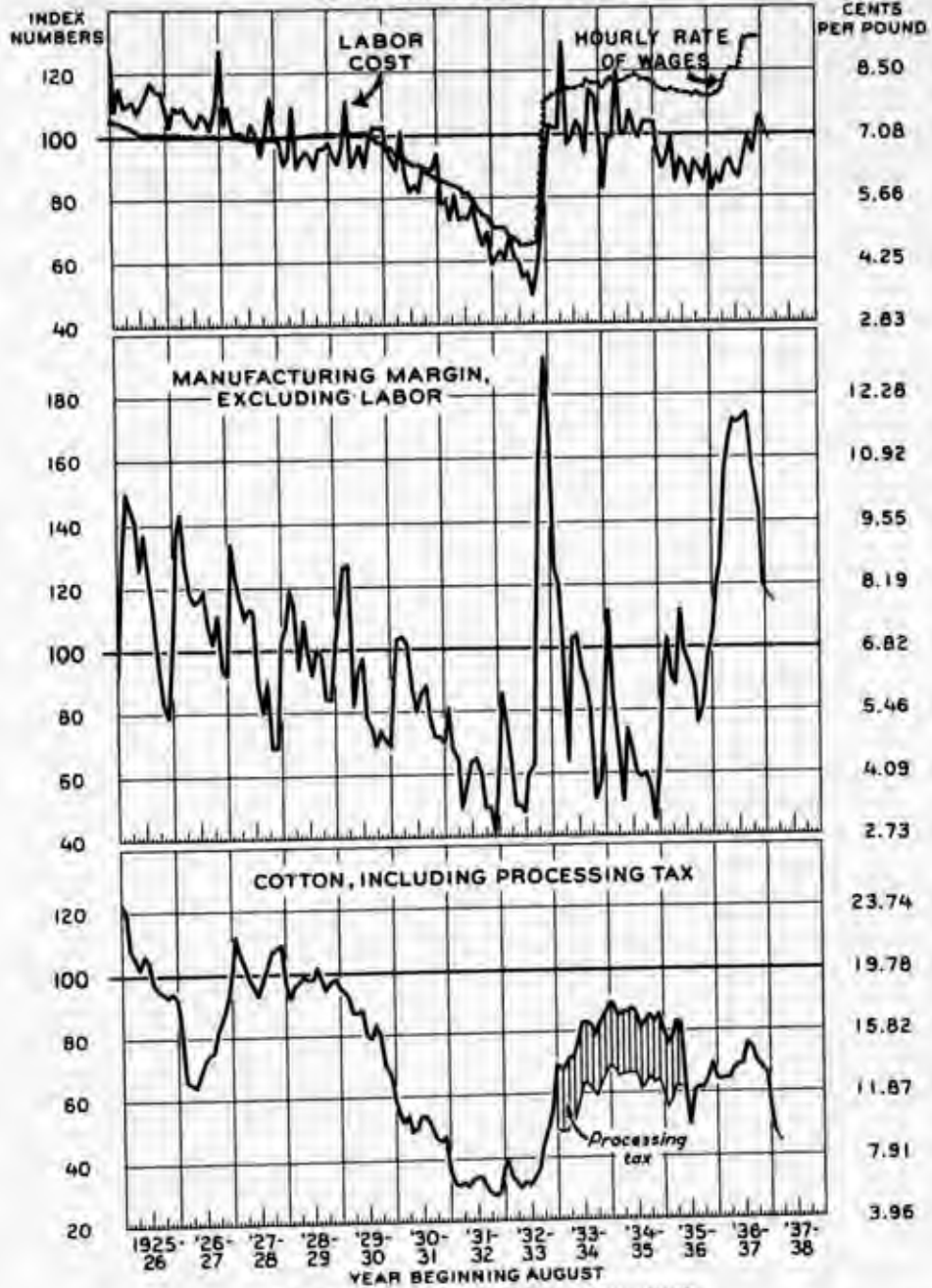
The problem of utilizing cotton in the low value fields is largely one of manufacturing costs. Low grade staple cotton is selling as low as 3½¢ per pound and qualities entirely satisfactory to displace jute can be obtained for 6 or 7¢ per pound. A tariff at the rate of 3¢ per pound would, therefore, be high enough to protect the raw material. Some way must be found to reduce manufacturing costs before cotton can compete successfully with jute in most low value fields of use. Moreover, there is need for some organized effort on the part of the textile industry to carry out a consistent program for exploiting these fields of use. In this connection, attention is called to the accompanying chart showing wage rates and labor cost, manufacturing margin excluding labor, and cotton costs per pound of cotton consumed. Despite recent increases in output per man hour, labor costs are at the pre-depression level when the price of burlap was 50 to 100 percent higher than it is now. Moreover, as the volume of output has decreased, the labor costs per pound have increased. High labor costs and high profit margins, such as existed from December, 1936 to April, 1937, are the strongest deterrents against the substitution of cotton for jute.

3. Relief distribution. Purchases of cotton articles for relief distribution would be helpful to the textile industry and would help to avoid the contradiction of surplus cotton, mill curtailment, and the need for cotton articles by relief clients. However, such purchases are extremely costly as a means of reducing the cotton surplus except in the case of mattresses and, to an extent, comforters which can be made by relief labor largely from unspun cotton. For example, cotton having a present value of \$25 per bale could be disposed of in the form of mattresses to relief clients at a cost to the Government of approximately \$32 per bale including the ticking and freight. For comforters the additional

cost would be approximately \$75 a bale, making the total cost \$100 per bale. To dispose of bedsheets and overalls would cost approximately \$250 per bale. Even with the exercise of considerable discretion in the articles selected, the cost would probably average around \$300 per bale for cotton distributed to relief clients.

4. Government purchases. The Cabinet Committee in its report on the Cotton Textile Industry urged the concentration of governmental purchases of cotton goods, so far as feasible, in periods of slack demand. This appears to be such a period and the recommendation might well be followed at present.

COTTON AND LABOR COSTS AND MANUFACTURING MARGINS EXCLUDING LABOR FOR 17 CONSTRUCTIONS OF GREY CLOTH*
 1927-28 - 1928-29 AVERAGE = 100



U. S. DEPARTMENT OF AGRICULTURE

REG. 32514. A. A. A.

November 18, 1937

Switzerland: Cotton Imports by Countries of Origin

Country	1932	1933	1934	1935	1936
<u>Thousands of Bales 1/</u>					
Total	111	120	122	122	123
United States	54	57	35	38	35
British India	5	13	12	7	13
Egypt	48	48	66	65	61
Brazil	<u>2/</u>	0	1	2	1
Other	4	2	8	10	13
<u>Percent Distribution</u>					
Total	100	100	100	100	100
United States	49	47	29	31	28
British India	4	11	10	6	11
Egypt	43	40	54	53	50
Brazil	-	0	1	2	1
Other	4	2	6	8	10

1/ 478 pounds net.

2/ Less than 500 bales.

Source: Bureau of Agricultural Economics.

November 18, 1937

Spain: Cotton Imports by Countries of Origin

Country	1932	1933	1934	1935	1936
<u>Thousands of Bales 1/</u>					
Total	471	434	457	447	2/
United States	363	320	298	255	2/
British India	31	51	59	50	2/
Egypt	62	55	82	109	2/
Argentina	11	4	11	21	2/
Other	4	4	7	12	2/
<u>Percent Distribution</u>					
Total	100	100	100	100	100
United States	77	74	65	57	
British India	7	12	13	11	
Egypt	13	12	18	24	
Argentina	2	1	2	5	
Other	1	1	2	3	

1/ 500 pounds gross.

2/ Not available.

Source: Bureau of Agricultural Economics.

November 18, 1937

Spain: Cotton Imports by Countries of Origin

Country	1932	1933	1934	1935	1936
<u>Thousands of Bales 1/</u>					
Total	471	434	457	447	2/
United States	363	320	298	255	2/
British India	31	51	59	50	2/
Egypt	62	55	82	109	2/
Argentina	11	4	11	21	2/
Other	4	4	7	12	2/
<u>Percent Distribution</u>					
Total	100	100	100	100	100
United States	77	74	65	57	
British India	7	12	13	11	
Egypt	13	12	18	24	
Argentina	2	1	2	5	
Other	1	1	2	3	

1/ 500 pounds gross.

2/ Not available.

Source: Bureau of Agricultural Economics.

November 18, 1937

Belgium: Cotton Imports by Countries of Origin

Country	1932	1933	1934	1935	1936
<u>Thousands of Bales 1/</u>					
Total	305	389	397	445	506
United States	158	179	103	137	146
British India	58	119	112	131	167
Egypt	8	5	14	16	16
Belgian Congo	48	51	93	94	117
Other	33	35	75	67	60
<u>Percent Distribution</u>					
Total	100	100	100	100	100
United States	52	46	26	31	29
British India	19	31	28	29	33
Egypt	2	1	4	4	3
Belgian Congo	16	13	23	21	23
Other	11	9	19	15	12

1/ 478 pounds net.

Source: Bureau of Agricultural Economics.

November 18, 1937

Netherlands: Cotton Imports by Countries of Origin

Country	1932	1933	1934	1935	1936
<u>Thousands of Bales 1/</u>					
Total	151	168	194	180	219
United States	116	109	94	72	77
British India	15	28	39	33	39
Egypt	2/	2/	4	3	3
Brazil	2/	-	13	13	19
Other	20	31	44	59	81
<u>Percent Distribution</u>					
Total	100	100	100	100	100
United States	77	65	48	40	35
British India	10	17	20	18	18
Egypt	-	-	2	2	1
Brazil	-	-	7	7	9
Other	13	18	23	33	37

1/ 500 pounds gross.

2/ Less than 500 bales.

Source: Bureau of Agricultural Economics.

November 18, 1937

Austria: Cotton Imports by Countries of Origin

Country	1932	1933	1934	1935	1936
	<u>Thousands of Bales 1/</u>				
Total	100	117	137	160	181
United States	80	85	82	93	108
British India	6	15	26	27	23
Egypt	9	12	20	26	29
Brazil	2/	-	1	4	5
Other	5	5	8	10	16
	<u>Percent Distribution</u>				
Total	100	100	100	100	100
United States	80	73	60	58	59
British India	6	13	19	17	13
Egypt	9	10	15	16	16
Brazil	-	-	0	3	3
Other	5	4	6	6	9

1/ 478 pounds net.

2/ Less than 500 bales.

Source: Bureau of Agricultural Economics.

November 18, 1937

U.S.S.R: Cotton Imports by Countries of Origin

Country	1932	1933	1934	1935	1936
	<u>Thousands of Bales 1/</u>				
Total	112	104	115	204	77
United States	0	77	44	119	20
Iran (Persia)	95	20	65	77	44
Other	17	7	6	8	13
	<u>Percent Distribution</u>				
Total	100	100	100	100	100
United States	0	74	38	58	26
Iran	85	19	57	38	57
Other	15	7	5	4	17

1/ 478 pounds net

Source: Bureau of Agricultural Economics.

November 18, 1937

Canada: Cotton Imports by Countries of Origin

Country	1932	1933	1934	1935	1936
	<u>Thousands of Bales</u> ^{1/}				
Total	198	277	289	286	309
United States	193	268	276	275	301
Egypt	5	9	12	9	6
Other	<u>2/</u>	<u>2/</u>	1	2	2
	<u>Percent Distribution</u>				
Total	100	100	100	100	100
United States	97	97	96	96	97
Egypt	3	3	4	3	2
Other			0	1	1

^{1/} 478 pounds net.^{2/} Less than 500 bales.

Source: Bureau of Agricultural Economics.

November 18, 1937

China: Cotton Imports by Countries of Origin

Country	1932	1933	1934	1935	1936
	<u>Thousands of Bales ^{1/}</u>				
Total	1,038	557	537	253	188
United States	865	355	269	127	43
British India	127	182	233	98	95
Egypt ^{2/}	16	13	29	25	28
Other	30	7	6	3	22

Percent Distribution

Total	100	100	100	100	100
United States	83	64	50	50	23
British India	12	33	43	39	51
Egypt	2	2	6	10	15
Other	3	1	1	1	11

^{1/} 478 pounds net.^{2/} Including Anglo-Egyptian Sudan.

Source: Bureau of Agricultural Economics.

November 18, 1937

Poland 1/: Cotton Imports by Countries of Origin

Country	1932	1933	1934	1935	1936
	<u>Thousands of Bales 2/</u>				
Total	228	269	304	303	326
United States	201	231	227	226	218
British India	6	12	23	30	39
Egypt	18	21	39	35	37
Other	3	5	15	12	32
	<u>Percent Distribution</u>				
Total	100	100	100	100	100
United States	88	86	75	75	67
British India	3	4	7	10	12
Egypt	8	8	13	11	11
Other	1	2	5	4	10

1/ Including Danzig.2/ 478 pounds net.

Source: Bureau of Agricultural Economics.

November 18, 1937

Japan: Cotton Imports by Countries of Origin

Country	1932	1933	1934	1935	1936
<u>Thousands of Bales ^{1/}</u>					
Total	3,521	3,450	3,746	3,392	4,209
United States	2,519	2,057	1,795	1,594	1,641
British India	759	1,101	1,603	1,442	1,862
Egypt	91	78	152	149	123
Brazil	0	^{2/}	8	11	-
China	147	156	91	117	128
East Africa	1	32	54	3	110
Other	4	26	43	76	345
<u>Percent Distribution</u>					
Total	100	100	100	100	100
United States	71	60	48	47	39
British India	22	32	43	43	44
Egypt	3	2	4	4	3
Brazil	-	-	0	0	-
China	4	4	2	4	3
East Africa	0	1	2	0	3
Other	0	1	1	2	8

^{1/} 478 pounds net.^{2/} Less than 500 bales.

Source: Bureau of Agricultural Economics.

November 18, 1937

Italy: Cotton Imports by Countries of Origin

Country	1932	1933	1934	1935	1936
<u>Thousands of Bales 1/</u>					
Total	877	1,014	864	686	466
United States	676	761	532	401	338
British India 2/	67	121	148	122	32
Egypt	106	118	155	134	64
Other	28	14	29	29	32
<u>Percent Distribution</u>					
Total	100	100	100	100	100
United States	77	75	62	58	72
British India	8	12	17	18	7
Egypt	12	12	18	20	14
Other	3	1	3	4	7

1/ 478 pounds net.

2/ Including Ceylon.

Source: Bureau of Agricultural Economics.

November 18, 1937

Germany: Cotton Imports by Countries of Origin

Country	1932	1933	1934	1935	1936
<u>Thousands of Bales 1/</u>					
Total	1,728	1,921	1,462	1,430	1,092
United States	1,365	1,444	875	345	326
British India	95	165	160	129	136
Egypt	152	180	204	181	134
Brazil	1	-	38	380	159
Peru	39	45	52	116	86
Other	76	87	133	279	251
<u>Percent Distribution</u>					
Total	100	100	100	100	100
United States	79	75	60	24	30
British India	6	9	11	9	12
Egypt	9	9	14	13	12
Brazil	-	-	3	27	15
Peru	2	2	3	8	8
Other	4	5	9	19	23

1/ 478 pounds net.

Source: Bureau of Agricultural Economics.

November 18, 1937

United Kingdom: Cotton Imports by Countries of Origin

Country	1932	1933	1934	1935	1936
	<u>Thousands of Bales 1/</u>				
Total	2,631	2,939	2,641	2,661	3,237
United States	1,529	1,584	960	1,197	1,291
British India	112	229	322	345	487
Egypt	503	669	577	569	591
Brazil	3	29	302	126	310
Peru	138	167	184	140	167
Anglo-Egyptian Sudan	129	93	108	130	121
Other	217	168	188	154	270
	<u>Percent Distribution</u>				
Total	100	100	100	100	100
United States	58	54	36	45	40
British India	5	8	12	13	15
Egypt	19	23	22	21	18
Brazil	0	1	12	5	10
Peru	5	5	7	5	5
Anglo-Egyptian Sudan	5	3	4	5	4
Other	8	6	7	6	8

1/ 478 pounds net.

Source: Bureau of Agricultural Economics.

November 18, 1937

Czechoslovakia: Cotton Imports by Countries of Origin

Country	1932	1933	1934	1935	1936
	<u>Thousands of Bales 1/</u>				
Total	366	320	348	350	421
United States	123	93	97	93	108
British India	19	26	44	33	58
Egypt	43	39	54	52	68
Bremen	151	140	126	116	138
Other	30	22	27	56	49
	<u>Percent Distribution</u>				
Total	100	100	100	100	100
United States	34	29	28	27	26
British India	5	8	13	9	14
Egypt	12	12	15	15	16
Bremen	41	44	36	33	33
Other	8	7	8	16	11

1/ 478 pounds net.

Source: Bureau of Agricultural Economics.

November 18, 1937

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France: Cotton Imports by Countries of Origin

Country	1932	1933	1934	1935	1936
Thousands of Bales <u>1/</u>					
Total	1,128	1,604	1,070	1,031	1,489
United States	801	1,061	542	492	870
Egypt	158	228	212	214	234
India	64	216	193	192	236
Brazil	<u>2/</u>	-	47	52	67
French Colonies	15	16	21	29	31
Other	90	83	55	52	51
<u>Percent Distribution</u>					
Total	100	100	100	100	100
United States	71	66	51	48	58
Egypt	14	14	20	21	16
India	6	14	18	18	16
Brazil	-	-	4	5	5
French Colonies	1	1	2	3	2
Other	8	5	5	5	3

1/ 478 pounds net2/ Less than 500 bales

Source: Department of Commerce.

November 18, 1937

France: Imports of Cotton by Countries of Origin

Country	1932	1933	1934	1935	1936	1937 ^{1/}
<u>Thousands of Bales (478 lb.) ^{2/}</u>						
Total	1,128	1,604	1,070	1,031	1,489	725
United States	801	1,061	542	492	870	370
Egypt	158	228	212	214	234	136
India	64	216	193	192	236	153
Brazil	3/	-	47	52	67	28
French Colonies	15	16	21	29	31	9
Other	90	83	55	52	51	29
<u>Percent Distribution</u>						
Total	100	100	100	100	100	100
United States	71	66	51	48	58	51
Egypt	14	14	20	21	16	19
India	6	14	18	18	16	21
Brazil	-	-	4	5	5	4
French Colonies	1	1	2	3	2	1
Other	8	5	5	5	3	4

^{1/} Six months total.^{2/} Conversion factor x 4.61.^{3/} Less than 500 bales.

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

JESSE H. JONES
CHAIRMAN OF THE BOARD

November 18, 1937

Dear Henry:

According to apparently reliable information, France used 535,000 bales of American cotton and 493,000 bales of cotton from other countries from the 1934-35 crop; 660,000 bales American and 552,000 bales from other countries from the 1935-36 crop; and 660,000 bales American and 540,000 bales from other countries from the 1936-37 crop.

Commodity Credit Corporation has never taken title to any of the cotton upon which it made loans, the consensus of opinion having been that it was better for the nominal title to remain in the producer. If we wanted to foreclose on any given number of bales, the question would naturally arise, whose cotton should be foreclosed upon.

We might very properly consider taking over all of the remaining 12 cent loan cotton, approximately 1,650,000,000 bales, but to do this now would probably have a further depressing effect on the market, as people would not understand why the government was foreclosing on the cotton at this time.

My guess is that the sale of 250,000 or any other given number of bales to France or England or Japan would not increase our exports to any considerable extent.

Sincerely yours,



Chairman

Honorable Henry Morgenthau
Secretary of the Treasury
Washington, D. C.

November 18, 1937.
10:55 a.m.

C.B.
Upham: - the undistributed earnings tax.

H.M.Jr: Say that again.

U: They're wanting to get an estimate of how much we would have to increase the normal tax on corporations to raise the money that the undistributed earnings tax has brought in.

H.M.Jr: You mean to replace it.

U: Yes, to do away with it completely.

H.M.Jr: Well.

U: And Mr. Cooper, particularly, is harking back to those old Helvering statements about what normal tax would have to be about twenty five per cent.

H.M.Jr: Uh-huh.

U: And Mr. Doughton is very bitter about - we're in our troubles now, because of the Senate, he has the idea that the original House bill would have brought in more money instead of less.

H.M.Jr: Yes.

U: And Mr. Magill thinks you might consider whether it wouldn't be a good idea to have Mr. Vinson, Doughton and Cooper down, perhaps this afternoon, or tomorrow, if they can't this afternoon, and go over the thing with them and just tell them the whole truth, estimates and everything else.

H.M.Jr: What is the whole truth?

U: Well, about the yield of the tax which hasn't been told to them yet.

H.M.Jr: All right.

U: And about the -

H.M.Jr: 3:30. 3:30.

U: 3:30?

H.M.Jr: Yes.

U: All right. Thank you.

H.M.Jr: 3:30. - Let Mrs. Klotz know whether it's on or off.

U: All right.

H.M.Jr: 3:30.

U: Thank you.

GROUP MEETING

November 18, 1937
9:30 a.m.

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

Magill: I've got a memorandum here from Graves that you might want to see - I don't know - respecting this problem of American citizens living abroad.

H.M.Jr: Yes, I am interested.

Magill: And he proposes a method of procedure which seems to me quite sound.

H.M.Jr: Could you just boil it right down?

Magill: Which is that we send a revenue agent over to Paris and London and attach him to the Treasury Attaché over there and do a little quiet checking up.

H.M.Jr: I'm for it.

Magill: The point seems to be that there are about four hundred thousand Americans living abroad, of whom only about seventy-five thousand - or sixty-five thousand - are registered with the American officials. The unregistered ones are the ones we are after.

H.M.Jr: That was my suggestion - I mean I've been asking for it for a year. Do I sign anything?

Magill: You sign a memorandum to the Commissioner if you want to, but

H.M.Jr: Well, I want him to go with full credentials from Mr. Hull.

Magill: The essence of Graves' idea - they've had a conference with the State Department people - is that we'll get the best results if we do it quite quietly.

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H.M.Jr: Well, if Graves will talk with Merle Cochran - and I mentioned it to him last night - he can tell him just how - Merle Cochran used to be Consul General; he knows how these Consul Generals work it. He's here for a week. You know Merle Cochran. So tell Graves to see Merle Cochran, because Cochran says there's a way to do it and a way not to do it.

Magill: All right.

H.M.Jr: But he says he can tell you just how to get it. You've got to have the proper authorization from the Secretary of State to get it. I'd like to have it fast, because there is this one man we still don't know

Magill: Well, we've been waiting on the State Department on the thing.

H.M.Jr: Well, you'll find you'll most likely have to push.
(On phone) If Elmer Irey is in town at his office, tell him to be here at 10:15 please.

O.K.?

Magill: (Nods yes)

H.M.Jr: What else?

Magill: Nothing, except what goes on on the Hill, which you know about. They're going ahead this morning with the corporation taxes.

H.M.Jr: All right. Anything else?

Magill: (Nods no)

H.M.Jr: Stay as long as you feel like it.

Magill: I'll stay for five minutes.

H.M.Jr: German?

Oliphant: Not a thing.

H.M.Jr: I got this memorandum from you. You're coming in this afternoon.

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Oliphant: At three o'clock.

H.M.Jr: Herbert?

Gaston: Nothing, except I saw your friend Talmadge, the potato grower, of Long Island, and took care of his troubles.

H.M.Jr: Good. If you haven't seen David Lawrence's editorial in his own paper this week, it's well worth investigating.

Gaston: I've been reading his columns in the Star. I haven't seen the United States News.

H.M.Jr: It's quite interesting, very effective.

Gaston: I haven't got anything else.

Taylor: Two things about that meeting this morning.

H.M.Jr: Yes.

Taylor: Which I don't know if they're of general interest or not. Murchison himself isn't going to be here because his whole Institute is meeting at the same time and he wasn't able to cancel that. The other thing is that Southern Association, which is a large unit of this, apparently had the same idea independently.

H.M.Jr: Yes.

Taylor: And he doesn't wish you to think that there has been any leak. I assured him that you would not think so.

H.M.Jr: All right. Well, who's coming?

Taylor: Stevens, a fellow by the name of Calloway, somebody who's ...

H.M.Jr: Oh, tops - he's tops, Calloway, great friend of the President's.

Taylor: Yes, that's the one. Plus somebody from the Institute whom Murchison is sending, plus Feis, plus Agriculture.

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H.M.Jr: You (Haas) better have these other countries the way you've got France.

Haas: At ten o'clock.

H.M.Jr: Are they going to look like that for every country?

Haas: I haven't seen them yet. I think substantially - remember the total - I think it was something like that.

H.M.Jr: Will you twist it around and show from the United States how the distribution is? Do it that way. This is from the French standpoint. Then do it the reverse, showing how our exports have ...

Haas: Who they go to.

H.M.Jr: I mean this is the French, how they take it in. Then do it from the United States angle.

Haas: Yes.

H.M.Jr: I mean the leading countries, then all others. You see, in France here, for instance, it goes from 1932, 71 percent of their cotton came from us - dribbled down to 51 percent; and the countries that the pick-up is in are Egypt and India. That's where India gets some of its money to buy our silver, I suppose.

All right. But I'm seeing you at 11, right, Wayne?

Taylor: (Nods yes)

H.M.Jr: Georgie?

Haas: I didn't mean to run out last night. Your operator thought you were going on home after you ...

H.M.Jr: I thought after I went home, "Gee, I told George to stay." But you had gone. No, when I telephoned I was home. I had already lain down and I was worried. I got up and I said, "Betcha George is still sitting there." But you were smart.

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Haas: I checked about six o'clock.

H.M.Jr: I was worried.

Haas: I've got a couple more of these countries.

H.M.Jr: Give it to me.

(Haas hands sheets to H.M.Jr)

Haas: Lot of loose stuff on that.

H.M.Jr: What's that?

Haas: And there's some stuff on the automobile industry - not cheery.

Gibbons: That Collector Doyle - you apparently didn't see the report.

H.M.Jr: No.

Gibbons: Somebody slipped up on it, not giving you the facts. I had seven men pass on it - Wenchel and Dow and Johnson - very complete report on the subject. Any time you're ready, I'll discuss it with you.

H.M.Jr: Is he all right?

Gibbons: No, you wouldn't hire him or I wouldn't hire him, but you haven't got anything on him. Agent says he is a drunkard, and when you bring him in you can't prove it. Tommy Thompson was out there; he talked to him. He drinks, but to say he is a drunkard, to say he said this or said that - it's all rumor, see? I don't see how you can justify not sending up his name. He's done a fairly good job - good job at narcotics, and so on. When you talk to him - if you talked to him, you'd - he's just a pain in the neck, you know.

H.M.Jr: Well, the newspaper ran a story there that the night before I came he fell over in a hotel publicly drunk; the newspaper ran that story.

Gibbons: They did?

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H.M.Jr: Yes. The night before I got there.

Gibbons: Well, get the newspaper. I know, but when you see this report - seven men - Morgan, Dow, Wenchel, Johnson, Deputy Commissioner Benner over there - and they all say that you wouldn't be justified in not reappointing him. Mac and I have discussed it.

H.M.Jr: Well, I haven't got time, but - All right.

Gibbons: Charley Hand is in town, called me last night, said he'd come in and see me this morning; I thought if you had a minute to shake hands

H.M.Jr: Well, if he'd be here a couple minutes before 11 ...

Gibbons: O.K. Just ..

H.M.Jr: Judge Mahoney was in last night.

Gibbons: To see you?

H.M.Jr: Yes, on Olympics - tax matters. Funny, he came in with Murray Hurlbut, and Murray has got no sense of humor.

Gibbons: No sense of anything.

H.M.Jr: "United States Government doesn't contribute a nickel; every other country does. This is a moral issue." I said, "Judge, what has morals got to do with taxes?"

Mahoney laughed. Hurlbut just died; never cracked a smile.

"You don't expect us to give you a ruling on whether you should pay a tax on admissions - whether it's good or bad morals. We don't know - do business that way. We don't do - we're not interested in morals. We're just interested in what is the law."

Mahoney loved it, but Hurlbut - he's the best example of a sourpuss that I've seen in a long time. But you wouldn't know that Mahoney had been defeated. He looked fine and chipper.

Archie?

Lochhead: Bonds looked a little bit better this morning before the opening.

H.M.Jr: All right.

Upham: Nothing.

H.M.Jr: Well, what are you fellows - you fellows are so worried that the boys wouldn't write the story right. Did they write it right?

Upham: Oh, they came down and the experts straightened them out, so they got it pretty straight this morning.

H.M.Jr: Is the story the way it happened?

Magill: I haven't yet had a moment to read it. I guess it is.

H.M.Jr: Did you (Haas) go over those figures of O'Donnell's?

Haas: On the undistributed?

H.M.Jr: Yes.

Haas: Yes, he's writing it up.

H.M.Jr: Who is?

Haas: O'Donnell. Crum went over them when he was down here.

H.M.Jr: So what is he writing up, the combined wisdom

Haas: Reconciling what was said, what's in the record up there, with the present situation as indicated by the returns which have come in to date.

H.M.Jr: And what will they show?

Haas: It will show an error which is largely attributable to this factor, that when the dividends were distributed, the brackets which were selected, or the distribution scale which was selected, was based on past experience, and it actually didn't work out that way; that there's been a great decline in the people

who report large income. We made some allowance, but not nearly enough. It is probably due to the fact that the surtax rates were boosted so high that some people who had large incomes accruing to a single individual broke them down by gifts and otherwise. So that's the most important factor in the difference in the estimates.

H.M.Jr: But the net figures are the same?

Haas: Oh no.

H.M.Jr: I mean O'Donnell's figures?

Haas: It is around that, but not quite that way, because the other figure is not expressed in the same terms. You see, McLeod made an estimate on the total bill, and this estimate by O'Donnell was just made on the undistributed profits tax principle in the bill; so it is not quite that bad.

H.M.Jr: Well, all I say is, I hope I don't have to go up and explain it.

Haas: Well, it's

H.M.Jr: Well, it couldn't be any worse.

Haas: No, it's just too bad, but it's one of those things that

H.M.Jr: It's about 400 million too bad, isn't it?

Haas: No, no, not that much.

Magill: About three.

McR: Only 50 percent.

Gibbons: Send George and Guy up.

H.M.Jr: How much, 50 percent?

McR: You're getting half what you said you'd get.

Haas: No, it's not - that isn't far off, but it's not quite that bad.

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- H.M.Jr: Well, it's pretty lucky we didn't rely on it entirely as a source of income.
- Haas: Yes, I should say it is.
- H.M.Jr: What?
- Haas: I should say so. Another part of this thing is that the total income tax, you see, didn't come in in the level which we were calculating at that time, so that brings the thing down.
- H.M.Jr: Does that mean we have to make another revision downward?
- Haas: No, this is all taken into account in these revisions we have made since Didn't isolate that, but took....
- H.M.Jr: The six billion 650 - is that included in there?
- Haas: That was all taken into account.
- H.M.Jr: I mean on the President's budget summation October 17, or 19 - was that included in that?
- Haas: That was included in that. Doesn't mean that we have to take another 200 million off that, because in that figure we were taking the total corporate and individual income tax. But if business keeps going like it's been going - in that calculation we didn't figure that business was going to drop off as sharply as it has dropped. We cut it down a good deal, but unless you could have known that the thing was going down as fast as ...
- Olipphant: What's that?
- Haas: Business is dropping very rapidly now.
- H.M.Jr: How long would it take you to give me on a slip of paper the estimates of all different kinds of taxes on corporations, whatever the most recent estimates are?
- Haas: Oh, just

-10-

H.M.Jr: Various different kinds of taxes on corporations, what they will produce.

Haas: Oh, that just takes just as long as it takes a person to write them.

H.M.Jr: When you come in at 11, could you bring it in?

Haas: Yes, sir.

H.M.Jr: What the various corporation taxes are he's estimated, how he estimated as of October 19. Didn't you have an estimate then?

Haas: Well, we can give you this last one.

H.M.Jr: Whatever the last one is.

Magill: I asked O'Donnell several days ago to give me an estimate on the yield of the undistributed profits tax for the current fiscal year.

H.M.Jr: No, I want the various different kinds of taxes on corporations.

Magill: Normal, undistributed, and capital stock tax. He said you didn't have it broken down.

Haas: Oh, what he meant, Ros, was that the - we have it broken down this way, but to take out and say what increase in revenue the undistributed profits tax added, then you'll have to take, for instance - you'll have to make an estimate even after you get your collection returns of what additional dividends were forced out which wouldn't have been paid out if this undistributed profits tax hadn't been operative. That's different.

H.M.Jr: That's something else. I just want whatever the last estimate was. I want the name of the kind of tax, how much you think it will produce, and whatever it was the last time. Huh?

Magill: I'd like a copy.

H.M.Jr: Pardon me?

Magill: I'd like a copy.

-11-

H.M.Jr: Well, I have a definite reason that I want that. And then tomorrow morning give me a list of all kinds of revenue expected from taxes, you see, plus everything - Customs - by classification; I mean the whole business.

Haas: O.K.

H.M.Jr: I'd like that tomorrow morning - whatever revenue we expect, naming the source.

Haas: Yes, sir.

H.M.Jr: For this year. I'd like that tomorrow morning. But the corporation thing - I'd like to have it, if I could, within an hour.

Haas: O.K.

H.M.Jr: All right.
Mac?

McR: (Nods nothing)

H.M.Jr: If George and Mac would stay please.

REPORT TO SECRETARY OF THE TREASURY

---DATED NOVEMBER 18, 1937

SUBMITTED BY

DAVID HIMMELBLAU

I N D E XREPORT

Purpose
 Sample of Proposed Mimeograph
 Social Security-
 Nature of Difficulty
 "Legal" Approach
 Original Public Understanding
 Current Public Understanding
 Next Move
 Railroad Retirement
 General Comments on Exhibit A-
 General Budget Summary
 Treasury Balance Sheet
 General

EXHIBIT A

Table	I	General Budget Summary
	II	General, Including Recovery and Relief
	III	Social Security and Railroad Retirement Program
	IV	Loans and Capital Investments
	V	Trust Accounts
	VI	Treasury Balance Sheet
	VII	Public Debt
	VIII	Cash Position
	IX	Loans and Capital Investments
	X	Government Securities Held in Trust Accounts

EXHIBIT B

Method of Stating
 Effect of Proposed Legislation on Budget

NORTHWESTERN UNIVERSITY
CHICAGO CAMPUS
LAKE SHORE DRIVE AND CHICAGO AVENUE
CHICAGO

SCHOOL OF COMMERCE
WHEELER HALL

November 18, 1937

The Honorable Henry J. Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

Dear Sir:

In accordance with your request I reviewed the Daily Statement of the United States Treasury with Mr. Bartelt and with Mr. Taylor. In connection therewith I also reviewed Mr. Bell's summation of the 1938 budget dated October 19, 1937 and the Treasury Department's release dated July 2, 1937.

It would seem that the essential need is for a more effective presentation of the points in the Daily Statement and in the budget which are of current interest. This may be accomplished through a mimeograph memorandum to be submitted to you and certain other designated individuals for personal information.

If any of the analyses in this memorandum are to be released to the public the phrasing should be first reviewed by the budget officials to avoid possible misinterpretation of an analysis when separated from the memorandum. No attempt has been made in this report to edit material for use outside of the department.

SAMPLE OF PROPOSED MIMEOGRAPH

Exhibit A illustrates the content of the proposed mimeograph. Mr. Bartelt was kind enough to prepare the ten tables comprising Exhibit A so that the prospective users might determine whether the proposed set up covers the specific questions they have in mind. Among those discussed are:

1. Is it practical to recast the Summation of the Budget and the "Comparative Analysis of Receipts and Disbursements" appearing in the Daily Statement to set out more clearly-

- (a) "Ordinary" receipts and expenditures (Table II),
- (b) Social security and railroad retirement program (Table III),
- (c) Loans and capital investments (Table IV).

2. As to the Social Security and Railroad Retirement Program-

- (a) The difference between the "legal" status of these receipts and expenditures and the "public's" understanding thereof.
- (b) The amount received, the amount expended for benefits, the amount invested and how invested.
- (c) Has any part of these receipts been used to meet current expenses.

3. As to the public debt-

- (a) Emphasizing certain elements which comprise the public debt at a given date (Table VII),
- (b) Accounting for the change in public debt from one date to another date (Table VII).

Exhibit B illustrates the proposed method of stating at the Secretary's Monday press conferences the effect of proposed legislation upon the budget so that the public may better understand how such legislation affects the balancing of the budget.

SOCIAL SECURITY

NATURE OF DIFFICULTY

How to set out the receipts from social security taxes and the related expenditures is the primary difficulty in an analysis of the budget. The Daily Statement, Mr. Bell's summation of the 1938 budget, Treasury Department release dated July 2, 1937 and Table III of Exhibit A are all based on the so-called "legal" approach which differs basically from the so-called "public" understanding.

"LEGAL" APPROACH

The Social Security Act, approved August 14, 1935, provides that taxes collected thereunder go into the general fund without being earmarked for any specific purpose. Annual appropriations for social security purposes are made from the general fund without regard to the amount of social security taxes collected.

ORIGINAL PUBLIC UNDERSTANDING

The Social Security Act was "sold" to the public as follows:

- (a) Unemployment Insurance taxes. These would be divided 90% to the States for benefits and 10% for administration expense.
- (b) Old Age Benefit taxes. The collections plus 3% interest would be held by the federal government for benefit payments.

Even though not intentional, the impression was given that every dollar collected from old-age benefit taxes would be held intact for the benefit of the contributor; also that the government plan would supersede private pension plans.

CURRENT PUBLIC UNDERSTANDING

The summation of the 1938 budget showed:

	<u>Actual</u> <u>Fiscal Year 1937</u>	<u>Estimate</u> <u>Fiscal Year 1938</u>
under receipts-		
Social security taxes	\$ 252,160,839.56	\$ 605,535,000.00
and under expenditures-		
VI. Social security:		
1. Administrative expenses	15,830,959.77	20,000,000.00
2. Grants	166,928,178.96	230,000,000.00
XI. Transfers to trust accounts, etc.:		
1. Old-age reserve account	265,000,000.00	425,000,000.00

The weaknesses in this presentation were:

1. No indication that social security taxes listed under "other internal-revenue taxes" included the federal government's 10% share of unemployment insurance tax receipts as well as old-age benefits tax receipts.
2. No indication that the grants listed under "Social Security" (VI-2) were payments to states.

It was easy for the reader to get the impression that only \$425,000,000 of the \$605,535,000 was being transferred to old-age benefits and therefore that the remainder was being used for current expenses. This impression was strengthened by failure to give an accounting for receipts to date, failure to explain that the "Grants" item represented payments to states and by the tendency to emphasize the "legal" aspect of social security taxes.

THE NEXT MOVE

It would seem that the federal government has a "moral" obligation to reexplain Social Security to the taxpayers in terms of (a) the "legal" approach or (b) the "trust fund" doctrine approach.

If the "legal" approach is decided upon, Table III of Exhibit A could be used. In fact, the \$20,000,000 administration expense could be shown there instead of in Table II as suggested by

Mr. Taylor. The 29 million figure would be increased to 49 million and the "ordinary" deficit would be reduced by a corresponding amount.

If the "trust fund" approach is decided upon, an accounting for all old-age collections should be made. The following form may be useful:

Old-Age Benefits

	<u>1937</u> <u>to Date</u>	<u>Estimated</u> <u>1938</u>	<u>Cumulative</u> <u>to 6-30-38</u>
Receipts	\$194	\$529	\$723
Transferred to trust funds	265	425	690
Over	<u>\$ 71</u>		
Under		<u>\$104</u>	<u>\$ 33</u>
Summary of trust fund-			
Cash received	\$265,000,000	\$425	\$690
Interest earned	2,261,000	?	?
	<u>\$267,261,000</u>	<u>\$?</u>	<u>\$?</u>
Benefit payments	59,000	?	?
Balance at June 30th	<u>\$267,202,000</u>	<u>\$692</u>	<u>\$692</u>

Note that in the year ended June 30, 1937 the transfer to trust funds was 71 million dollars greater than the receipts from old-age benefits tax.

The trust fund investments are limited by the Social Security Act to United States Government securities. The plan is the same as heretofore used for Civil Service, Veterans, Postal Savings and other federal government trust funds.

With this accounting there should be a statement of policy, namely, that appropriation bills will be so drafted as to permit the transfer to trust fund of the entire receipts from old-age benefits tax.

A further advantage may be derived from such a policy. Under the present plan the expenditure is fixed in an appropriation bill and a falling off in receipts increases the deficit for the year. Under the suggested plan a falling off in receipts automatically reduces the required expenditure thus having no effect on the balancing of the budget. It is understood that the suggested type of appropriation is now used for certain governmental activities.

Under either approach the public could be given a better understanding of the social security problem by a tabulation which shows all taxes collected under that Act and the manner in which such receipts have been expended. The following form may be used:

	Fiscal Year 1937 <u>(Actual)</u>	Fiscal Year 1938 <u>(Estimated)</u>	Fiscal Year 1938 to Date <u>(Actual)</u>
<u>Receipts</u>			
Title VIII - (Old-age)	\$194	\$ 529	
Title IX - (10% for administrative expense)	58	77	
	<u>\$252</u>	<u>\$ 606</u>	
Title IX - 90% transferred directly to trust fund to be paid by states for unemploy- ment benefits	294	590	
Total receipts from social security taxes	<u>\$546</u>	<u>\$1,196</u>	
<u>Expenditures</u>			
Title II - (Old-age Reserve)	\$265	\$ 425	
Title III - (Grants to states for unemployment insurance administration)	9	38	
- 90% to trust fund (identical amount as shown under receipts)	294	590	
Grants to states for old-age assistance, aid to dependent children, etc.	158	192	
Social Security Act administrative expenses	16	20	
Total expenditures	<u>\$742</u>	<u>\$1,265</u>	

RAILROAD RETIREMENT

A similar situation arises under the Railroad Retirement Act. The budget shows 158 million estimated receipts and 138 million to be transferred to trust fund, leaving a balance of 20 million which, under the "trust fund" approach, should also be transferred to the trust fund if the budgeted receipts are actually collected.

GENERAL COMMENTS

Current interest in the various tables comprising Exhibit A will vary from month to month. Attention can be directed to special points by adding a "Comment" section to each table as follows:

COMMENT ON GENERAL BUDGET SUMMARY (TABLE I)

\$1,088,000,000 public debt issues are to be sold to the trust funds; \$393,000,000 public debt in hands of the public is to be paid off; the resultant excess receipts amounting to \$695,000,000 will cover the net deficit for year ending June 30, 1938.

Table I shows that the 695 million deficit arises from:

(a) Excess of general, including recovery and relief, expenditures over general revenues	594 million
(b) Excess of expenditures related to Social Security and Railroad Retirement over receipts from those taxes	29 "
(c) Excess of loans and investments to be made over receipts from such items	<u>72</u> "
Total net deficit	<u>695</u> "

If the "trust fund" approach above referred to is adopted item (a) would be increased from 594 million to 676 million; item (b) would be changed from 29 million excess expenditure to 33 million excess receipts under Social Security Act and 20 million excess receipts under the Railroad Retirement Act.

Totals of the receipts and of the expenditures have been retained in Table I to negative the possible belief that all receipts and expenditures are not disclosed.

COMMENTS ON TREASURY BALANCE SHEET (TABLE VI)

Listed under Assets are certain items of interest to Mr. Taylor Foreign obligations are doubtful. Loans and capital investments are subject to an indeterminate loss on final realization. Such losses are

recognized in the budget of the year in which an appropriation bill is passed to reimburse an organization for losses admitted by it. (per Mr. Bartelt). If this is not done promptly the budget deficits are understated.

GENERAL

It is suggested that no change be made for the time being in the Daily Statement.

Mr. Bartelt rendered valuable assistance in the preparation of these analyses. Extensive detail data are also available in his office.

I shall be pleased to discuss this report in more detail.

Very truly yours,

Edward H. Millhan
Professor of Accounting.

Enclosure-

Extra copies for Mr. Taylor and Mr. Bartelt who have not read this report.

CONFIDENTIAL

FOR DEPARTMENT USE ONLY

Actual for fiscal year 1937
and estimated for fiscal year
1938; also actual to date fiscal year 1938.

I. GENERAL BUDGET SUMMARY
(In millions of dollars)

	For details see Table No.	Fiscal year 1937 (actual)	Fiscal year 1938 (estimated) (actual)
Receipts			
General revenue	II	\$ 5,042	\$ 5,886
Social Security and Railroad Retirement Acts	III	252	764
Loans and capital investments	IV	1,020	748
Total receipts.....		6,314	7,398
Expenditures			
General expenditures.....	II	5,007	4,770
Recovery and relief.....	II	2,841	1,710
Sub-total		7,848	6,480
Social Security and Railroad Retirement Acts	III	436	793
Loans and capital investments	IV	737	820
Sinking fund (statutory debt retirements)		104	200
Total expenditures		9,125	8,293
Excess of expenditures (Budget Deficit).....		2,811	895
Excess of expenditures			
General, including recovery and relief.	II	2,806	594
Social Security and Railroad Retirement Acts	III	184	29
Sub-total.....		2,990	623
Loans and capital investments	IV	283	72
Sinking fund (statutory debt retirements)		104	200
Total ^{above} budget deficit		2,811	895
Less sinking fund		104	200
Net deficit		2,707	695
Financing the deficit			
Debt increase:		343	393
In hands of public	VII	1,216	1,088
In trust funds	VII	1,148	-
General working balance (decrease)	VIII		
		2,707	695

g Decrease, deduct.

II. GENERAL, INCLUDING RECOVERY AND
RELIEF 1/

	Fiscal year 1937 <u>(actual)</u>	Fiscal year 1938 <u>(estimated)</u>
<u>Receipts</u>		
<u>Revenue</u>		
Income tax	\$ 2,158	\$ 2,791
Miscellaneous internal revenue	2,181	2,386
Tax on unjust enrichment	6	5
	<u>4,345</u>	<u>5,182</u>
Customs	487	494
Miscellaneous	210	210
Total receipts	<u>5,042</u>	<u>5,886</u>
<u>Expenditures</u>		
Departmental	876	1,001
National defense	856	925
Veterans' Administration	580	580
Agricultural adjustment program	534	475
Civilian conservation corps	386	310
Social security act:		
Administrative expenses	16	20
Interest on the public debt (inc. \$100M for trust funds)	866	925
Refunds of receipts	49	46
Grants to states by PWA ^{2/}	240	235
Government employees' retirement funds	47	73
Adjusted compensation payment act (Government Life)	557	—
Supplemental items	—	180
Total general	<u>5,007</u>	<u>4,770</u>
Recovery and relief	<u>2,841</u>	<u>1,710</u>
Total expenditures	<u>7,848</u>	<u>6,480</u>
Excess of expenditures ^{3/}	<u>2,806</u>	<u>594</u>

1/ Exclusive of social security loans, and capital investments. (See Tables III and IV)

2/ Paid from revolving fund.

3/ The Budget net deficit is \$2,707,000,000 for 1937 and \$695,000,000 for 1938.
(See page 1)

III. Social Security and Railroad Retirement Program

	Fiscal year 1937 <u>(actual)</u>	Fiscal year 1938 <u>(estimated)</u>	Fiscal Year 1938 <u>(actual)</u>
<u>Receipts</u>			
Social Security Act:			
Title VIII (Old-age Reserve).....	194	529	
Title IX (State Unemployment Adm.).....	58	77	
Railroad Retirement Act.....	<u>—</u>	<u>158</u>	
Total receipts (see Note 1).....	<u>252</u>	<u>764</u>	
<u>Expenditures</u>			
Social Security Act:			
Title II (Old-age Reserve).....	265	425	
Title III (Grants to States for Unemployment Administration).....	9	38	
Grants to States (Old-age assistance and aid to dependent children, etc.).....	158	192	
Railroad Retirement Act.....	<u>4</u>	<u>138</u>	
Total expenditures (see Note 2).....	<u>436</u>	<u>793</u>	
Excess of expenditures.....	<u>184</u>	<u>29</u>	

Note 1. Collections under state unemployment laws are divided 90 per cent to the states and 10 per cent to the United States. The 90 per cent applicable to the states, amounting to \$294M for 1937 and an estimate of \$590M for 1938, is not included in these figures. For all transactions affecting the Social Security and Railroad Retirement Program for the fiscal years 1937 and 1938, see following Summary III in text of report.

Note 2. Social Security administrative expenses, amounting to \$16M for 1937 and an estimate of \$20M for 1938, are included under general expenditures.

IV. Loans and Capital Investments
(Receipts and Expenditures)

	Fiscal year 1937 <u>(actual)</u>	Fiscal year 1938 <u>(estimated)</u>
Receipts		
Revolving funds:		
Commodity Credit Corporation.....	132	15
Farm Credit Administration.....	44	10
Public Works Administration.....	86	109
Export-Import Bank of Washington.....	11	8
Reconstruction Finance Corporation.....	739	590
Other:		
Farm Credit Administration.....	—	10
Federal Housing Administration.....	<u>8</u>	<u>6</u>
Total receipts.....	<u>1,020</u>	<u>748</u>
Expenditures		
Revolving funds:		
Commodity Credit Corporation.....	20	115
Farm Credit Administration.....	26	—
Public Works Administration.....	67	74
Export-Import Bank of Washington.....	10	8
Reconstruction Finance Corporation.....	405	440
Other:		
Farm Credit Administration.....	28	4
Rural Electrification Administration.....	10	32
Federal land banks:		
Capital stock.....	— 4	4
Paid-in surplus.....	35	31
Home loan system.....	21	4
Emergency housing.....	51	35
Federal Housing Administration.....	25	16
Farm Security Administration.....	<u>43</u>	<u>57</u>
Total expenditures.....	<u>737</u>	<u>820</u>
Excess of receipts (decrease in "recoverable" assets)	<u>283</u>	<u>—</u>
Excess of expenditures (increase in "recoverable" assets)	<u>—</u>	<u>72</u>

V. Trust Accounts a/

	Fiscal year 1937 <u>(actual)</u>	Fiscal year 1938 <u>(estimated)</u>
Receipts		
Old-age reserve account:		
Transfers from general fund (See Table III).....	265	425
Interest on investments.....	2	15
Unemployment trust fund: (See Note 1, Table III)		
Deposits by states.....	292	576
Interest on investments.....	2	14
Railroad retirement fund:		
Transfers from general fund (See Table III).....	—	138
Interest on investments.....	—	1
Other trust funds.....	<u>911</u>	<u>224</u>
Total receipts.....	<u>1,472</u>	<u>1,393</u>
Expenditures		
Old-age reserve account (benefit payments).....	—	15
Unemployment trust fund (withdrawals by states)....	1	90
Railroad retirement fund (benefit payments).....	—	48
Other trust funds.....	<u>362</u>	<u>138</u>
Total expenditures.....	<u>363</u>	<u>291</u>
Investments		
Old-age reserve account.....	267	425
Unemployment trust fund.....	293	500
Railroad retirement fund.....	—	91
Other.....	<u>b 656</u>	<u>72</u>
Total investments.....	<u>1,216</u>	<u>1,088</u>
 Total expenditures and investments.....	 <u>1,579</u>	 <u>1,379</u>
 Excess of receipts over expenditures & investments... —		14
Excess of expenditures & investments over receipts 107		—

a/ Exclusive of gold increment and seigniorage transactions.
 b Includes \$500M investment in special issues to the United States Government Life Insurance Fund under the Adjusted Compensation Payment Act of 1936.

VI. Treasury Balance Sheet

	Fiscal Year 1937 <u>(actual)</u>	Fiscal year 1938 <u>(estimated)</u>
<u>Assets</u>		
Cash:		
Inactive gold	\$1,087	\$1,587
Gold increment	141	141
Seigniorage (silver)	356	356
Working balance	970	984
Total cash	<u>2,554</u>	<u>3,068</u>
Exchange Stabilization Fund	2,000	2,000
Foreign obligations (principal)	12,015	12,015
Loans and capital investments (details in Table IX).	3,968	4,040
Total assets	<u>20,537</u>	<u>21,123</u>
<u>Liabilities</u>		
Public debt:		
In hands of public	33,387	33,494
In trust funds (details in Table X)	3,037	4,125
Trust funds (cash)	<u>36,424</u>	<u>37,619</u>
Total liabilities	596	610
Total liabilities	<u>37,020</u>	<u>38,229</u>
"Deficiency"	<u>16,483</u>	<u>17,106</u>

VII. Public Debt

	<u>June 30</u> <u>1937</u>	<u>June 30</u> <u>1938</u>
<u>Gross debt</u>		
a. In hands of public:		
Gold purchases.....	1,087	1,587
Other.....	32,300	31,907
.....	<u>3,037</u>	<u>4,125</u>
b. In trust funds (details in Table X).....		
Total.....	36,424	37,619
Previous year.....	<u>33,778</u>	<u>36,424</u>
Increase in the public debt.....	<u>2,646</u>	<u>1,195</u>
<u>Explanation of debt increase</u>		
a. Increase in trust funds.....	1,216	1,088
b. Increase in hands of public (gold purchases).....	1,087	500
.....	343	—
c. Increase in hands of public (other).....	—	- 393
d. Decrease in hands of public (other).....	<u>2,646</u>	<u>1,195</u>

VIII. CASH POSITION

	<u>June 30,</u> <u>1937</u>	<u>June 30,</u> <u>1938</u>
<u>General fund balance</u>		
a. Inactive gold	1,087	1,587
b. Gold increment	141	141
c. Seigniorage	356	356
d. Working balance:		
General	375	376
Trust	<u>595</u>	<u>609</u>
	2,554	3,068
Previous year	<u>2,682</u>	<u>2,554</u>
Increase (+) Decrease (-) ...	<u>- 128</u>	<u>+ 514</u>

Source of increase or decrease

a. Gold purchases	+ 1,087	+ 500
b. Silver purchases	+ 40	-
c. Decrease in general working balance ..	- 1,148	-
d. Decrease in trust accounts	- 107	-
e. Excess of trust fund receipts (TABLE X)	<u>-</u>	<u>+ 14</u>
	<u>- 128</u>	<u>+ 514</u>

IX. Loans and Capital Investments

	Fiscal year 1937 <u>(actual)</u>	Fiscal year 1938 <u>(estimated)</u>
<u>Financed wholly from Government funds:</u>		
Reconstruction Finance Corporation.....	1,491	1,341
Commodity Credit Corporation.....	123	223
Export-Import Bank of Washington.....	18	18
Public Works Administration.....	145	110
Regional Agricultural Credit Corporations.....	27	27
Production Credit Corporations.....	121	121
Panama Railroad Company.....	44	44
U. S. Maritime Commission.....	87	87
War emergency corporations and agencies.....	8	8
Other. (Partly from Gov. acct.).....	657	775
	<u>2,721</u>	<u>2,754</u>
<u>Financed partly from Government funds and partly from private funds:</u>		
Federal Land Banks.....	292	327
Federal Intermediate Credit Banks.....	104	104
Federal Farm Mortgage Corporation.....	177	177
Banks for Cooperatives.....	154	154
Home Loan Banks.....	121	125
Home Owners' Loan Corporation.....	68	68
Federal Savings and Loan Insurance Corporation...	108	108
Federal Savings and Loan Associations.....	48	48
Federal Deposit Insurance Corporation.....	150	150
	<u>1,222</u>	<u>1,261</u>
Home Owners' Loan Corporation Bonds.....	25	25
Grand total.. (TABLE VII).....	<u>3,968</u>	<u>4,040</u>

I. Government Securities Held in Trust Accounts

	Fiscal year 1937 <u>(actual)</u>	Fiscal year 1938 <u>(estimated)</u>
Postal Savings System:		
Special.....	30	30
Other.....	894	904
Federal Deposit Insurance Corporation:		
Special.....	95	90
Other.....	245	252
Individual Indian Trust Funds:		
Special.....	—	—
Other.....	42	42
Mutual Mortgage Insurance Fund:		
Special.....	—	—
Other.....	17	19
Federal Savings and Loan Insurance Fund:		
Special.....	—	—
Other.....	6	9
Civil Service Retirement and Disability Fund:		
Special.....	309	334
Other.....	23	23
United States Government Life Ins. Fund:		
Special.....	500	500
Other.....	211	251
D. C. Teachers' Retirement Fund:		
Special.....	—	—
Other.....	4	4
Alien Property Custodian Funds:		
Special.....	—	—
Other.....	30	30
Old-age Reserve Account:		
Special.....	267	692
Unemployment Trust Fund:		
Special.....	312	812
Railroad Retirement Account:		
Special.....	—	91
Miscellaneous Accounts:		
Special.....	44	34
Other.....	<u>8</u>	<u>8</u>
Total:		
Special.....	1,557	2,583
Other.....	1,480	1,542
See TABLE II	<u>3,037</u>	<u>4,125</u>

PROPOSITION

Method of stating at Secretary's Monday press conferences the effect of proposed legislation upon the budget so that the public may understand how such legislation affects the balancing of the budget.

SUGGESTION

The following form of report is suggested to present each week the effect on the budget of proposed action by Congress. The changes may reflect bills introduced or only bills recommended by committees.

Weekly Report

Budget-	
Receipts	\$
Expenditures	_____
Balance- Surplus or deficit at (date)	\$
Effect of proposed changes by Congress-	
(1) Increase expenditure for xxx	
(2) Estimated increase in receipts from xxx	
Etc.	
Adjusted deficit at (date)	\$ _____
Net increase in deficit if proposed changes are made by Congress	\$ _____

The foregoing report can be amplified to show receipts and expenditures separately, to wit:

	<u>Receipts</u>	<u>Expenditures</u>	<u>Balance</u>
Budgeted receipts	xx		
Budgeted expenditures		xx	
Deficit at (date)			xx
Effect of proposed changes by Congress:			
(1) Increase expenditure for xx		xx	xx
(2) Estimated increase in receipts from xx	xx		xx
Adjusted totals to date	xx	xx	xx

November 19, 1937.
12:15 p.m.

H.M.Jr: Hello

Operator: Mr. McMahon.

Brien
McMahon: Hello.

H.M.Jr: Hello.

M: Mr. Secretary?

H.M.Jr: Talking.

M: McMahon speaking.

H.M.Jr: Yes.

M: In re: - Mr. Rosenwald.

H.M.Jr: Please.

M: That is on its way to Philadelphia.

H.M.Jr: Fine.

M: I shall keep you informed.

H.M.Jr: That's awfully nice because he did seem terribly upset, and it was out of our - we couldn't do anything to help him.

M: Yes.

H.M.Jr: As I told Irey to put his man in touch with the Department.

M: Yes. Well, Irey came over himself, and I got it started in Philadelphia.

H.M.Jr: Fine.

M: I'll keep in touch with you.

H.M.Jr: That's very kind of you.

M: All right, sir.

H.M.Jr: Thank you.

M: Goodbye.

United States: Cotton Exports by Country of Destination

Country	1932	1933	1934	1935	1936	1937 ^{1/}
(Thousands of Running Bales)						
Total	8,916	8,353	5,753	5,861	5,409	3,381
Japan	2,249	1,814	1,737	1,518	1,356	811
Germany	1,742	1,653	740	590	691	436
United Kingdom	1,487	1,489	897	1,189	1,231	781
France	811	852	424	591	719	367
Italy	697	804	493	452	340	338
China	586	311	287	86	17	9
Spain	322	303	248	242	95	-
Canada	184	213	252	247	268	178
Belgium	154	153	90	164	138	99
Netherlands	139	124	78	70	68	65
Poland	111	229	209	271	212	106
Sweden	67	69	84	82	86	55
Russia	-	64	29	111	1	-
Other	367	275	185	248	187	136

Percentage Distribution

Total	100.0	100.0	100.0	100.0	100.0	100.0
Japan	25.2	21.7	30.2	25.9	25.1	24.0
Germany	19.5	19.8	12.9	10.1	12.8	12.9
United Kingdom	16.7	17.8	15.6	20.3	22.8	23.1
France	9.1	10.2	7.4	10.1	13.3	10.9
Italy	7.8	9.6	8.6	7.7	6.3	10.0
China	6.6	3.7	5.0	1.5	.3	.3
Spain	3.6	3.6	4.3	4.1	1.7	-
Canada	2.1	2.6	4.4	4.2	4.9	5.3
Belgium	1.7	1.8	1.6	2.8	2.6	2.9
Netherlands	1.6	1.5	1.3	1.2	1.3	1.9
Poland	1.2	2.8	3.6	4.6	3.9	3.1
Sweden	.8	.8	1.4	1.4	1.6	1.6
Russia	-	.8	.5	1.9	-	-
Other	4.1	3.3	3.2	4.2	3.4	4.0

^{1/} Nine-month total

Source: Department of Commerce.

November 22, 1937

Cotton: Commercial production, carryover, and consumption of all cotton
and of American cotton, by crop years, 1932 to 1937 1/.

(in thousand bales)

Year beginning August	1932	1933	1934	1935	1936	1937 <u>3/</u>
World production, all cotton	23,461	26,066	23,050	26,320	30,700	38,120
Carryover from previous year	18,336	17,116	17,540	15,072	13,649	13,313
World consumption	24,651	25,602	25,488	27,708	30,991	-
Production, American cotton <u>2/</u>	12,961	12,712	9,576	10,495	12,375	18,020
Carryover from previous year	13,263	11,809	10,701	9,041	6,998	6,235
World consumption, American cotton	14,385	13,780	11,206	12,503	13,093	-
Consumption in United States	6,004	5,553	5,241	6,221	7,768	-

Source: New York Cotton Exchange Service.

1/ United States production in thousands of running bales; foreign production in thousands of bales of 478 pounds net.

2/ Includes city crop.

3/ Preliminary.

As suggestions looking toward an increased use of cotton, the following is submitted:

1. The prompt planning and adoption of a national advertising campaign to encourage the use of cotton products.

2. The formulating of a program that would permit cotton to replace in part the uses of imported jute fabrics.

3. The handling of cotton and cotton goods in reciprocal trade agreement negotiations in such a way as to extend foreign outlets.

4. The working out of a method under which vast quantities of much needed cotton goods could be exported to Russia.

5. The early purchase by the Government of its cotton goods requirements to whatever extent is in keeping with the budget position.

6. The encouragement in every way of the Department of Agriculture's program for extending the use of cotton materials in road building and for other purposes.

7. The appropriation of funds to approved private agencies engaged in promoting the use of cotton and its products.

LMS

GRAY

Paris

Dated November 18, 1937

Rec'd 3:14 p. m.

Secretary of State,
Washington.

1626, November 18, 4 p. m.
FOR THE TREASURY.

A fair amount of business was transacted on the exchange market with the trend rather in favor of the franc. Sterling quoted at about 147.15, and the dollar about 29.41 and 29.45. We are told by our market contact that the fund probably acquired about one-half million pounds sterling and "several" million dollars.

After showing some strength at the opening, rentes closed about even with the level of yesterday. Other securities were (?) and without any important changes.

The Bank of France statement dated November 11 published this afternoon, shows an increase in the gold reserves of approximately 3,200 million franc. Commercial discounts down 334 million. There were no changes under advances to the state. State circulation down 944 million. Deposits up 3,700 million due, no doubt, to the deposit by the fund of the franc proceeds of the sale

LMS 2-No. 1626, November 18, 4 p. m., from Paris.

sale of gold to the bank. Percentage of gold cover 51.81, compared with 51.27.

The report of foreign trade for October shows an unfavorable balance of approximately 1,300,000,000 francs, which is close to the average monthly unfavorable balance of the preceding nine months except as concerns February and June when it totalled nearly 2,000,000,000 francs for each of these months. Total unfavorable trade balance for first ten months of 1937 amounts to 14,600,000,000 francs.

WILSON

KLP:CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 18, 1937, noon

NO.: 1624

FOR THE TREASURY.

We have been confidentially informed by an official of the Bank of France that the statement of the Bank for the week ending November 11 (to be published this afternoon) will show a gold reserve increase of four billion francs which the fund has sold to it. We were also told at the same time that the fund has been able to retrieve only a comparatively small amount of foreign currencies since the last date on which we received information in this regard.

Reference was made to possible ways and means which the Treasury may be contemplating in order to provide for the sterling which the fund is expected to furnish in repayment of the British credit; the reply was that some consideration was being given the matter. Our contact added that while recourse could be had to the advance account at the Bank of France, it was probable that only as a last resort would this be used; he is under the impression that the Treasury is making efforts to get funds in Amsterdam, but on this point he was not able to give details or definite information.

WILSON.

EA:LWW

JR

GRAY

London

Dated November 19, 1937

Rec'd 2:12 p.m.

Secretary of State,
Washington.

726, November 19, 5 p.m.

FOR TREASURY FROM BUTTERWORTH.

Very quiet conditions prevailed in both the exchange and security markets today; the attitude of marking time is if anything growing.

Inasmuch as the views expressed in today's leading articles in the TIMES on the French situation are in consonance with those held in British official and city circles, they are summarized below:

(1) Last month's cantonal elections showed that France as a whole favored its government as present constituted -- a Front Populaire Government under Radical direction; furthermore the Government has steadily grown stronger since then and the Tardieu-Rocque revelations have further discouraged the idea of the Right wing Radicals breaking away from the Front Populaire to form a coalition with the more conservative elements. Therefore despite divergencies of views "there now seems every likelihood that the two sections of the Front Populaire

will

-2- //726, November 19, 5 p.m., from London.

will be able to hold together".

(2) The Government has also been strengthened by the "marked improvement in the monetary and financial situation caused by the reflux of exported capital during the past month or so". The repayment of the sterling railway loan and the transfer of 27 million pounds of gold to the Bank of England are expected to stimulate the confidence of the investing public, even though the recent inflow may have been more occasioned by a decline of confidence in the dollar than by an increase of confidence in the franc.

(3) "The most serious difficulty comes from the continuous rise in the cost of living which not only is the cause of growing discontent especially among the classes upon whom the Government rely for support but inevitably produces demands for increased wages which cannot be met without weakening the competitive power of French industry and checking the revival of confidence among French investors. To check this rise the Government are setting out on a campaign to increase production which in turn requires a more sincere cooperation between capital and labor and the maintenance of industrial peace. It is scarcely too much to say that for them everything depends upon the success of this campaign".

JOHNSON

LMS

GRAY

Paris

Dated November 19, 1937

Rec'd 4:05 p. m.

Secretary of State,
Washington.

1830, November 19, 6 p. m.

Your 576, November 16, 4 p. m.

Pierre DuPasquier, French national, is known to us as Paris representative of Mundé, Monkton and Potter, 40 Wall Street, New York City. He is son of Hermann DuPasquier, a well-known official of the Compagnie Generale Transatlantique and the Compagnie de Culture Cotonniere du Niger. In 1917 he accompanied Tardieu to the United States and was later director of the Cotton Service. He also accompanied Caillaux mission in 1925 and Laval mission in 1931. In 1933 he was named administrator of the Omnium Republicain de Presse, a holding company controlling several important French newspapers. In 1936 at the desire of the Patenotre family he became President of the Elverson Corporation, 37 Wall Street, controlling PHILADELPHIA INQUIRER publication last spring. He is also administrator of the Societe Generale Fonciere, capitalized

LMS 2-No. 1630, November 19, 6 p. m., from Paris.

capitalized at 20,000,000 francs. He is closely associated with M. Raymond Patenotre. A reliable source indicates him as a well-connected person occupying a favorable financial situation and an excellent credit standing.

WILSON

SMS:NPL

RECEIVED
NOV 20 1954
U.S. DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION
WASHINGTON, D. C.

JR

GRAY

Paris

Dated November 19, 1937

Rec'd 4:15 p.m.

Secretary of State,
Washington.

1632, November 19, 8 p.m. (SECTION ONE)
FOR THE TREASURY.

One. Of the outstanding features of the Chamber debate yesterday was Bonnet's reply to first interpellations of his financial policy. He was mercilessly criticised by Deputy Chateau (of the Popular Front). Briefly the interpellater claimed that Bonnet had failed to apply the program of the Popular Front in that he had not sufficiently taxed big business and fortunes, had not applied the fiscal identity card to prevent fraudulent declarations relating to revenue from securities, and held that the burden imposed by the Chautemps Government of increased taxes and customs duties had to be borne chiefly by the laboring classes. In his view the orthodox methods employed by Bonnet had failed and the real remedy was exchange control "in accordance with the program of the Popular Front". Bonnet interrupted to protest that upon his return from the United States he found a formula already

-2- #1632, November 19, 8 p.m., from Paris.

already adopted by the Blum Government which precisely excluded such a step. Furthermore, parliamentary authorization of full powers to the Chautemps Government formally excluded exchange control. Chateau retorted that the Parliament could always reverse its decision and that "never had the circumstances been more favorable". If this precaution was not taken capital would continue to decide the fate of the country. Chateau concluded.

WILSON

SMS:NPL

EG

GRAY

Paris

Dated November 19, 1937

Rec'd 5:34 p. m.

Secretary of State,
Washington.

1632, November 19, 8 p. m. SECTION TWO

Fernand Laurent (Right) expressed grave doubts of the existence of the entire cohesion of the Cabinet expressed in the recent declaration of Rambouillet. He noted that exchange control was advocated by Left members for the purpose of destroying speculation, but pointed out that Auriol, either as Minister of Finance or as Minister of Justice, had not discovered one case. This deputy also pointed to Jouxhau's insistence on exchange control "as a means of providing necessary resources for the workers and for civil servants so as to increase their purchasing power". Continuing his emphasis on apparent contradictions on policy within the Cabinet, he recalled declarations of Minister of State Fouré a few days ago that there must be large scale nationalizations, including nationalization of credit, the recent insistence of Socialist leader Jules Moch on economic autarchy and exchange control, and determination of the Communists to proceed with their program.

Communist

-2- No. 1632, November 19, 8 p. m. Section Two from Paris

Communist Duclos energetically insisted upon wage and allowance increases for the civil servants, protested against deflation, attributed financial difficulties to a faulty fiscal system, and advocated a levy on capital.

Briefly in reply Bonnet traced measures taken by him since his term of office and stressed difficulties overcome. He agreed with criticism that he had not yet succeeded, but protested that "he was not a magician". He contended that Parliament had confided to him the task of maintaining the gold reserves intact without exchange control, and pointed out that he had accomplished this task, "in spite of huge payments, in spite of the commercial deficit, and in spite of insufficient production". He pointed to recent gold increase of "four billion francs, at

WILSON

SMS:NPL

JR

GRAY

Paris

Dated November 19, 1937

Rec'd 4:20 p.m.

Secretary of State,
Washington.

1632, November 19, 8 p.m. (SECTION THREE)

present rate of franc", and explained that the sale of gold by the fund was necessary to provide latter with francs. Even now he said "the fund had more gold than it possessed on July 1, last". He protested that he had not favored the capitalists and capital as Deputy Chateau had insinuated, and in reply to Communist Duclos' insistence upon a capital levy, quoted figures to show that tax on company reserves ordained last year by Blum Government had only brought in 350,000,000 francs. The Minister also (*) a vigorous defense of his budgetary project. Referring to repayment of British credit, he said that in spite of the huge sum necessary a large margin would still remain at the end of the year in the advance account at the Bank of France. As an indication of the improvement in the credit of the state, he pointed to success of recent loan issues (pension fund) credit national, and Department of Seine loans), and rejoiced that cover for payments to be made early in 1938 was assured, that rentes

WERE

-2- #1632, November 19, 8 p.m., (SECTION THREE) from Paris.

were up 15 to 20 per cent, that the discount rate was down to 3 per cent, that short term Treasury bonds were issued at 3 per cent and that day to day money rate had decreased from 6 to 2 per cent.

However, the Minister warned the Chamber that financial reconstruction remained "very fragile" and that a vigorous effort in production was necessary and "not hasty anticipations and magic formulas". French currency and credit could not be safe from harm as long as the trade balance was so deficient. Bonnet pointedly indicated that danger for the finances of the country still existed unless great prudence was observed in spending. If he had to refuse demands for credits it was because he simply had not got the money, and "humbly made the confession".

WILSON

(*) Apparent omission

SMS:NPL

MBo

GRAY

Paris

Dated November 19, 1937

Rec'd 5:45 p.m.

Secretary of State,
Washington.

1632, November 19, 8 p.m. (SECTION FOUR)

The Minister then proceeded to expound the dangers of exchange control advocated by certain colleagues of the majority. He informed the Chamber that in fact the Bank of France, at his request was applying a vigorous policy "similar to that applied by the Bank of England." He stressed, however, that this was by no means "real control", which implied monopoly of foreign commerce and postal control. It is worthy of note that with emphasizing that exchange control implied more than this, Bonnet stated that "the most authorized spokesmen of London and Washington had publicly and officially advised us that exchange control would imply the immediate rupture of the tripartite agreement" which he added "would seriously definitely prejudice Franco-British and Franco-American cooperation." He continued that he could understand the necessity for a dictatorial state to apply a policy of control for military and economic reasons, but otherwise
he

2- No. 1632, November 19, from Paris (SECTION FOUR).

he contended that it would be contrary to reason and to experience.

Finally, appealing for economy, Bonnet observed that while the United States for example had for four years practiced "a very large financial policy which the immensity of American territory and resources permitted", the Chamber had no doubt noted from the recent declarations of Mr. Morgenthau and President Roosevelt, that the United States had also been constrained to return to budgetary equilibrium. He concluded by emphasizing that "nothing would dissuade him ^(from) for following ~~the~~ policy and methods which he had adopted."

At the termination of his speech Bonnet was loudly acclaimed by the Right and Center, an important section of the Left majority remaining silent.

WILSON

SFS:RGC

PARTIAL PARAPHRASE OF SECTION FIVE OF TELEGRAM NO. 1632 of November 19, 1937, from Paris.

The amount of 4,000,000,000 francs reported in our telegram No. 1624, November 18, noon as the increase in the gold reserves of the Bank of France may be explained by the fact that the Bank of France computes its gold reserve on a parity of 43 milligrams (in this respect reference may be made to the Embassy's despatch No. 844 of July 26, 1937). The gold received from the fund, which was entered for 3,127,000,000 francs, actually cost the fund about 4,000,000,000.

We are told by our market contact that the fund had to yield considerable sterling last evening following the demand which suddenly developed for that currency after the official market.

The exchange market has been nervous today but transactions have not been on a large scale. Sterling has fluctuated between 147.40 and the present rate of 147.23. The dollar is quoted at 29.41 1/2. It is not thought that the fund has intervened to any extent today.

Rentes irregular without any important changes. Other securities irregular with small turn over.

A Bank of France officer has just confidentially advised us that the Treasury has practically succeeded in closing negotiations for a 50,000,000 guilder loan in Amsterdam. No special conditions are attached to security for this loan.

END MESSAGE.

WILSON.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 19, 1937, 5 p.m.

NO.: 1629

The special session of Parliament opened, accompanied by the usual rumors with regard to the Government's political difficulties. The rumor which is most frequently heard is that during the budget discussion the Government will fall because of Socialist opposition to the financial policies of Bonnet. It is not likely that this will happen, in my opinion.

The Socialist Party's National Council recently voted 4400 to 900 for continued participation in the present Government of the Socialist ministers. There is no doubt that the Left wing extremists of the Socialist Party are eager to overthrow the Government and make an attempt to realize their so-called "structural" reforms by having a large part of French industrial and financial activities nationalized; however the largest part of the Party know that if the Government were disrupted now the Radical Socialists would be driven into the arms of the Center. The social reforms achieved by the first Popular Front Government would be thereby jeopardized.

The Government's most troublesome immediate question is the demand of civil servants and those receiving pensions for larger allowances in order to keep up with the

increased

- 2 -

increased living costs. It is the judgment of members of the Government, however, that by compromising on the amount granted an upset can be avoided on this question.

At the present time the monetary situation seems to be easier. Funds have been repatriated to a certain extent, and the exchange fund has gotten new funds. There is still an unsatisfactory economic situation, however, and any lasting financial and monetary improvement must depend on the economic situation. Production still lags. France still has a vastly unfavorable trade balance. For the moment the curve of rising prices has flattened out, but there is still a definitely upward trend. In our opinion, there is little evidence of a return of general confidence needed to encourage long-term investment by businessmen and investors.

This state of lack of confidence is contributed to by the uncertain international situation; however, an even more important factor is the apprehension kept alive by the dependence of the French Government upon extreme Left support, some of whom are under Russia's dictation. These extreme Left elements cherish plans for wholesale nationalization of French financial and industrial life. ^{restoration of} The confidence which is needed for economic and financial stability will be retarded so long as this factor exists.

END MESSAGE.

WILSON.

EALW

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 20, 1937, 11 a.m.

NO.: 1635

FOR THE TREASURY.

Reference is made to telegram No. 1632 of November 19, 8 p.m., from the Embassy.

A responsible official of the Treasury has just confidentially informed us that a loan has been concluded in Amsterdam, in the name of the French railways, with a group of banks headed by Mendelsohn. The total loan is for 150,000,000 guilders, to be made available in three equal tranches of 50,000,000 guilders. Credit is to run for a maximum of one year in the form of three monthly drafts renewable three times. Our contact preferred not to discuss the conditions of the loan operation at present.

Press reports carry varying indications with respect to the rate of interest and other terms. Information indicates a rate of 3 1/2 percent and that the operation is on the same lines as that recently concluded with Switzerland. A despatch from Amsterdam to the FINANCIAL TIMES indicates an interest rate of 4 1/2 percent to 5 percent, that the loan will not be offered to the public, and that as concerns security, it is guaranteed by an "iron gold clause".

BULLITT.

EA:LWW

RB

GRAY

Paris

Dated November 20, 1937

Rec'd 1 p. m.

Secretary of State

Washington.

1639, November 20, 3 p. m.

FOR THE TREASURY.

Further interpellations of the Government's financial policy were made in the Chamber yesterday, notably by Reynaud and Flandin.

Flandin contended that the Chamber had not so far sufficiently examined the serious problems facing the Treasury. He feared that Bonnet had shown too much optimism and that the statements made by the Communist Duclos were not likely to impress favorably future subscribers to Treasury loan issues. He pointed to the disorder and incoherence in the views and attitudes of the various parties of the majority particularly as concerns exchange control.

Reynaud, in measured criticism, referred significantly to the description given by Deputy Frossard (of the Popular Front) of the cohesion of the Government to the effect

RB -2- No. 1639, November 20, 3 p.m. from Paris

the effect that "the majority of the majority did not appear to completely accept the financial policy of the Government". Reynaud expressed grave concern about developments in the financial and economic situation and to illustrate his contention that the economic situation was becoming worse, after a certain improvement at the end of last year, quoted recent decline in carloadings, bank clearing statements, showing that while wholesale prices had increased from 40 to 50 percent, the value of checks cleared had only increased by 15 percent. Private business was short of funds, and could not be on public bodies and collectivities had serious deficits and their borrowing needs were such as to monopolize the money market.

(END SECTION ONE).

BULLITT

MCL

KLF

RB

GRAY

Paris

Dated November 20, 1937

Rec'd 2 p. m.

Secretary of State
Washington.

1639, November 20, 3 p. m. (SECTION TWO)

HE compared the financial policy of the Chautemps Government with Foincare's reconstruction program to the disadvantage of the former. He agreed that some French capital had been repatriated but he observed that it was obviously insufficient because the Treasury had just found it necessary to conclude another credit operation abroad with all the serious inconvenience which such an operation entailed.

REYNAUD invited the attention of the Chamber to a recent article in the MIDI SOCIALIST which claimed that the collapse of the present Chautemps program would be conclusive and that the only course then to pursue would be a policy of constraint and of exchange control. Emphasizing the dangers of such a program, he begged the Government to explain frankly to the people the serious domestic and foreign situation, and begged the Chamber

RB -2- No. 1639, November 20, 3 p. m., Section Two
from Paris

the Chamber to recognize that only a restored economic (*) could save the financial situation, as Bonnet had stressed the day previously. However, Reynaud held that during the last five months the Government had done little or nothing effectively to achieve this end and implied that the Government in reality appeared powerless although he recognized that their intentions were excellent.

Finally he summarized conditions necessary for overcoming the problems which faced the country, chiefly the massive return of capital which he did not consider possible as long as threats of exchange control existed and concluded by a moving appeal to the Government to adopt the program advocated by him during the past four years.

In reply to criticism of the financial policy of the Government Chautemps emphasized notably that there was no such thing as a "Bonnet experiment" or a "Bonnet program". The fact was he insisted that this policy represented "a common, collective and joint action of the Government, and of all its members". Furthermore,

he said

RB -3- No. 1639, November 20, 3 p. m., Section Two
from Paris

he said it was the common policy of the Chamber as
it had received parliamentary approval last June and
also the approval of the majority of the French nation.

Finally the Government was accorded a vote of
confidence of 399 against 160.

END OF MESSAGE.

FULLITT

(*) Apparent omission

NPL

EMB

November 20, 1937
12:33 p.m.

H.M.Jr: Hello.

Operator: Chairman Eccles. Go ahead.

H.M.Jr: Hello. Hello.

Chairman
Eccles: Hello, this is - hello, there - hello Henry. Hello.

H.M.Jr: Hello Marriner.

E: I was talking to Harrison about two hours ago. You remember we decided in this past week that it may be well not to show any increase in our portfolio.

H.M.Jr: Yes.

E: This week.

H.M.Jr: Right.

E: Now our statement is published tomorrow.

H.M.Jr: I thought it wasn't published until Friday.

E: No, no, it's published Wednesday, and Tuesday is the last day you can do any purchasing.

H.M.Jr: Yes.

E: Now, although a week ago Harrison was very much of the opinion, and Burgess too, that it would - we - we shouldn't increase our portfolio at all, until we have an open market meeting.

H.M.Jr: Yes.

E: And after I checked with you and Wayne, you - you both seem to lean in that direction as well.

H.M.Jr: That's right.

E: They're of the opinion now and I concur, - as a matter of fact, a week ago, I wasn't - didn't feel so good about discontinuing but it didn't make very much difference, I wasn't as strong about discontinuing as they were.

H.M.Jr: Yes.

- 2 -

- E: Now, the opinion now, with that - it would be a mistake to show no increase this week. That it's too far from the Government financing to be related to it. That a week from now, when they publish the statement, a week from Wednesday, it will be at the time the full committee is here and also at the time we're meeting with you, and it would be immediately associated with Treasury financing and therefore they would naturally expect that we wouldn't show any increase, but they're afraid if there is no change made in the - that the market isn't in such shape that some little discussion that the reserve system had reversed its policy or that it had discontinued to buy in the market that comment would - would be bad, and that they think that ten or twelve million, a small increase again this week showing that we are watching the market and are in the market would - would be better than to stay out.
- H.M.Jr: Well, you fellows decide it, I'm - I'm not going to say anything.
- E: Well -
- H.M.Jr: I mean I can't - I can't follow New York because they're up one day and down the next.
- E: Well I didn't - I didn't, of course, call you with the idea of asking you to take any responsibility in the matter, but inasmuch as we did discuss it before.
- H.M.Jr: Well, I - I haven't changed. I haven't changed. I still think it's too close, but I'm not going to say not to, but I still think it's too close.
- E: Uh-huh.
- H.M.Jr: But that's up to you fellows. I mean I can't - just because we've got a weak market, I don't think that has anything to do with it.
- E: Uh-huh.
- H.M.Jr: But if you could buy - to buy, I mean - I - I won't say peep, see.
- E: Yes.

- 3 -

H.M.Jr: I'd still think its too close.

E: Well if there was any buying done it would be - it would be a small amount merely to indicate that the thing - that we hadn't just completely discontinued.

H.M.Jr: Yes.

E: Well, at anyrate I wanted to report before we did anything, inasmuch as we discussed it before.

H.M.Jr: I figure - I still think it's too close.

E: Yes. Well, all right then.

H.M.Jr: I haven't changed a bit.

E: Yes.

H.M.Jr: Thank you for calling.

E: Yes, all right, goodbye.

November 20, 1937.
1:03 p.m.

Operator: Operator.

H.M.Jr: Taylor, please.

O: Thanks. Mr. Taylor.

H.M.Jr: Yes. Hello Wayne.

Wayne
Taylor: Hello, Henry.

H.M.Jr: Yes.

T: Did Marriner get hold of you?

H.M.Jr: Yes.

T: I told him that I wouldn't do anything on that without his talking to you.

H.M.Jr: What I told him was this. He now tells me that Harrison and Burgess have changed their minds.

T: Yes.

H.M.Jr: And so forth and so on, so I said, "Well, those people up in New York just make me tired." and I said, "I feel exactly the way I did a couple of days ago and nothing has happened to make me change my mind. If you do it, I'm not going to say anything, but I still think this is too close to financing."

T: Un-hun.

H.M.Jr: "But it's up to you", I said, "I still - nothing has happened that makes it any further away from our financing than when we talked about it two days ago."

T: I'm glad you told him that.

H.M.Jr: And I said, "If you do it, all right, but I - I still think it's too close to our financing."

T: Now on this other thing, do you agree with me?

H.M.Jr: Yes.

- 2 -

T: I think - you think it is just the right way, in other words it's entirely up to them, but you don't see any change in the provision.

H.M.Jr: That's right, yes.

T: Now, do you want to see Bob Stevens before he goes back?

H.M.Jr: I've had a couple of things happen here that are just terribly important.

T: Yes.

H.M.Jr: This tax thing, I don't even want to stay on the phone.

T: Yes.

H.M.Jr: But, I've just got to let you carry that, - and Housing, and let me carry the tax thing in the White House.

T: All right. Now you don't want - I've got the Housing message, but you don't want to see it, eh?

H.M.Jr: I can't handle another thing, I mean - I've had to send, confidentially I've had to send Magill home to go to bed. I ought to go there myself, but I can't.

T: All right.

H.M.Jr: So you handle the Housing thing. Do the best you can and I'll never say a word.

T: O. K.

H.M.Jr: And thank you.

T: Right.

H.M.Jr: All right.

T: Right.

H.M.Jr: Goodbye.

November 22, 1937
10:19 a.m

H.M.Jr: Hello

Operator: Dr. Burgess. Go ahead.

H.M.Jr: Hello.

Dr.
Burgess: Hello, sir.

H.M.Jr: Good morning.

B: Good morning. How are you?

H.M.Jr: Oh, I'm pretty well.

B: That's good.

H.M.Jr: How does the bond market look today? Government bonds.

B: Just about the same as Saturday's closing.

H.M.Jr: I see.

B: Not much change. It got a little topy after Friday's fast run up.

H.M.Jr: Yes.

B: And as you know, lost a little ground on Saturday.

H.M.Jr: Well.

B: Toward the close on Saturday it firmed up again.

H.M.Jr: Uh-huh.

B: And this morning it's - the quotations are mixed a little bit, but doesn't look as though it had changed very much.

H.M.Jr: Uh-huh. That was an amusing story in today's Tribune by Mr. Wanders -

B: Yes, I read that.

H.M.Jr: Uh-huh.

B: They must have hurt George's feelings a good deal, to say that the Treasury could get away with most anything.

- 2 -

H.M.Jr: George who?

B: George Wanders -

H.M.Jr: Oh! You mean for him to write that.

B: Yes. He wrote that, I'm sure.

H.M.Jr: I see. Well, I don't know where he got the inspiration from.

B: Oh well, he picked that up around the market, most anywhere.

H.M.Jr: I see.

B: Of course, we've been talking to these fellows, a little bit about - about new financing and what should be done, and so on.

H.M.Jr: Uh-huh.

B: I don't think it's clear at all, what - what direction to move. I'm just writing out a little informal memorandum. I thought you might like to have something.

H.M.Jr: Good. Well, we're working on it right now.

B: Yes.

H.M.Jr: Yes.

B: The bill program I think, is pretty obvious, that - I think when you're - when you're Marches - when you get through your Marches, the thing to do is to start - start ninety day bills.

H.M.Jr: I see.

B: And carry them right along.

H.M.Jr: Yes.

B: And start selling June's in addition, in January.

H.M.Jr: Uh-huh.

B: But I'll include a little note on that if you'd like it.

- 3 -

H.M.Jr: Yes. Yes.

B: All right. Fine.

H.M.Jr: All right, I'll be glad to get it.

B: All right, if there's anything I can do on the financing, why, let me know.

H.M.Jr: Yes. Are there any signs of any pick up in the capital market? Anybody giving in their courage?

B: Well, not - not really, no.

H.M.Jr: Uh-huh.

B: I wrote you on Friday, I don't know if you've got that yet or not.

H.M.Jr: No.

B: There were more outbreaks this past week, but most of them - there weren't many bona fide outbreaks to the market. There were a number of sales to insurance companies.

H.M.Jr: Yes.

B: They ducked around the market.

H.M.Jr: Uh-huh.

B: I think very high grade stuff could be sold now, but the borrowers don't want to borrow. That's one difficulty.

H.M.Jr: I see.

B: They want to see which way the cat's going to jump utilities. They've got a number of things that they could bring out.

H.M.Jr: Yes.

B: But they're all holding off.

H.M.Jr: All right.

B: All right, sir.

H.M.Jr: Thank you.

MEETING WITH STAFF OF DIVISION OF
RESEARCH AND STATISTICSNovember 22, 1937
11:00 a.m.

Present: Mr. Haas
Mr. Seltzer
Mr. White
Mr. Glasser
Mr. Tickton
Miss Northrup
Mr. Nichols
Mr. Ostrander
Mr. Adler
Mr. Murphy
Mr. Lindsay
Mr. Daggett

Haas: Most of the suggestions in the paper have been to repeal taxes, and someone just suggested to me that maybe we should have the tax people in here.

H.W.Jr: Well, the reason that I asked Mr. Haas to get you people together was this: - I thought there would be more of you - Right or wrong, as far as I'm concerned, sitting in my office, I don't know that any of you people - I mean as far as it reaches me, with possibly one exception - have been thinking what we can do about stopping this falling off of business. And we all sit around and look very glum and scratch the back of our head - "It's just terrible. And what was the last figure on the Federal Reserve index? My God, it's gone down another ten points. Steel is down." So forth. Everybody sits around and has a long face, including myself, but I don't get anything out of you people. Now, I said that to Mr. Haas and he corrected me; he said, yes, he sent me one memorandum six weeks ago. And I also got a suggestion - I think something about gold. But with that exception, I don't know of anything.

Now, I first want to scold you, then I want to try to give you - pep you up a little bit. Now, anyone in this room who's got any ideas - not what brought the depression about or how much worse it is today than it was yesterday, but what we can do about it - I want them to put it down and sign their own name to it and send it in to me, see? There's no reason, if you've got the germ of an idea, why you can't put it on one page. If it interests me, I'll ask for more. But certainly the germ of an idea can be put on a page. And don't be afraid if it's critical of anything

-2-

that I've done. Put it down. I can take it. I mean if it's critical of Treasury policy, that's all right, it doesn't make any difference. Anything that you think will bring - turn this corner, I want to get from you people.

Now, certainly amongst this group you must have ideas. Now, for instance, talking with Daggett - I broke my rule, I had him at the house last night - he tells me he wrote a paper two years ago for the Times Analyst about large crops - that they usually pull us out of a depression. Was that the idea?

Daggett: Yes.

H.M.Jr: Huh?

Daggett: Yes.

H.M.Jr: That large crops are a blessing. And he goes on and expands. I've never seen it. No reason why I shouldn't. I didn't know he wrote about it. Some of you other people may have written papers, either when you were at college, when you graduated or since you left or while you're here.

In other words - when I was in Farm Credit in the fall of '33, I think largely because I used my imagination backed up by good technical advice, is one of the reasons I'm sitting here today. I mean the President couldn't find anybody to help him pull himself out of that fall '33. We helped him. I think that's one of the reasons I'm here. Now, I'd like to help him and help the country again. And it doesn't make any difference what field it falls into, whether it's monetary or whether it's trade treaty. I don't care what it is or whose feelings.... If somebody has the germ of an idea that will help this present situation, I want it. And I want whoever does it to put his own name on it, see; put his own name on it.

Now, what I'd like to do is - if this is the group that Haas wants me to meet with - I'm here until Monday, I'll meet with you again. I'll give you a week. Let you fellows come - I'll sit down with you - read your paper; let everybody get the idea. Why wouldn't that be an idea?

Haas: That'd be all right.

-3-

H.M.Jr: I mean I'll meet with you people at 11 o'clock a week from today, and let everybody who has his paper bring it in and read it and we'll go around the table.

And I'll just - the thing that I'm sort of following now - I've gotten interested in it - is this commodity picture, and as near as I can find out, nobody particularly that I know of, outside of the Treasury, any other department, is working on this commodity picture. And you take your commodity charts and follow it with your business recession and they pretty near follow each other; I don't know which came first. And I am particularly interested in what we can do, if anything, to turn the world commodity price. Now, the fact that it is difficult doesn't mean it can't be done. But I did it when I was in Farm Credit - no question about it. I mean we did it in the fall of '33 and did it at the request of the President.

Now, the fact that I am no longer in the Farm Credit - that doesn't mean that they can't do it again. And all that you do, following the commodities - everybody sits back - "What are we going to do about next year's crop?" And nobody is thinking what we're going to do about this year's crop. Got 18 million bales; got 38 million bales in the world. And it's that sort of thing - in other words, I want original ideas; I want them thrown at me. And I want to say again, don't worry how radical, how extreme, or how critical they are. And let's see what this group can develop.

Now, before we leave, anybody want to ask me some questions? Do they need anything - anything that you have in mind which would help you do what I am asking you to do, see? Anybody got anything? I mean does anybody need help from me before they can do what I'm asking them to do - or from Haas.

What did you bring all this stuff in here for?

Daggett: Pardon?

H.M.Jr: What's that?

Haas: Charts you wanted.

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Daggett: Bad news.

H.M.Jr: That's not original.

(Hearty laughter)

Anybody want any help?

All right. Well now, we'll meet again a week from today, George, and see. As I say, let each man or woman put his own name on it, let him read it right out, see what he's got, see?

Haas: Fine, be an interesting experiment.

H.M.Jr: Sure, let's see what they've got on the ball.

Again, before - have you got anything, do you want to ask me anything? - Oh, come on.

White: We just want to tell you something, don't want to ask you anything.

H.M.Jr: All right. Well, I'm asking you to.

White: Next Monday.

H.M.Jr: What?

White: We'll have it ready for you next Monday.

H.M.Jr: Each person is limited to one page to get the germ of an idea; if it's any good, they can put it on one page.

Nobody is ready to tell me anything today. All right, they've got one week's notice.

All right, thank you.

Haas: Could we see you for a minute?

H.M.Jr: Sure, right now.

November 22, 1937

Walked down with Mr. Bell. I asked him if he had any indication from the Hopkins people that they would need money. He said he didn't. I told him the first time he had any indication or request for additional money, due to increased unemployment, to be sure and let me know.

He said that in October Hopkins used 15 millions less than he, Bell, had set aside for him for that month; that he, Bell, still has unobligated and put in reserve between 160 and 170 millions for Relief out of this year's appropriation.

I told Bell that as far as I was concerned I was going to wait until we had some indication from Hopkins that the unemployment was increasing, but to be sure and tell me the first time he got any indication.

SELECT FROM ALLOCATED, UNALLOCATED, AND OTHER FUNDS TO THE FIRST QUARTER OF THE FISCAL YEAR 1954 COMPARED WITH QUOTAS ESTABLISHED FOR THAT PERIOD ON BASIS OF QUOTAS AVAILABLE FOR SUBSEQUENT OBLIGATION

(Quotas for First Quarter on Basis of the Fiscal Year Adjusted for Transfers from Departments and Agencies)

Department or Agency	Limitation	Available for Obligation		Total	Quota for 1954	Balance	Quota	Quota for First Quarter	Quota for Balance of Year	Obligations for First Quarter	Unobligated Balance - First Quarter Quota	Cash Expenditures
		Balance 9/30/53	Allocated to 9/30/53									
Executive Administration												
Executive Administration												
President												
Vice President												
Cabinet												
Special projects												
Federal Youth Administration												
Commissions												
Miscellaneous												
Total												
Executive Administration (Continued)												
Administrative expenses												
Federal Reserve Bank of New York												
Federal Reserve Bank of St. Louis												
Federal Reserve Bank of Chicago												
Federal Reserve Bank of Cleveland												
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Federal Reserve Bank of El Paso												

GROUP MEETING

November 22, 1937
9:30 a.m.

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

H.M.Jr: Dan, next time somebody calls you up and wants to know how much Agriculture costs, see, you might tell them that it takes all of our manufacturing excise taxes plus all of our sundry taxes to make up 530 million dollars, and still we don't get enough. If we didn't have a crop control program we could chop off all our manufacturing excises and all our sundry taxes.

Bell: Well, that's - you could apply that to some of the public works too.

H.M.Jr: Well, I know, but I was just studying this thing. We get 448 million dollars out of our manufacturing excise and when you add telephone, transportation, all the rest of them - and we've got a quarter of the industrials earmarked besides.

Bell: I've been surprised they haven't been after some of the tobacco taxes too.

H.M.Jr: We saw on the ticker that your speech, Mr. Taylor, seemed all right. How was your reception?

Taylor: About the same model that you had in New York.

H.M.Jr: I see.

Bell: Mixed feelings, huh?

Taylor: What?

Bell: Mixed feelings.

Taylor: No, they were practically unmixed.

H.M.Jr: How was the press?

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Taylor: Not very much.

H.M.Jr: Pick up any information?

Taylor: Nothing that I didn't know before.

H.M.Jr: Well, the only thing I've got to say this morning

Taylor: Funniest thing that happened was that about an hour after I got through making it in a smaller session, why, this other fellow made my speech for me at the big one, practically word for word. One of the most amusing things you ever saw.

H.M.Jr: Who was that?

Taylor: A man by the name of Flanders. Must have been a good speech.

H.M.Jr: George, you get into that room - is it 286?

Haas: -96.

H.M.Jr: What?

Haas: 296.

H.M.Jr: All right, you get together with your crowd at 11 o'clock. And you be there, Naster. And if you don't mind, I'm going to talk right straight from the shoulder, see?

Haas: Nice.

H.M.Jr: What?

Haas: That's what I'd like to have.

H.M.Jr: And what I'm going to tell Haas's crowd is this. I don't know how many trained economists he's got back there, but here we are in a depression and I'd like those people to do a little original thinking, and I don't care what the idea is - if they'll put it on one piece of paper and put their names on it, I'll read it. But I'd like to get some thoughts out of that crowd as to what we could do about this

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depression. And I'm not getting any. I mean we're so bogged down with statistics and charts; I'm so sick and tired of reading always what's happened. I want to get some ideas, if they've got any.

Haas: Yes.

H.M.Jr: If they've got any. I mean I don't know, but that's what I want - that's what I want to tell them. I don't care who the fellow is. I want to give them the idea that if you've got some bright young fellow, he can put his name to it just as he writes it; maybe some fellow back there has got a brilliant idea. But let's get them to thinking instead of just all the time being on the defensive. I mean I'm sick and tired of being on the defensive. We didn't get out of this thing in '33 that way.

Haas: No, I'm very pleased that you're feeling the way you are about it.

H.M.Jr: But I certainly - I want to tell you in this room, that's the way I'm going to talk to them, if you don't mind.

Haas: Yes, that's what I'd like.

H.M.Jr: See?

Haas: Very good.

H.M.Jr: I mean let's see what we get out of them. And please free this fellow Daggett, will you, from what he's doing. I mean he'll need all the time. Just let him go some place and think, see?

Haas: Uh-huh. I had a meeting with him this morning.

H.M.Jr: And I want him to think just on commodities; I mean - for instance, there's a fellow who wrote an article two years ago for the Times Analyst in which he studied crops in connection with the depression, and he finds that over a period of years big crops are not accompanied by depression; I mean he made a study that a big crop is a good thing for business rather than a poor thing. Well, I want to read it. I mean how many other people have done papers before they came here?

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- Haas: Oh, they've done thousands. I mean they - reams of them probably.
- H.M.Jr: Well, let them boil it down. If it's an idea, they can put it on one piece of paper; if it interests me, they can enlarge it. See?
- Haas: Uh-huh.
- Gibbons: I ran across something that you'll hear of in a day or two that might use some of your cotton. We import free of duty 500,000 bales of rags every year and all our paper money is made out of it. Now, there must have been quite a rag trust or a woolen trust or something that wrote that into the Customs law. That's five hundred pounds to the bale. How much cotton would that use to make your paper money out of?
- Isn't it psychological that you and I ought to wear a cotton shirt instead of a linen shirt? Isn't a linen shirt a luxury? You put a luxury tax on tobacco and alcohol and everything else. None of it is raised in this country - no linen.
- H.M.Jr: Well, of course, we've got to be terribly careful. As I say, if
- Gibbons: That's something for George. But that's an idea of mine.
- H.M.Jr: Well, they've got - if they'll put it on one piece of paper, I'll read it.
- Gibbons: I've got how much cotton it takes to make a yard of cloth. Here we're in a terrible depression; we don't raise any linen or make any linen in this country, to speak of.
- H.M.Jr: Well, if anybody's got anything, I'm going to ask for it. We ought to have enough brains in our own shop.

(Gaston comes in)

- Bell: Herman asked for - I believe he circularized the department this year, same as last year, asking for

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suggestions on legislation - any improvement in the service or procedure. One of the young fellows that I have over in the emergency accounting set-up just graduated from law and passed the bar, and he's taken some economics at George Washington; wrote quite a book reforming the world. Have you seen it?

Oliphant: No.

Haas: I saw it.

Bell: Really quite funny.

H.M.Jr: You take that, as I say - this defeatist attitude that we're going to sit here and let this thing wear itself out is just getting my goat.

Gibbons: You're in the same category, same status now as Hoover was practically in 1930.

Haas: You won't have to worry about our shop. You'll have plenty of ideas.

H.M.Jr: I hope so, I hope so. 11 o'clock. Naster, you be there.

(To Magill) I spoke - even though Mr. McIntyre promised me everything, I called up his stenographer this morning again, asked him if Mr. McIntyre - would he do so and so and so and so.

Magill: And we still don't know.

H.M.Jr: And we still don't know. But I first argued, should I wait or shouldn't I; I said, "No, I won't wait."

So I see you're on nuisance taxes according to the paper.

Magill: Well, we can be; that's the next thing.

H.M.Jr: Well, depends on how well the President is. Bell saw him Saturday; still had a lump on his face.

Well, are you all right this morning? - Got to be all right.

Magill: I've got to be all right, yes. I hope we can figure something out.

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H.M.Jr: Got to be. What?

How many vacancies are there on the Board of Tax Appeals, one or two?

Oliphant: One.

H.M.Jr: What? Only one.

Magill: And three more terms expire next June.

H.M.Jr: But there is just one.

Magill: Yes, and this is one of the terms that expire next June.

H.M.Jr: Well, do you want to go on the Hill?

Magill: I think I'd better. In a state of flux, I suppose. Can I have Mr. Upham?

H.M.Jr: Yes.

You might, Upham, tell those fellows what I called that bank meeting - not here; I mean those coming to that bank meeting - tell them what I'm going to bring up, banking legislation.

Upham: Mr. Eccles is going to make a speech that day in Chicago and cannot come, and if you hold the meeting anyway, he'll send somebody else. But he would prefer to have you meet a week ahead or a week after. He'd prefer not to have it at all, but ...

H.M.Jr: I'd prefer not to, but I'm going to have it.

Upham: He doesn't even see any point in doing anything about legislation.

H.M.Jr: Well, I'm going to call a meeting just the same.

Upham: He'll probably call Taylor today.

H.M.Jr: Well, I can't help it; I'm going to have a

Upham: Have to be either the week ahead or week after, if he can come.

(Magill and Upham leave)

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H.M.Jr: (To Oliphant) On banking legislation.
Well, we can fix it.

Oliphant: When was it to be?

H.M.Jr: I was going to have it the 14th of December; go around the way I always do and say to each person, "Have you any banking legislation?" It worked beautifully last time, didn't it, Wayne?

Taylor: For a while.

H.M.Jr: No, it worked last session.

Taylor: Yes, but they produced a lot of amendments that were supposed to be clarifying amendments, that really - that Dan

Bell: Who's this?

Taylor: These various credit agencies - remember, last year?

Bell: That's right.

Taylor: None of them ...

Bell: None of them clarified. They weren't clarifying anything. Just legislation.

H.M.Jr: No, I'm talking about banking legislation.

Taylor: Just banking.

H.M.Jr: That's all. Just banking. Those boys played ball.

Taylor: Oh yes, that worked all right.

H.M.Jr: This is just banking.

Taylor: I was confused with the other credit agencies.

H.M.Jr: I want to have a meeting about banking legislation. And I'll call the other credit agencies together besides and say, "What legislation are you thinking of?" And the banking boys - they kept their word,

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they didn't put anything through. I think I'm right on that, am I not?

Bell: I don't know.

Taylor: Jefty had some stuff.

H.M.Jr: Well, he held it. He played ball.

Oliphant: Yes, he played ball. The banking part worked fine.

H.M.Jr: Herman, you got anything?

Oliphant: Not a thing. There may be one or two things I sent in a good while ago - I'm not sure ...

H.M.Jr: Yes, this week - yes, there are some things, but I am gradually getting down to bottom. Wayne?

Oliphant: Did I tell you that we had finally concluded - had a long series of negotiations with Associated Gas and Electric, arrived at a stipulation. Probably have to go ahead, but I wanted to talk to you about it later.

H.M.Jr: If you'll stay a minute, I want to ask you a question. Stay a minute.

Taylor: On the train I ran into Jesse Tapp, Agriculture, and - having to do with the financing provisions of this Senate bill - and I gathered they aren't including any financing provisions in it.

Bell: So the paper indicated this morning; I haven't seen the bill.

Taylor: Well, I told him that we had gone through practically all the mechanics, but only up to a certain point, and that there were two or three rather fundamental things, first, as to where the agency was going to be placed, and second, how the Board of Directors and powers were going to be cleared, that we weren't ready to talk about yet.

Oliphant: What's this, Commodity Credit?

Taylor: Commodity Credit.

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H.M.Jr: I thought it was all settled, Wayne. What do you keep fussing with that for?

Bell: I thought you were talking about the Agriculture bill.

Taylor: That's what I am talking about.

H.M.Jr: Commodity Credit. You all keep fussing.

Taylor: This is the big bill.

H.M.Jr: I thought amongst ourselves we had

Taylor: Well, this is the big bill.

Oliphant: The processing tax?

Taylor: No, it's the whole thing.

Bell: Have they included Commodity Credit Corporation in the big bill?

Taylor: What they were going to do was to include it in the Senate bill. And I told them if they couldn't hold that until Monday, to talk to you (Bell) on Saturday. Did they talk to you on Saturday?

Bell: (Nods no)

H.M.Jr: Well, didn't we have it that you'd handle that?

Bell: Well, it's still in Jesse Jones' hands so far as I know. Tried to get him Saturday, but I couldn't.

Oliphant: Well, the draft of the legislation

Bell: I've heard nothing from him as to the draft of the legislation we sent him.

Taylor: The reason Tapp got hold of me was because they remembered - did you hear back from Jimmy Roosevelt as to how that thing was to be cleared?

H.M.Jr: You mean legislation? No.

Taylor: Well, you see, that's where the crossed wire is.

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H.M.Jr: No. I know.

Taylor: Because I was holding up talking to Jesse and Wallace.

H.M.Jr: Well, the order still stands; everything is to go through Bell. There is no change.

Taylor: That's right, but as to whether we were to get together with R.F.C. and Wallace - that I was holding until you heard back from Jimmy Roosevelt. See, in Cabinet I was - the President told Ros Magill that for some reason they wanted me to fuss with that, and I reported that to you; you called Jimmy Roosevelt on the telephone, and I did no more moving until I heard back.

H.M.Jr: Well, I think that you better - how do you want to handle it, Dan?

Bell: Well, I think the next move is up to Jesse Jones. I suppose we've got to push it, because he probably likes it the way it stands, just as it is - getting this money.

H.M.Jr: Well, now about Wayne calling up Jesse?

Bell: That's all right; no objection.

H.M.Jr: I think you (Taylor) had better make a little survey today in town, see where the thing stands, will you? Report back tomorrow morning.

Taylor: Yes.

H.M.Jr: Call up different people and find out.

Taylor: Well, there are - Agriculture and Jesse are the two to call up.

H.M.Jr: Will you?

Bell: The last word I had from them - when I called Jesse Monday, he said he was going to talk to you on Thursday or Friday.

H.M.Jr: He didn't.

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Bell: But he didn't mention it, as I understand.

H.M.Jr: No.

Bell: Well, I tried to get him Saturday and couldn't.

H.M.Jr: What else?

Taylor: That's the only thing.

H.M.Jr: Herbert?

Taylor: But somebody thinks I'm working on it, and I'm not working on it; but apparently everybody in the world ~~thinks so.~~

H.M.Jr: Well, start this morning.

Gaston: Literary Digest would like to take a natural color photograph of you outdoors for about five minutes this morning, in the sunshine, with a color camera, to use on the cover of the Literary Digest.

H.M.Jr: Why do they have to have it outdoors?

Gaston: Because it's a natural color photograph; takes it in three colors simultaneously, and they have to have very bright light to do it.

H.M.Jr: Well, quarter of 11?

Gaston: Quarter of 11.

H.M.Jr: What other "important" stuff have you got?

Gaston: Well, Al Cohn's in town; would like to have a talk with you.

H.M.Jr: Oh, I want to see Al Cohn.

Oliphant: Give him some time on that thing we're now working on, that West Coast situation.

H.M.Jr: Oh yes.

Gaston: Yes.

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H.M.Jr: Schmidt?

Oliphant: No.

Gaston: Roswell spoke to me this morning about whether we ought to have a little news item about Shoup and also Traynor, who is working in his shop. Shoup particularly is going to do some work up in New York and seems to want a little public notice of the fact that he is now employed in the Treasury.

H.M.Jr: Why not?

Gaston: I don't think there is any objection. If we have him, we might as well have the other men who he tells me is working for him now.

H.M.Jr: O.K.

Gaston: In connection with this Philadelphia Inquirer, the Moe Annenberg situation, some of the boys downstairs, particularly the Wall Street Journal, are a little agitated over this General News ticker service. They have had for some weeks, two or three months, a correspondent here, and they have lately put a telephone in downstairs. The General News is Moe Annenberg's ticker service. It is 99 percent racetrack and other gambling service, but he's lately gone into the financial end and has got a few financial tickers out, and is making a show of having a financial service, they say for the principal reason of influencing the Federal Communications Commission to validate his gambling wire service.

H.M.Jr: Well, can we get good tips downstairs?

Gaston: We don't have the ticker; we might put one in.

Oliphant: I am reviewing that whole study, whenever you want to take it up.

Gaston: But my idea is that as long as these people are gathering news and they do have some financial tickers, we can't exclude them.

H.M.Jr: Well, I'll abide by your decision pending the time when you look at it yourself (to Oliphant).

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Oliphant: Doesn't involve taking any action now?

Gaston: No, doesn't involve taking action. They've been here for some time. They're not in the Senate gallery.

Oliphant: When did they get in with you?

Gaston: They sent a man down here along in the early summer, and they've had a man regularly covering the Treasury since then.

H.M.Jr: You mentioned it to me the first time, you know.

Gaston: Yes, I mentioned it to you when the man came along.

Oliphant: What do they have in the building?

Gaston: A telephone down in the Press Room, same as other news services.

H.M.Jr: But it's the Philadelphia Inquirer who has the telephone.

Gaston: No, it isn't; it's the General News Service, which is the ticker service. The General News runs two systems of tickers; one is a straight-out gambling, racetrack ticker, and the other is a financial ticker. They tell me they've only got about 15 or 20 financial tickers; they've got a great number of racetrack tickers.

H.M.Jr: Well, I can't - these things are pretty important; you better talk it over with Oliphant and see whether that telephone should be here. I can't do it just like that.

Gaston: My own opinion is we can't throw them out.

H.M.Jr: Still, do you mind talking to Oliphant about it?

Gaston: Yes, not at all. The other thing is about this Sam Rosenman's idea.

Oliphant: While you're still on that, did you know that Wheeler

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has introduced a bill somewhat along ...

H.M.Jr: What?

Oliphant: ... that line?

H.M.Jr: What line?

Oliphant: The whole racetrack

H.M.Jr: No.

Oh, fix Sam up. I'd send somebody up there.

Gaston: I guess so.

H.M.Jr: Why wait until the White House cracks down? We'll have to do it.

Gaston: He asked for Clarence Opper.

Oliphant! I don't know ...

Gaston: He asked for Clarence Opper to help him on the financial history

Oliphant: Of?

H.M.Jr: Well, the President's book.

Gaston: For the President's book.

Oliphant: Can Clarence do it in the evening?

H.M.Jr: No, he wants him to go up to New York for a couple days.

Oliphant: For a couple days.' Fine.

H.M.Jr: I mean they'll only tell us to do it; we might as well do it willingly, Herbert.

Gaston: Yes, yes.

H.M.Jr: And do it today.

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Gaston: Be a question of either Clarence Oppen or Harry White.

H.M.Jr: Well, he asked for Clarence.

Gaston: He says, "Clarence Oppen has been suggested to me as one well-qualified to do this job."

H.M.Jr: Well, he's all right.

Gaston: All right.

H.M.Jr: What else?

Gaston: I don't know whether you got that Herald-Tribune cartoon or not. I have a letter from Geoffrey Parsons saying he's delighted to send it.

H.M.Jr: Anything else?

Gaston: That's all.

Oliphant: Cairns has the original of one of Duffy's cartoons he'd like to give to you.

H.M.Jr: Thank you.

Haas: I have about five more of these companies.

H.M.Jr: Well, I'll do them all after 11 o'clock when you get through that. I want to see Harry White when you get through then. Have the stuff in and I'll do it all at that time - plus today's charts.

Haas: O.K., and one other thing I'll talk to you about at that time.

H.M.Jr: And look at this, George. This fellow - he's got this index of deposit demand, deposit supply; get that (chart of Economic Statistics, Inc.) That's the thing that Paul Maser keeps talking about all the time. I think that concern is Minnesota, isn't it? I think it is.

Haas: Yes. There's a fellow in Goldman-Sachs who's made ...

H.M.Jr: I think this is the Minnesota organization.

Gibbons: Al Cohn was sick in bed all day yesterday. I wanted him to dinner, but he - I don't know whether he'd be around today or is ...

H.M.Jr: "ell, he's going to be here some time.

Gibbons: He's going to be here for some time. I have nothing particular.

Lochhead: Too early for anything.

H.M.Jr: Dan?

Bell: I haven't got anything. Might be of interest to you to know that we got \$11,700,000 Friday as an estate tax payment from a man by the name of Berwind.

H.M.Jr: Coal. C-o-a-l.

Bell: Never heard of him. Quite an estate.

Gaston: Oh, big coal company.

Lochhead: No. One Broadway, I think, isn't it?

H.M.Jr: Well, you (Bell) and Wayne are going to stay now and do financing.

I'll see you (Gaston) about that a little later; I want to take time on that.

Gaston: Yes, right.

November 22, 1937

Mr. Ing, Counselor of the Chinese Embassy, called today and explained to Mr. Lochhead that due to the absence of Ambassador Wang, who was in New York today, the Ambassador had requested Mr. Ing to ascertain if the Treasury would make the usual Monday bid for 10,000,000 ounces of silver.

Mr. Lochhead consulted with Secretary Morgenthau who authorized a bid for 10,000,000 ounces to be made at the market rate of 45¢.



November 22, 1937.
2:07 p.m.

H.M.Jr: Hello.

Operator: Mr. Jones. Go ahead.

H.M.Jr: Hello.

Jesse Jones: Hello.

H.M.Jr: Hello, Jesse.

J: How are you?

H.M.Jr: I'm pretty well.

J: Well, I was just going to invite myself over to lunch, if you didn't have anything else, when I called you.

H.M.Jr: Oh, well I just going down to have lunch -

J: Yes, just to talk things over a little bit, that was all.

H.M.Jr: Oh -

J: And -

H.M.Jr: Well, I tell you - I - I've got a tentative one tomorrow, but if it's called off, I'd be more than pleased to eat with you tomorrow.

J: Would you? Well if it is, will you call me.

H.M.Jr: I'll give you a ring.

J: Uh -

H.M.Jr: How's that?

J: That's fine. I was - I've got a meeting this afternoon with Marriner -

H.M.Jr: Yes.

J: That is I suppose and Eccles - with Marriner and Stewart Macdonald, and - John Fish.

H.M.Jr: Yes, I had Marriner to lunch, but we didn't talk about housing.

- 2 -

J: You did not.

H.M.Jr: No. I - I guess we were joking about it, but I mean in a sense that - Marriner was joking about John Fish talking him deaf, dumb and blind, so we kind of kidded Marriner a little bit.

J: Yes.

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

J: Well, I'll have an endurance contest this afternoon, between John and Fish.

H.M.Jr: Yes.

J: That is between Marriner and Fish.

H.M.Jr: That's right.

J: That is if I break up the meeting.

H.M.Jr: That's right.

J: Well then, give me a ring then tomorrow.

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

J: If you've got a free - got a free lunch of it .

H.M.Jr: But, I'll see - I'd like to see you.

J: All right, fine. Hello.

H.M.Jr: Yes.

J: How's the market today?

H.M.Jr: Bad.

J: It's mad?

H.M.Jr: The last I saw, it was about 4½ points off.

J: My Lord.

H.M.Jr: Yes.

- 3 -

J: What's for the Governments?

H.M.Jr: Government? Strong. At least steady, but I mean they were very strong last week.

J: Yes, I know they were. They went up a good deal.

H.M.Jr: Yes. They've just about held their own.

J: But steady today.

H.M.Jr: Pardon me. They were steady today.

J: Uh-huh.

H.M.Jr: They were steady today.

J: Well, the market was - I don't understand it, do you?

H.M.Jr: No. It's beyond me.

J: By George, it's beyond me.

H.M.Jr: No. It just doesn't seem to find a bottom.

J: Well -

H.M.Jr: Wanted - one bottom.

J: Yes.

H.M.Jr: Wanted - one bottom.

J: That's right. All rightie.

H.M.Jr: O. K.

J: Goodbye.

FEDERAL RESERVE BANK
OF NEW YORK

329

OFFICE CORRESPONDENCE

DATE November 22, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF FRANCE.

Mr. Cariguel called at 10:20 today and requested that we try and ship to him by steamship Normandie on November 24 a further \$5,000,000 worth of gold. I assured him that his request would be promptly attended to.

The market continued to go their way, Cariguel stated, so that they could add to their reserves every day. I asked whether it had been decided just how the British credit would be paid off, that is whether the gold would be taken from the Bank or from the Fund. He replied that no decision had been made and that that would very much depend on the way the markets would go before the maturity of the credits came around. He was convinced that the Fund could pay off the loan if it were so decided. He realized that payment by the Fund might involve this risk, that the Fund might subsequently, if the market should turn against it, have to have recourse to the Bank of France, which, of course, would make a very bad impression. For this reason some people might prefer to have the Fund retain a substantial amount of its gold and exchange assets in case something should happen later. As far as he was concerned, he would prefer to take the risk and have the Fund supply the full amount.

I asked whether, in case the gold were taken from the Bank, the Treasury would pay for it by borrowing from the Bank. Cariguel replied that responsible authorities in Paris were doing all they could to avoid that. Hence the effort to raise a loan in Holland, which he personally thought might be considered as definitely closed even though the final text had not been agreed upon (terms one year, amount 150,000,000 guilders

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 22, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

DM L. W. Knabe

BANK OF FRANCE.

- 2 -

Markets were fairly quiet and people were taking things
quieter although the Paris stock market, the same as the London mar-
ket, had not been so good today. As a matter of fact, he thought all
stock markets at the present time were ^{bad}/all the world over.

RECEIVED

NOV 22 1937

TELETYPE DEPARTMENT

LWK:KMC

MBo

GRAY

London

Dated November 22, 1937

Rec'd 1:46 p.m.

Secretary of State,
Washington.

728, ~~November 22~~, 6 p.m.

FOR TREASURY FROM BUTTERWORTHE.

In the absence of Waley (number 687, November 2, 7 p.m.) Bewley telephoned to say that a question had been put down in the House of Commons for tomorrow asking in effect for an assurance from the Chancellor of the Exchequer that pending the conclusion of the proposed Anglo-American trade agreement the financial cooperation established under the Tripartite Declaration would not only be continued but increased. Simon proposes to reply "I am very glad to give the House the desired assurance."

Little business is being done in either the exchange, security or commodity markets due to the growing feeling of pessimism.

JOHNSON

JLS:KLP

TB

GRAY

Paris

. Dated November 22, 1937

Rec'd 4:21 p. m.

Secretary of State

Washington.

1647, November 22, 6 p. m.

FOR THE TREASURY.

Definite information relating to the interest and security conditions of the Amsterdam credit is still lacking. If they were reasonable and normal it would seem that the Treasury would not hesitate to allow them to become known.

The FINANCIAL TIMES understands that the terms are more expensive than those of the London credit. In any case borrowing from one quarter in order to help pay off a maturing loan in another is considered as a poor policy and not conducive to confidence.

When on November 18 in the Chamber Bonnet announced the repayment of the London credit, he observed that "the mortgage which had weighed on the gold reserves of the Bank of France would thus be lifted". Therefore this statement would appear to indicate that the Amsterdam credit does not

RB -2- No. 1647, November 22, 6 p. m. from Paris

does not carry a gold guarantee. In any case Bonnet did not take the Chamber into his confidence regarding the Amsterdam operation which on that date was apparently already concluded.

Developments relating to the negotiation of a trade agreement between the United States and Great Britain have been given wide notice in the financial press. Generally speaking the event is commented upon with interest and satisfaction. D'INFORMATION regards the negotiations as a general encouragement for the development of international trade and as having a political significance as considerable as their economic significance. Furthermore financial circles here expect that a relative stability of sterling and of the dollar will have to be established to form a monetary basis for the trade agreement and this possibility would no doubt be regarded as a very definite enhancement of the value of the tripartite monetary arrangement.

Transactions on the exchange market here today have been lifeless and quotations have moved within narrow limits. Sterling is quoted at 147.20 and the dollar at 29.41. We are told by our market contact that the National

City

RB -3- No. 1647, November 22, 6 p.m. from Paris

City Bank bought an insignificant amount of dollars for the fund. Forward rates almost unchanged.

The security market was dull and unsettled and rates were fractionally lower. Other securities all lost ground.

BULLITT

SMS

NPL

TELEGRAM SENT

RB

GRAY

November 22, 1937

6 p. m.

AMBASSY

LONDON (ENGLAND)

458.

For Butterworth, from Secretary of Treasury.

Your 728, November 22.

Suggested answer is entirely agreeable.

HULL

HF

EA:HF:BMF