

December 3, 1938.
10:15 A.M.

Present: Mr. Lochhead
Mr. Harris
Dr. Haas
Mr. Gaston
Mr. Bell
Mr. Seltzer
Mr. Hanes
Mr. Taylor

Haas: We could get 23/28.

Lochhead: Oh, yes. A little thin in case anything should happen. Would make everything go into the two per cent if you offered a 8½ year.

H.M.Jr: Forget the 8. It's a 9 year.

Lochhead: The fact we have advanced it makes it more vulnerable.

H.M.Jr: You mean you would leave it at 60-65?

Lochhead: I think so. On the 2½ I would be inclined to give them something. It's a long bond and it's the portion of the market that we have not really taken care of.

Harris: Do you have any objection to having Hadley listening in?

H.M.Jr: I am too nervous to be bothered. Yes, I do. I will just have to -- I can't. The answer is no.

Lochhead: Sterling has moved up a little to 4.68½. Francs are holding steady.

H.M.Jr: Herbert, do you know the origin of that story, please?

Gaston: Yes, Mike Flynn of the Wall Street Journal came in and told me that at the Federal Reserve he was told Eccles had submitted a memorandum to you on banking legislation.

H.M.Jr: He was told where?

Gaston: At the Federal Reserve. I told him it was true.

- H.M.Jr: But he got the story from the Federal Reserve?
- Gaston: Originally.
- H.M.Jr: Dan, I'm just raising a point - whether possibly we should extend the long bond out another year.
- Bell: What difference does it make in yield?
- Harrie: Only about one point increase, I guess.
- (At this point H.M.Jr. called Mr. Sproul. A copy of the conversation at 10:18 a.m. is attached)
- H.M.Jr: What do you think, Larry?
- Seltzer: Well, that is not bad. What you do there, of course, is take some chance on European developments. I think that some of the optimism with respect to a long bond in New York would be due to the fact that they expect the short bond to be so popular. If, on the other hand, the long bond went over, it might be a little heavy. You might need a little more premium to carry it. I, personally, lean against extending the maturity of the long bond. I think it is safer to keep it 80-85.
- H.M.Jr: I am just raising the question. Talked to the President last night. He did a lot of kidding; had a lot of people sitting around - Bullitt, Frank Walker, and the rest. He thought that was a terribly sweet long bond and he wanted me to subscribe \$5,000 for the church and \$5,000 for himself. I told him we don't take every \$5,000.
- Bell: It's \$1,000.
- H.M.Jr: I will have to write him a letter.
- Gaston: Each one of the elders is a vestryman and they could each subscribe \$1,000.
- Bell: Are you suggesting that the church do some padding?
- H.M.Jr: How do you feel, Archie?
- Lochhead: I feel the same as Larry. I think the market as it stands now will support it but at the same time I have the same feeling he had. If there is a heavy subscription of the 2 $\frac{1}{2}$, I think it will be a little safer.

December 3, 1938.
10:19 a.m.

HMJr: Hello.

Operator: Mr. Sproul. Go ahead.

HMJr: Hello.

Allan
Sproul: Good morning Mr. Secretary.

HMJr: How are you?

S: Fine thanks.

HMJr: I just - have you got any ideas this morning?

S: Well, I've thought about it over the night and talked to the market a little this morning.

HMJr: Yes.

S: They think that and rights yesterday and after the close was based more largely on an expectation of conversion into the longs than into the shorts.

HMJr: I see.

S: Therefore that raises some question in my mind as between a nine and an eight and a half because I would still be concerned about getting too large a supply of the long bonds into the market.

HMJr: Yes.

S: Particularly in view of - in view of recent developments abroad that factor is emphasized in my mind.

HMJr: Yes.

S: So that I think the safest issue would combine an eight and a half with the two and three quarters, but I still think the nine would go and that the amount of risk would be small, but I think there'd be some risk there of too great a concentration in the long bond.

HMJr: Well, I've got a suggestion, I mean I've pretty well made up my mind that I want a nine, see?

S: I see.

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HMJr: What about extending the long bond by one year?

S: I think that's quite a possible alternative. It would damp that down just a little.

HMJr: Uh-huh. Well supposing you do a little figuring on that and I'll call you back again about quarter of eleven.

S: All right. Fine.

HMJr: See?

S: Right.

HMJr: Supposing - I mean - I'm pretty determined that I want to do a nine year.

S: I see.

HMJr: See?

S: Yes.

HMJr: Now just think about the possibility of extending the long bond one year.

S: Yes.

HMJr: See?

S: All right.

HMJr: Thank you.

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- H.M.Jr: This morning I talked to Mr. Sproul. He weakened; now he wants an $8\frac{1}{2}$ year. I said how about extending the long bond a year. He thought that would be all right.
- Haas: The $8\frac{1}{2}$ is too sweet now.
- H.M.Jr: Is that sweet enough? What do you fellows figure now on the 9?
- Seltzer: It is rich.
- Haas: One and $5/32$'s.
- H.M.Jr: Is that bottom?
- Haas: Yes. Well, we figured that's about the probable.
- Bell: Harris has it ranging from one to $1/18$.
- Harris: No, that's the $8\frac{1}{2}$.
- Bell: What have you on the 9?
- Harris: One and $5/32$'s. I can't see it selling much higher than that.
- H.M.Jr: How about the 5 year?
- Harris: $30/32$'s.
- H.M.Jr: Is anybody in the room here worried if we get one billion dollars of the long ones out?
- Seltzer: If you had a quiet market everything would go nicely. If you had disturbing news from abroad you might have some dumping; price might go down temporarily but rapidly and unsettle the long end of your market generally.
- Bell: What did the market do in long term issues the last disturbance?
- Harris: They handled nicely.
- Bell: They stood up better than the medium?
- Harris: It was the middle of the market which was in a bad situation.

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- H.M.Jr: Have you got the eight and three-quarters?
- Harris: Yes, one and $12/32$'s.
- Bell: That would be September, 1947.
(Mr. Taylor came in at this point.)
- H.M.Jr: We are talking here of a possibility of either extending the long bond one year or making it eight and three-quarters. They say the 9 year has one and $5/32$'s and the eight and three-quarters would have one and $12/32$'s.
- Seltzer: A month later than maturity. On eight and three-quarters you would have a $4\frac{1}{2}$ callable in 1947 in October.
- Bell: That's the one billion four so you would have two billion.
- Harris: 61-66 would give you about exactly the premium that they now have on the rights. They have two one hundred one $30/32$'s bid now.
- Haas: There is one other angle to this and that is we are assuming largely that the subscriptions will come in on purely a price basis; that it may be a bank will say, "I want that 9 year and I can't get it later and I am going to take it now at some disadvantage." If it works out that way, that we don't know.
- Lochhead: George, anybody figuring on price would go for the long bonds? Your subscriptions will come from people who want the 9 year more than they want the extra $5/32$'s.
- Bell: It will come from banks who have already told us they want an intermediary bond.
- H.M.Jr: What I think -- I have seen this happen every time -- see if you people agree or disagree that a bond, intermediary bond of fixed maturity having a certain premium is something you can't figure. The 9 year is just something that these fellows like a little more than it is worth on a mathematical basis.

- Hansel: We have taken that into account, that part of it, in our price calculation, the best we can do because we based prices on those that had fixed maturities but there is the other point, about the same thing you had, that this maturity just fits the requirements of certain banks and they are afraid by buying the long first and afterwards going into the 9, that they can't get it so, therefore, they will subscribe direct at a sacrifice of a little premium. If it works out, it's swell.
- H.M.Jr: If we leave it the way it was last night, subtract what they will take into the notes -- and then some fellow was here who -- I have changed. Leave it the way it is. I think it will go about fifty-fifty. I have changed a little.
- Bell: How about your insurance companies with fifty million?
- H.M.Jr: They don't like it but they will take the 9 year.
- Bell: That's what I mean. They've got to have rights in order to get the 9 year.
- H.M.Jr: So they will buy rights and take the 9 year. So after thinking it over I think there are some chances of even division on the 9 year and conversions. One school of thought thinks it will jump them all into the long.
- Seltzer: It seems to me that in trading a bank would take the long without question.
- H.M.Jr: I am eliminating the trading bank.
(At this point H.M.Jr. spoke to Mr. Sproul. A copy of the conversation at 10:33 is attached.)
- Bell: Just to give you Childs for what it is worth, last night they called me quite late and said that they felt that it was rather impossible to figure the difference between an 8½ and a 9 in this market. That they had a feeling that a 9 year bond would sell almost down to 1.80 per cent basis and would give you anywhere from 1½ to 1 5/8 premium. That's larger than any of the other. They feel that all this market is going up because of the feeling in the Street that you are going to give them a two per cent bond, but their advice is a 9 year will go and go very well.

December 3, 1938.
10:33 a.m.

HMJr: Hello.

Operator: Mr. Sproul. Go ahead.

HMJr: Hello.

Allan Sproul: Hello, Mr. Secretary.

HMJr: Sproul, I'm throwing another one at you.

S: Yes.

HMJr: Leave another - leave the longs where they are, 88-85.

S: Yes.

HMJr: And make an 8 and 3/4 bond which our boys think is one and how much?

S: They think what?

HMJr: One and twelve thirty seconds premium.

S: Yes. It's very hard to figure those premiums on that fixed maturity bond without any cash offering. It might have a scarcity value which should move the premium up so that -

HMJr: Well I'm just, I'm not wavering an awful lot but I'm sitting here and I'm thinking as hard as I can.

S: Yes.

HMJr: I'm just throwing this stuff at you.

S: One other question on an eight and three-quarter. There is a maturity in Sep - in October '47 I think.

HMJr: Yes. True.

S: But that would put it together.

HMJr: Yes. Well I'm just throwing it at you.

S: Yes.

HMJr: Mr. Ransom will be over here at eleven.

S: I see.

- HMJr: And I still like the thing the way it was last night.
- S: Yes.
- HMJr: And I still, I'm coming around more to the opinion that - that conversion into the nine so that the sixty sixty five will be about even. I think those people, I think a lot of people want those nines.
- S: Well I also was of that opinion until the market of yesterday, of late yesterday, when they turned in the rights and stated that they had some preference for the longs as a speculative transaction. Wouldn't you like to throw the conversions into the longs - higher than we thought, and putting that together the exchanges with the cash we'd have a pretty large issue of longs out.
- HMJr: But Sproul isn't it also true that with a long, especially the two and seven eighths going up yesterday, it looks as though the people made up their mind they were going to buy those and not wait to get the others?
- S: Well that's - that's a possibility too.
- HMJr: I mean the long ones went up as much as anything yesterday.
- S: Yes, they did.
- HMJr: What?
- S: Yes they did.
- HMJr: So it looks as though the fellow, at least I might put this interpretation which might be entirely wrong, they say, "Well we'll buy the long in the market now, not wait, buy the rights and convert those into the nine." Now is that a false interpretation?
- S: I don't think they would - I don't think they would, they were doing that, no.
- HMJr: You don't think so.
- S: No, I think the activity of the rights was more on the basis of long bonds and going into the shorts.
- HMJr: Well I'll call you again sometime between now and eleven.

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S: All right.

HMJr: Thank you.

H.M.Jr: Well, even before the market changed that's what Devine said. He said, "Don't think of anything but a 9 year bond."

(At this point Harris got the latest ticker report on the bond market.)

Harris: We have a rise here of 5/32's.

Bell: Getting better.

Harris: The two per cent 9 year with the bonds following where the 9 year would come are up 4 to 5/32's. Therefore the premium on the two per cent becomes greater. Instead of 1.4, as estimated at the close last night, it is possibly 1 and 5/32's now.

Taylor: Typical of this thing that is going on, Spaulding of the Northern Trust of Chicago -- he's an awfully good bond man -- he said he wanted to buy that too and sorer than hell because he didn't have rights and they wouldn't be offered for cash. "I don't want any long bonds; I have plenty of those. I am afraid I am going to have to go in and buy them because I have to have that bond."

H.M.Jr: They tell me they haven't heard from the west coast this time.

Bell: They might take out some of the padding.

H.M.Jr: How long since you (Lochhead) talked to the market?

Lochhead: Not since I came in here, but they sent the prices in.

H.M.Jr: Isn't 8 $\frac{1}{2}$ out of the question now?

Harris: It is sweet. Probably by close it is one and 22/32's.

H.M.Jr: Looks like I am awfully uncertain.

Harris: My feeling is sit tight like you did last night.

H.M.Jr: How much do I have in F.D.I.C.?

Harris: One hundred five million.

H.M.Jr: How much has Postal Savings?

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Harris: Fifty-two million and one hundred five million in F.D.I.C.

H.M.Jr: Government Life?

Harris: Three million eight.

H.M.Jr: Anybody else got any money to invest?

Harris: No, sir.

Bell: From five to seven million, scattered around on March maturities which will be exchanged.

(At this point H.M.Jr. spoke to Walter Cummings. A copy of the conversation at 10:50 a.m. is attached.)

H.M.Jr: After listening to him I say 9 years.

Gaston: I talked to my old pal Elliott about this story and I told him what happened -- and Mike Flynn told me he got it from the Federal Reserve.

"Well, he said, "I just don't see how that can be. It's a mystery to me how these fellows get this stuff. Certainly I wouldn't tell him anything of the kind. I don't think the Board members even know about it. So far as I know there are only two copies in existence; one that went to the President and the one that went to Secretary Morgenthau." And I told him you were somewhat embarrassed, that you had not read the thing yet and would like to have his suggestions what we should do about it.

"Well, Eccles is out of town," he said. He hadn't much of anything to suggest. Of course it wasn't a plan at all. He wasn't suggesting anything; he was just putting the problem and I told him well, I thought it was a plan, a suggestion of a plan. I thought it may have been suggested as tentative and there are other things that could be done, but I thought there was distinctly a plan there.

He said, "Well," he guessed that was right but it was entirely tentative and the only thing he could suggest, if we were asked about it, we could say that Mr. Eccles would submit some thoughts on the subject of whether there should be banking legislation; that it was entirely tentative.

* * * * *

December 3, 1938.
10:50 a.m.

HMJr: Hello

Operator: Mr. Walter Cummings. Go ahead.

HMJr: Hello.

Walter Cummings: Hello.

HMJr: Walter?

C: Yes, Henry.

HMJr: How are you?

C: Just fine, how have you been?

HMJr: Oh, still got my head above water, that's about all. How about you?

C: Oh, I'm fine Henry. I'm fine.

HMJr: How do you feel on the Government bond market?

C: Well I feel, I'm real optimistic on it? The story that comes from your office is that you're going to be pretty liberal this time.

HMJr: Uh-huh. What do you think we're going to do?

C: Well, of course the report is out that you're going to put in the short, ^{or} the short time, the five year, and eight and half/nine year and then a long time bond.

HMJr: Yes.

C: Whether that's correct or not, I don't know.

HMJr: Well, we gave it out officially yesterday. We didn't say whether it would be an eight and a half or nine, and we didn't say it'd be -

C: Well of course that'll, of course you know Henry, those will go fine.

HMJr: Which?

C: All of them, the whole three.

HMJr: Will they?

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C: Oh, yes.

HMJr: Which way will most of the fellows convert? The banks - will they convert into the - what will they convert into?

C: What we're going to take, we're going to take your long time stuff because we think that's where - we think that's where we ought to land, where all of you people should land.

HMJr: You going to take all long?

C: Yes. We'll take all that we can, yes. Of course the others won't do that, New York won't do that, they'll take the short time stuff. We're going to recharge - get this interest recharged, we need it.

HMJr: How long will you keep the long ones Walter?

C: We're going to put them - we'll keep them all the time. We don't dispose of them Henry.

HMJr: I see.

C: You see New York takes them and then gradually let them go, ^{but} we don't do that.

HMJr: Uh-huh.

C: We're holding them for investment.

HMJr: Well how about your friends around the Chicago district? What do you think that they'll convert into?

C: What - what we've talked to are people, all that are here, is to go out and get this return.

HMJr: Do what?

C: To go and get the return, to take the two and three quarters.

HMJr: Uh-huh.

C: We want them to have some earnings, see?

HMJr: Uh-huh.

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- C: Now our Eastern friends won't agree with us in the Middle West on that but you can be assured that this whole thing will go over in good shape.
- HMAJr: Well I'm not worrying about it -
- C: That.
- HMAJr: But -
- C: In fact it's pretty rich this time Henry. It's all possible for the banks to take it.
- HMAJr: Well, which - if you were back in the Treasury, which would you make it, eight and a half or nine?
- C: Oh, that's immaterial.
- HMAJr: Uh-huh.
- C: It just depends on what day it hits there. in front of you and what - eight and a half or nine it doesn't make any difference.
- HMAJr: Doesn't make any difference.
- C: Not a bit, no.
- HMAJr: Uh-huh. But you think the boys are hungry this time?
- C: Uh. They're hungry, oh yes, I should say.
- HMAJr: What?
- C: They're - they're hungry for these bonds.
- HMAJr: They are.
- C: They are ^{going} / over in good shape.
- HMAJr: Uh-huh.
- C: And we're going to - Henry we're going to do everything out here in the Middle West to get the long ones, boost the long ones.
- HMAJr: Boost the long ones.
- C: Oh, yes.

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HMJr: Uh-huh.

C: We want to do that. I think it's better for the Treasury too.

HMJr: Uh-huh.

C: Like to have as many of those taken as we possibly can.

HMJr: Now what do you know that I ought to know?

C: I think you've got all the news.

HMJr: Well anything else around? Anything sour?

C: What is it?

HMJr: Hear anything sour as far as the Treasury is concerned?

C: No, I should say not. I think it goes along in very fine shape, and I think you're smart in taking this money now.

HMJr: Uh-huh.

C: The best possible time you could get.

HMJr: Fine. How - How's - how big a deposit you got now?

C: A billion two.

HMJr: How much?

C: A billion two.

HMJr: Oh, for heaven's sake.

C: So you see - say, Henry, when you do that, of course you're not going to allot eight hundred thousand, are you? Eight hundred million? In other words, you know you put it up at - how much are you going to -

HMJr: Seven.

C: How much are you going to -

HMJr: We'll keep it down - we'll keep it down to ten or below. Over - we won't - we'll take -

C: You won't give over ten per cent?

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HMJr: No. A little more psychic this time, a little bit less. Because last time the boys -

C: I wish you would because then we're - everybody's sure you know then.

HMJr: Well, we'll keep it below ten this time.

C: Yes. Well that's just fine.

HMJr: Yes.

C: Well we're going to have a good year out here in Chicago, we're going to make a lot of money in our bank.

HMJr: Good for you.

C: So we're - we're feeling pretty happy about it.

HMJr: Well, I'm glad to hear it Walter.

C: Things out here are in pretty fair shape.

HMJr: They are.

C: Yes. We're - I think we're about as good as any part of the country.

HMJr: I think you are too.

C: All right Henry.

HMJr: Walter, just a minute. Do you know this young fellow Campbell? The new District Attorney.

C: No.

HMJr: What?

C: Yes, I know him, but I don't know him well.

HMJr: Do you know anything - do you know anything about his reputation?

C: He has - yes, he has a fine reputation.

HMJr: He has.

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C: Yes.

HMJr: Is he -

C: He's pretty young, but everybody that - people that know/much better than I tell me that he's O.K.
him

HMJr: Is he mixed up with any of the political factions?

C: No, no, that's one good thing.

HMJr: He's clean.

C: He's absolutely clean.

HMJr: Well, that's good.

C: Of course there's - the last District Attorney was head over heels in the political factions.

HMJr: You're telling me.

C: It's a damned good thing they put him up in the judgeship.

HMJr: Yes. Kind of touch on the bench, but it's all right.

C: Well he can't do anything up there.

HMJr: All right.

C: But this fellow is all right.

HMJr: Well now Walter, when you come to town let me see you.

C: All right, I'll do that. I'll be down in a week or so, Henry.

HMJr: All right.

C: I'll drop in.

HMJr: All right.

C: Goodbye.

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11:00 A.M.

Mr. Ransom)
 Mr. Piser)
 Mr. Hadley) Joined the group

Ransom: Sorry, Mr. Eccles is still out of town.

H.M.Jr: I am too. We will do the best we can. Have you people got the most recent figures this morning?

Piser: Based on last night's closing.

H.M.Jr: It's up considerably in the last half hour. How does it look to you, Ronald?

Ransom: I think it looks all right. I asked Mr. Piser to canvass the available Board members and Mr. Harrison's office. He is not available himself, and Mr. Sinclair will make a report which will represent the consensus of all these members.

Piser: All of this is based on last night's closing. Nobody had this morning's market. Mr. Sproul said that he was acquiescing in Mr. Harrison's views. They thought 1 1/8 note, together with a 60-85 two and three-quarters, and as far as the two per cent note was concerned, their feeling was that June, 1947 would be safest and would insure the best conversions by commercial banks, but that they felt December, 1947 would be satisfactory and possibly would not overburden the long market too much. I talked with Mr. Sinclair. He said he favored June, 1947. His views on the nature of the long bond were the same. He also thought, however, that either issue would be satisfactory but had a slight preference for the June, 1947 issue. He made the further point that the two and three-quarters 45-47, maturing in September, 1947, and that's a large issue - if it should be carrying over to maturity, that plus the four and one quarter of October, 1947, might make a substantial refunding problem at that time. He thought it would be well to get this particular issue out of the way before September, 1947.

H.M.Jr: Therefore, he wanted what?

Piser: Thought June, 1947 might be a little better. I talked to Mr. Draper who felt it would be desirable to give

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about the same premium on the two per cent. He thought it would be desirable to give about the same premium on the two per cent as on the long bond and he had no opinion as to maturities. But that was one point he wanted to make in order to insure long conversions into the small one. And Mr. Szymczak had the same opinion. Mr. Goldenweiser had the same opinion.

- H.M.Jr: They all lean which way?
- Piser: Towards giving the same premium on the issues. Those are the persons I canvassed.
- H.M.Jr: As between last night and today, how much sweeter is the two per cent?
- Harris: Possibly $4/32$'s.
- H.M.Jr: So on the $8\frac{1}{2}$ it would be how much?
- Harris: Around 22 or $23/32$'s.
- H.M.Jr: Would you care to sum up, in view of what is happening?
- Ransom: I think, Mr. Secretary, that just about expresses the views of our group so far as I have been able to pick it up since I saw you last, yesterday.
- H.M.Jr: Would you repeat? I am a little bit confused with so many opinions.
- Ransom: The preference seems to be for the June, 1947. As between June and December, definite preference for June. As to the note, 5 year $1\frac{1}{8}$ and a $8\frac{1}{2}$ year two per cent.
- H.M.Jr: But do I gather that if I should make it full 9 years your people would not be disturbed?
- Ransom: No, that's my own opinion.
- H.M.Jr: Is that the opinion of those you talked to on the phone this morning?
- Piser: I think that would be their opinion. There would be a little more risk, but not great.

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- Ransom: There is still a chance that might not exist in the others. I don't remember the distinction there. It seems to me if you want to make it full 9 years, just about as good a chance as any of the others.
- H.M.Jr: When you talk about risk?
- Ransom: Perhaps there might be more of a tendency to go into a long bond instead of a short.
- H.M.Jr: But no risk, as far as success of the issue?
- Ransom: I see none, and nothing in the opinion of the men we talked to this morning. You might get your banks into more of a long term than they would take on the other. Seems to be the only distinction.
- H.M.Jr: If the Treasury should say 5 year 1 1/8 and a 9 year two per cent 80-85?
- Ransom: I would not be concerned.
- Piser: Has there been any thought of making the long bond 81-88?
- H.M.Jr: Yes, we talked about it and we simply felt -- I will sum up for my own people -- that if we needed any sweetness we needed it in that place there, irrespective of how many go in. I think that's the place we need the extra margin of safety, because the way I feel on it, I would hate to cut down, particularly if we get a particularly heavy subscription in there, then we need all the additional margin above par.
- Piser: I was thinking, if we made it 81-88, possibly the December issue would be a little more comparable in price.
- H.M.Jr: I put that up at 10:30 to Sproul and told him to do a little figuring and checking, and as soon as I am through talking with you gentlemen I was going to call him up and ask him. We put up an eight and three-quarters 80-85 and a 9 year 81-88.
- Ransom: I would be interested in his reaction to that suggestion.
- H.M.Jr: So we gave him both of these at half past ten.

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Ransom: Has there been any different development from the point of view that you expressed yesterday as to your staff thinking there would be heavier conversion in one type than the other? I still don't understand how we got so far apart.

I think the question of conversions from our calculations and calculations of dealers, I understand, may be was that we were figuring it on purely paper basis, but there is a question on this type of issue like the proposed 9 year issue that the banks may not account on a purely paper price basis; that they may be willing to forego a difference of a few thirty-seconds and subscribe directly for the 9 year without thought of later, because of the few thirty-seconds advantage in the premium going back into the short. They may calculate, unless they get the 9 year directly in the subscription, they won't be able to get them at all.

H.M.Jr: I changed a little in my opinion. I think -- this has nothing to do with mathematics -- I think after you deduct the amount that will go into the notes, I think that the subscriptions in the twos, if it is a 9 year, will be about even. I mean, as to conversions between the twos and the longs. I think there will be a big demand for the twos even with the 9 year.

Ransom: I think that is the opinion of most of the people we have talked to.

H.M.Jr: I may be wrong. We talked to Walter Cummings this morning and as far as he's concerned, his friends are all going into the longs. I said, "What do you think about a 8½?" "Don't make a damn bit of difference." Both Mr. Ecker and Mr. Parkinson very much prefer -- not very much, but they have a preference for the 9 year. So if the insurance companies are going into the 9's -- Parkinson said he will take some of the longs but he will take twice as many of the 9's as he will the long. I think the fellows who want the twos are buying up the rights. We may be wrong.

(At this point H.M.Jr. spoke to Marriner Eccles.
Copy of conversation at 11:12 a.m. attached.)

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- H.M.Jr: I don't think he has been thinking about it.
- Ransom: And I don't think he has any fundamental views.
- H.M.Jr: It seems to me he was getting it cold. I don't think he thought it through. I don't think he has been studying it.
- H.M.Jr: One year, it really means so little to the Government and it's an insurancy policy. We have quite a lot of money we can invest in the long, if necessary. I'll tell you now, we have fifty million.
- Ransom: That would help.
- H.M.Jr: I will tell you right now we are good for fifty million. Let's agree, if we can, it is going to be a 9 year.
- Ransom: I see no objection.
- H.M.Jr: So we can get this thing out.
- Haas: Fine with me.
- H.M.Jr: Should we agree on the 9 year?
(All present agreed.)
- H.M.Jr: Suppose you pencil sharpeners all get together. Piser, do you want to go with my gang? George, you go with them and come back at twelve o'clock.

December 3, 1938.
11:12 a.m.

HMJr: Hello.

Operator: Chairman Eccles is calling to his office from New York.
Would you like to talk to him?

HMJr: Yes.

O: All right. Go ahead.

HMJr: Hello.

Eccles: Hello.

HMJr: Eccles?

E: Oh, yes, Henry.

HMJr: I've got my whole group here. Would you mind if I put
you on the loud speaker?

E: Go ahead.

HMJr: Is that all right?

E: That's fine.

HMJr: All right. Now Ronald Ransom and Piser are here, and
the way the thing looks about now is five year one and
an eighth.

E: Five year one and an eighth.

HMJr: A nine year two.

E: Nine year two.

HMJr: And a sixty sixty-five two and three quarters.

E: Sixty-five?

HMJr: Sixty sixty-five.

E: Sixty sixty-five.

HMJr: Yes.

E: Two and three quarters.

HMJr: Yes.

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E: Uh-huh.

HMJr: Now -

E: You adopted a three-way program?

HMJr: Yes, that was in yesterday morning paper.

E: Yes. Well I saw that, I was down to the Fed. yesterday and talked the thing over with George - yesterday afternoon.

HMJr: Yes.

E: And they had this information with the exception of the maturities.

HMJr: Yes. Well this - we haven't fixed the maturity. We're trying to do that now.

E: Yes.

HMJr: That's what -

E: This is the option.

HMJr: Well the only thing that we haven't really fixed is whether this thing is going to be an eight and a half or a nine year two. Everybody else is pretty much in agreement.

E: What - yes. Eight and a half or nine year, what's the premium?

HMJr: Two per cent. Oh, the premium? Well as of this morning, just a minute, on the - on the nine year the premium is how much? It's about one point and nine thirty-seconds.

E: That's pretty good.

HMJr: And on the eight and a half, one point twenty-two thirty-seconds.

E: One point and twenty-two thirty-seconds.

HMJr: Yes.

E: That - that ought to be sweet enough.

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- HMJr: Well we think it too sweet.
- E: Why do they - that's why they want to cut down on the eight and a half.
- HMJr: Yes, we think it's too sweet.
- E: Yes. Well eight and a half, of course, it reduces the premium on that short bond.
- HMJr: No, increase it.
- E: If you cut the - if you cut the - what do you want - what do they want to cut it to eight and a half years for?
- HMJr: Well -
- E: And then I should say it would increase the premium.
- HMJr: Yes, increase the premium.
- E: And - and - you've got one and thirty-two hundreds, I mean one and nine thirty-two hundred premium now on a nine year bond.
- HMJr: That's right.
- E: So why out it to eight and a half.
- HMJr: Well the reason that your people are arguing is that they're afraid that maybe you have too many subscriptions to the long bond. That's what's bothering the Federal Reserve people that I've talked to.
- E: Well I know, but if you get a higher premium on the - on the nine year bond by dropping it to eight and a half.
- HMJr: Yes.
- E: You'd get more subscriptions than ever if you'd get it higher. I see they want to get it closer. They want to get the premium closer, don't they?
- HMJr: Now what they want is they - they don't want too many long bonds.
- E: Yes, but I say, they want to get the premium closer between the nine year bond and the long bond.

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HMJr: Well -

E: A little spread you see, nine thirty-seconds and twenty-two thirty-seconds.

HMJr: Yes.

E: Well, all right, it looks to me like that that - that set up is all right and of course it takes care, it takes care of everyone by giving them the three way opportunity.

HMJr: That's what we thought.

E: The -

HMJr: We thought it was a nifty.

E: For cash what do you expect to do.

HMJr: Pardon me.

E: What do you expect to do for cash?

HMJr: Oh, on the cash?

E: Yes.

HMJr: Well, we're offering four hundred million of the longs, and three hundred million of the notes.

E: The same - the same long one and of course the same notes.

HMJr: Yes.

E: It looks all right to me.

HMJr: You're not worrying about too many longs?

E: Well, of course what I would have preferred is to not have given the long bond in the option.

HMJr: Yes.

E: It was my first choice.

HMJr: Yes.

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E: And not give the three way.

HMJr: Yes.

E: Because the banks own eighty per cent of the notes. Let the banks take either the new notes or the nine year bonds, and merely confine the long bond to the cash.

HMJr: Yes.

E: But I realize that Harrison and Sproul both felt that the long bond ought to be - ought to be also offered in the option.

HMJr: Yes.

E: Because the insurance companies and investors had about twenty per cent of the notes.

HMJr: Yes.

E: And they felt that there would be discrimination unless - that they should all be given the opportunity. Well I don't entirely agree and it would be, and as I said, the other day, my first choice was the option of the five-year, neither a nine year, ten year, an intermediate bond, for the option.

HMJr: Yes.

E: Leaving merely the long bond for the cash subscription and then there wouldn't be any trouble. Now this way, of course a lot of banks and others with these notes at this high premium are going to take the long bond and then - and then we may have some difficulty on a secondary market.

HMJr: Yes. Are you worried about it?

E: Not worried, no.

HMJr: All right.

E: I'm not worried. Well of course you've announced the three way - you've announced that now.

HMJr: Oh, that was all in the papers.

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E: Yes, yesterday.

HMJr: Sure.

E: I saw that.

HMJr: Yes.

E: So that the whole question is, this morning, is a matter of pricing.

HMJr: That's all.

E: And it's just a question of - this high premium here, of course makes that pretty sweet and - and why should they take notes or even short bonds if they can take long bonds at this premium and then sell them.

HMJr: Yes.

E: The question is, can - can you reduce - can you increase the maturity to a point where you reduce that premium?

HMJr: Yes. Well, I don't know.

E: Well now, I mean, anything that you can do along that line I certainly wouldn't object to.

HMJr: Well I mean you're satisfied with a nine year two?

E: What is it?

HMJr: You'd be satisfied with a nine year two?

E: Nine year two.

HMJr: Yes.

E: Well I would.

HMJr: Yes. Well, I'm going to talk once more to Allan Sproul, and then we'll make up our mind, we'll all hope for the best.

E: Yes. All right. Well thank Henry for calling.

HMJr: Thank you.

E: Goodbye.

December 3, 1938.
11:20 a.m.

HMJr: (aside: I'm going to ask him what he's going to do with his eighty four million.)

HMJr: Hello.

Operator: Mr. Sproul. Go ahead.

HMJr: Hello. Hello.

Allan Sproul: Yes, Mr. Secretary.

HMJr: Now we've all been kind of talking it over. How does it look to you now?

S: Well the market is very strong.

HMJr: Yes.

S: The rights are now a hundred and one, twenty-two, twenty-four.

HMJr: Yes.

S: And I think that confirms the opinion which had them yesterday afternoon's market that the market is in its valuation of rights is now going more of the long bonds, they've already discounted any trade in on the notes or the short bonds.

HMJr: Yes.

S: And therefore having concerned myself about getting too many of the long bonds out.

HMJr: Yes.

S: And you have cash for four hundred of the long bonds.

HMJr: Yes.

S: I think you'd get two hundred million conversion no matter what you've put out, that'd be at least six hundred million and since I'd rather have the two issues somewhat evenly divided.

HMJr: Yes.

S: My first choice would be for an eight and a half year two, plus the sixty sixty-five two and three quarter.

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HMJr: Yes. What's your second choice?

S: My second choice would be for the nine-year two plus the sixty one sixty five two and three quarter.

HMJr: Sixty one sixty five, or sixty one sixty six? You said -

S: I think sixty one sixty five, I think you - I don't think it makes much difference however way you put that maturity date. I think the important thing there is the call date.

HMJr: The call date?

S: Yes.

HMJr: Well now, the market's going up so fast, let's say this, and just a moment, just, I mean I want to make the thinking a little bit simpler. Will you -

S: Yes.

HMJr: Do you want me to call you back in minute, or will you hold on?

S: I'll hold on.

HMJr: Just hold on. Hello.

S: Yes.

HMJr: Mr. Ransom is here and Mr. Piser.

S: I see.

HMJr: My own people. I just talked to Eccles but I don't think he's had a chance to study this thing.

S: I see.

HMJr: Now, in the room here, we've all agreed we want a nine.

S: I see.

HMJr: Now, we've got the thing set, one and an eighth on a five year.

S: Yes.

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- HMJr: Two per cent nine. Now let's talk a little bit about the longs here. Do you want to refigure, or should I call you back again?
- S: Well, I figure that the twenty-three year would have a premium of about one and twenty-two thirty seconds.
- HMJr: What?
- S: One and twenty-two thirty seconds.
- HMJr: On the what?
- S: On the twenty-three year, that's a sixty-one call day.
- HMJr: Sixty-one.
- S: Yes.
- HMJr: Yes.
- S: That's about five thirty-seconds down from a twenty-two year sixty call date, and I think that a nine-year two that it would be better in the present state of the market to put out the sixty one call date long bond, just to dampen that down a little.
- HMJr: Well now, that is too important, I want to do a little walking, a little thinking, and I think with the market jumping the way it is I'm going to wait until she closes.
- S: Before you decide?
- HMJr: Yes, this is too important.
- S: Well I don't see any reason why you shouldn't, that's only thirty-five minutes off.
- HMJr: Yes, I think I'll wait until it closes. And, I'll call you back right after it closes, but the way it stands now to clear your thinking.
- S: Yes.
- HMJr: We'll make it nine years.
- S: Yes.

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HMJr: Then I'll have the boys get out and do/figuring with
their pencil on the - on whether we should do anything
of a change on the longs. a little

S: Right.

HMJr: How's that?

S: Right.

HMJr: O.K?

S: Fine.

HMJr: Thank you.

December 3, 1938

11:30 a. m.

By arrangement, Mr. Bewley brought Mr. Hall-Patch, British Financial Attache to China, to call upon Mr. Wayne Taylor. Mr. Butterworth was present.

Mr. Hall-Patch began by saying that the attitude and position of the Japanese in North China differed from that in Southern and Central China. In North China the Japanese definitely intended to go through with their project of supplanting the existing Chinese currency by the issuance of the new Reserve Bank notes. In North China the Japanese militarists were in the saddle and all arguments of moderation or recitation of the real difficulties involved in such a drastic step carried little or no weight. It was the firm intention of the powers that be to impose the new Reserve Bank currency by March 10, the anniversary of the establishment of the Bank. To this end, exports were being held up for the most part unless exporters were willing to accept the new currency. Even Germany was receiving different treatment in North China from Manchoukuo. In Manchoukuo, under the German-Manchoukuo trade agreement, Germany was being given preferential treatment, but in North China the Japanese were, in effect, saying to the Germans, "You are our friends; therefore, why should you press us for foreign exchange? It is only these Democratic countries whom we should have to be bothered with and by."

Although Hall-Patch did not underestimate the very real difficulties involved in imposing such a drastic measure in such a short time, he was impressed by the determination of the Japanese authorities and he felt that due to the sectional feeling which has so long existed in North China, Japan had a fair chance of getting away with it.

To undertake any such step as regards Central and Southern China was an infinitely bigger problem and Hall-Patch believed that the Japanese would not now make this mistake.

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Hall-Patch considered that the two persons whose influence had, to date, been responsible for a more moderate policy were Munakata and Kodama. Kodama, in particular, had been a "hard nut" for the militarists "to crack"; formerly head of the Yokohama Specie Bank he had only come out of retirement on the condition that he be given a free hand and he was using that free hand with vigor and courage. Munakata, formerly the Bank of Japan representative in London, had also played an important and courageous part, but his teeth had now been somewhat pulled by a maneuver of the militarists in having him attached to them, thus curtailing his direct channel of communication with Tokio.

In this general connection, Hall-Patch emphasized how disorganized Japanese efforts were in Central China by reason of the lack of cooperation between the military and civil groups: "Japan in Central China speaks with a dozen different voices." Illustrative of this was the fact that although the militarists had not been able to have their way in supplanting the Chinese currency in Central China, they had nevertheless tumbled to the fact that if exports were held up they would have a powerful weapon and Hall-Patch considered that this was one of the reasons appealing to the militarists to keep the Yangtze closed. He also felt that the rapidity with which the Japanese were taking over the customs was cause for alarm and that the Chinese were making a mistake in playing for friction between Japan and the other foreign Powers, that should the customs be destroyed it would be next to impossible to recreate it.

On the other hand, he expressed astonishment at the ease with which the Chinese currency had thus far been held. The Hong Kong-Shanghai Banking Corporation was operating in Shanghai on behalf of the Chinese monetary authorities and Hall-Patch cited the fact that in the last three months or so they had only lost some 90,000 Pounds in holding the rate. Immigration remittances, which played an important part, are still coming in remarkably well. For the most part they came to the Hong Kong-Shanghai Bank who, in turn, passed the credit to Chinese banks

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in Hong Kong who, in turn, credited particular amounts to up-country Chinese banks; despite the war and ensuing disorganization, the system was working effectively. However, Hall-Patch considered that the spread between the official and market rates was too great and if maintained indefinitely would result in the immigration remittances being sent through other channels. He had, therefore, urged the Chinese authorities not to be too greedy and to diminish the spread in order not to lose their source of strength.

Incidentally Hall-Patch mentioned that since K. P. Chen had been away the Foreign Trade Board had somewhat changed its character and the brother of T. V. Soong had obtained a virtual monopoly of the trucking business; doubtless he and others were personally taking advantage of this situation.

Hall-Patch felt that the Japanese had been short-sighted about the manner in which they were obtaining Chinese produce, seizing it on every occasion and paying with Japanese Army bills. To date, the Chinese for the most part still preferred their own currency. In fact, Chinese resistance in general had been remarkable and he emphasized that when he was in China in 1928 he would never have believed such an effort possible. He added that both the effectiveness of the Chinese exchange control and resistance in general to Japan were being maintained by reason of the strength of the national feeling and also by the fear engendered through chopping off the heads of those who got out of line.

However, Hall-Patch did not underestimate the advantages which Japan had obtained in controlling almost all the natural entrances and exits to China and thought with the passage of time the advantages of their position would become more and more apparent.

Incidentally, with regard to the remaining non-Japanese controlled entrances and exits, Hall-Patch said that he had recently had a man go over the Yunnan-Burma Road who reported that it was not yet complete and that when the rains came much of the completed work would undoubtedly be washed away and another gang of a couple hundred thousand Chinese coolies would be needed to repair it. Communication between French Indo-China and China was, however, open. The French had given undertakings to the Japanese about restricting traffic, particularly as regards instruments of war, and the official and public French attitude was that these under-

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takings were being honored, but in point of fact they were not. Hall-Patch had talked with representatives of the foreign armament manufacturers who told him that even before the fall of Canton, Chiang Kai-Shek in order to obtain an alternate route had been forcing the armament exporters to send their shipments through French Indo-China and the French were prepared to let them through if too much fuss was not made about it.

Before leaving the Far East, Hall-Patch had spent a month or more in Japan where he found it was now fully realized that Chiang Kai-Shek is the cement making for Chinese resistance and unity. The Japanese, therefore, were taking the definite line that Chiang Kai-Shek must go. Furthermore, it seemed clear to Hall-Patch from both his conversations in Tokio and the action of the Japanese themselves that since the fall of Hankow and Canton, which encouraged them greatly, they are determined to exploit China for Japan's benefit and that Western interests will be allowed in China only on Japanese terms and to suit Japanese interest. It was noteworthy that in Japan itself there was more cooperation between the various civil and military groups and more of an attempt was made to arrive at common attitudes towards matters Chinese.

In Hall-Patch's opinion there is no reason to believe that Japan will crack up in the short run although there are signs of stress and strain which may well become more apparent in ensuing months. He felt that the foreign bankers, both in and out of Japan, and wandering economists who came to Japan, attach far too much significance to figures and not enough to the difference between Japanese and Western standards of living and to the capacity of the Japanese people to endure hardship and poverty. Furthermore, he was impressed by the improvement in the Japanese exchange control system. It had been chaotic in its early stages, but now delay had virtually been eliminated. The Japanese importer knew within ten days whether or not he would be allotted a given amount of foreign exchange for a given purpose and, therefore, could make

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his plans accordingly. Allocations of foreign exchange were still uneven. Incidentally, Hall-Patch mentioned that he had come upon three officials of the Reich Bank in Tokio and had ascertained that they were there to help the Japanese to improve the exchange control system. As illustrative of one type of stress and strain which might have unfavorable repercussions on Japan at any given time, Hall-Patch cited the fact that Japanese authorities had forbid Japanese insurance companies from re-insuring risks abroad. As a result, foreign insurance companies were beginning to discriminate against Japanese insurance companies. Furthermore, should a large fire or important domestic disaster occur, without the risk being spread through foreign re-insurance, the Japanese insurance companies might find themselves in grave difficulty.

There was some discussion of Japanese gold exports, about which Hall-Patch said that we knew more than he did, because Americans were employed in the gold producing areas as technicians, but Hall-Patch was very skeptical about the Japanese estimates, which he felt were on the optimistic side, particularly as regards Manchoukuo. Furthermore, he emphasized that Tokio might well experience great difficulty in obtaining Manchoukuo gold; that a spirit of "Manchoukuo for Manchoukuo" was growing up. This even applied to the Japanese who as the Number 2 in all establishments and enterprises really ran the show. The reason was that after the establishment of Manchoukuo as a Kingdom, Tokio had paid off the numerous Japanese Civil servants that it had sent there and they now had to look to their new State for salaries and pensions. Consequently, they were becoming more and more concerned about its interests which did not always coincide with those of Japan proper.

Hall-Patch expressed the opinion that united action on the part of Great Britain and the United States in, for example, denouncing commercial treaties with Japan, was the only external development which the Japanese really feared. In this connection, he mentioned that the Japanese had put forward to him

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and to other British officials a good many feelers for loans with the implication that if forthcoming then British interests in China would be respected by Japan. He said that Ambassador Craigie and he had both taken the line of referring to Craigie's five-point note and saying that they would believe that British rights and interests would be respected should loans be given, provided Japan took steps to implement its previous promises to Great Britain and dealt without delay with the matters mentioned in Craigie's note.

Hall-Patch talked about the whole position with apparent frankness and his general estimate of the Far Eastern position seemed to be that there were no definite indications that events were moving to force a change in the Japanese attitude; that the Japanese were making considerable progress in consolidating their position and that they were determined to exploit China for their own benefit and without undue regard for foreign rights and interests; that by the sheer force of their effort and by reason of their control of the main entrances and exits to China they might well "pull it off".

December 3, 1938.
11:31 a.m.

HMJr: Hello.

Allan Sproul: Hello Mr. Secretary, I want to correct one thing I said. I said sixty-one sixty-five on that alternative long bond.

HMJr: Yes.

S: I should say sixty-one sixty-six working with the yield, probable yield figure and premium I was working.

HMJr: Yes. Well now do you mind letting me switch you over to George Haas, wherever he is and you can tell him, because the boys all left the room to do a little figuring.

S: All right. Fine.

HMJr: Just a second, please.

S: Yes.

HMJr: Just a moment, please.

Operator: Operator.

HMJr: Would you see that Mr. Sproul is connected with George Haas, I don't know, he may be over with Lochhead.

O: I'll find him.

HMJr: But he's somewhere around, and let Mr. Sproul talk to him please.

O: All right.

HMJr: Thank you.

December 3, 1938.
12:00 Noon.

RE FINANCING

Present: Mr. Gaston
Mr. Harris
Mr. Hadley
Dr. Haas
Mr. Bell
Mr. Seltzer
Mr. Lochhead
Mr. Hanes
Mr. Ronald Ransom
Mr. Piser

H.M.Jr: George, how does it look to you now?

Haas: There is some range. A different yield basis they used, but the difference between those two long issues on the basis of the present market is about $5/32$'s.

Ransom: That's on the 80-85?

Haas: Yes, that's the one you had last night. 81-86, one year longer, I have figured one hundred one $16/32$'s which makes about $5/32$'s difference.

Ransom: You figured the $5/32$'s?

Piser: I think that's about right.

H.M.Jr: You figured it Harris?

Harris: Yes, sir.

H.M.Jr: George, you had half an hour with the fellows. Which do you recommend, the 80-85?

Haas: I would stay with that, yes, because I think part of this calculation is on the basis of the market which is run up on expectation. I think they are expecting a 80-85 and you can't figure this stuff that close. It's only a question of $5/32$'s and I think the problem as between those two issues is too small. My own personal opinion, I would stay with the 80-85.

- Harris: One objection is that it might give you a premium less than your rights.
- Seltzer: I definitely hold for 60-65.
- Piser: I still vote for the 61-66.
- Ransom: Why?
- Piser: The reason is the premium is a little closer in line with the two per cent bond and if you have too big a spread I am afraid a too large proportion of the conversion will be into the long bond and the 61-66 would make two issues of about equal price so that I think you would not get as much pressure on the longer bond if you have a longer maturity than if you have the 60-65.
- H.M.Jr: Archie?
- Lochhead: I would stick to the 60-65. I don't like this jump-up in the last day or two. It's frothy. I don't like to question this 5/32's that has been added on the last day. Incidentally, Mr. Taylor said that he preferred the 60-65. If, however, you wanted to stretch it a year, he would not make any serious objection.
- Bell: I don't believe by shifting the short bond for a year or the long bond a year that you are going to shift these exchanges materially, and if there is a chance now of exchanges going into longer bonds, I would rather have a higher premium so as to keep the bond on a better market condition later on.
- H.M.Jr: So you are in favor of.....
- Bell: 60-65, even though it is sweet.
- H.M.Jr: Do you want to say anything, Hanes?
- Hanes: I am impressed by the 60-65. That's what I would vote for.
- Ransom: I would like to get the premium closer together, but I am impressed that in the last few days we have had a run-up which might not indicate anything except the market situation and perhaps there is not as

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great a difference as we think. I would like it based on such a plan as would keep banks out of the long as much as we can, but I don't believe this difference of 5/32's is going to make any great difference and it may ease off when the final announcement comes out.

H.M.Jr: It could move off half a point.

Ransom: So I don't think there is such an obvious edge over the 61-66.

Bell: It seems to me it might have a little advantage from the standpoint of the Federal's portfolio to keep the 80-85. You have a higher premium; stand up longer.

H.M.Jr: Now, before we call up, if this is a fair question, what are you going to do with your 80-odd million?

Ransom: That I can't answer because I have had no opportunity to consult with the people who have to make that decision. I would be tremendously interested in knowing the views of these people as to what we could do to have the most stabilizing influence on the market. That's the thing I am most interested in.

H.M.Jr: But you are not apt to go into long bonds.

Ransom: I should not think so, but I would like to get the judgment.....

H.M.Jr: You can tell me Monday.

Ransom: of these people what would be the most stabilizing procedure to follow.

H.M.Jr: Still have them?

Ransom: As far as I know we have them.

Piser: 85 millions.

Ransom: If any of your boys have any definite opinion, I would be glad to have them express it.

H.M.Jr: I think we had better leave that to you fellows.

Ransom: All right.

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Haas: I might add that at the close, the market was inclined to shade off from its high. Dealers felt prices went up too high on the amount of business done.

(At this point H.M.Jr. spoke on the 'phone to Mr. Sproul as follows:)

H.M.Jr: Hello.

Operator: Sproul.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello.

Allan
Sproul: Hello.

H.M.Jr: Well!

Sproul: Yes.

H.M.Jr: We're all sitting here waiting to hear from the oracle.

Sproul: Well, you must have the wrong man.

H.M.Jr: Yes.

Sproul: I've thought it over and figured it over, combination of a nine year two and a twenty-three twenty-eight two and three quarter. Looks all right to me. I think it would give a chance - the best chance of a proper or an even distribution of the two bond issues in the market.

H.M.Jr: Well, the reason that the Treasury is unanimous for a sixty sixty-five.....

Sproul: Who is?

H.M.Jr: The Treasury.

Sproul: Yes.

H.M.Jr: Is that they feel that this run-up in the last two days is sort of fast and kind of faulty?

- Sproull: I think that's right.
- H.M.Jr: And it might perfectly well settle down.
- Sproull: I think there has been some covering of short positions among the dealers in the thin market for instance, and that when that is completed that the long bonds might go off a little.
- H.M.Jr: Bell pointed out to Ronald Ransom that if 60-65 is a little rich, why it is just that much more of a cushion before you fellows have to come in and support it.
- Sproull: Well, I think it is more a question of how many of those long bonds get out than of the calculation of what the premium might be which can be off on either side of this point.
- H.M.Jr: If you'll just wait a minute we'll give you a decision. Just wait a minute, will you?
- Sproull: Yes.
- (H.M.Jr: talks aside to group as follows:)
- H.M.Jr: I would like to make it 60-65.
- Ransom: I don't think there is enough difference to argue about.
- H.M.Jr: I am going to be very frank. If we get a billion dollars worth of bonds I am going to be rather proud of it. We will be there. We will help if necessary. I am not worried. Personally, I wouldn't mind getting one billion dollars' worth of these bonds.
- Ransom: There isn't anything about it that gives me concern.
- H.M.Jr: I will be very much surprised if it does, but it wouldn't bother me a bit. I would rather be bullish; that the United States Government can borrow that long -- give it that interpretation.
- Ransom: I have no argument.
- H.M.Jr: I want to tell you how I feel. I don't think it will go there.

- 6 -

Ransom: It sounds high to me.

H.M.Jr: Well, all right. I don't think it will go there because I think there is going to be a much better demand for the 2's than anybody thinks.

Ransom: I am inclined to think you are right there. You will get a surprising demand for that.

H.M.Jr: I still think there will be a very healthy demand for the 2's.

Ransom: I think so.

H.M.Jr: But if I am wrong and they go into the longs, I, as Secretary of the Treasury, would not be a bit concerned; in fact, I would be rather proud. I want you to know in time. I want to play as fair as I can. I don't think it is going to happen, but if it does, it is something to boast about.

Ransom: It wouldn't be alarming to you?

H.M.Jr: Not in the slightest, and just remember this, that if anything happens, I don't have to do anything March 15th. We could sit tight and skip March.

Ransom: I don't think you will have to.

H.M.Jr: But I am in that position. Check, Dan?

Bell: Uh-huh.

H.M.Jr: Certainly in six months you could absorb this thing. I could do nothing, or I could borrow money from Jesse on the three-year notes. We are in a very nice position. I don't think they will go to a billion, but if they do, it won't bother me.

Bell: O. K.

(At this point H.M.Jr: resumed his conversation with Mr. Sproul as follows:)

H.M.Jr: Hello.

Sproul: Yes.

H.M.Jr: We'll make it 60-65.

- 7 -

Sproul: 80-85?

H.M.Jr: And a nine year.

Sproul: And a nine year two?

H.M.Jr: Yes, and a five year one and one-eighth.

Sproul: And a five year one and one-eighth?

H.M.Jr: Yes.

Sproul: All right.

H.M.Jr: And thanks for all the help, and I feel very confident on the whole picture.

Sproul: Well, I have no question about the whole thing going over well.

H.M.Jr: Just as long as something that I can't foresee happens between now and Wednesday night, I think we are sitting pretty.

Sproul: I think that it will go very well, and the only question I had all along has been the question of the distribution as between the long and the short bond and not wanting to get too many longs out. I have no serious concern about the issue at all.

H.M.Jr: I still think that something you can't figure out with a slide rule is going to make people buy nine year two.

Sproul: That's the point. You can't figure that the factor of scarcity, the factor about the cash, the factor of filling in a fixed maturity in a desirable area.

H.M.Jr: Right! Well, I'm ever so much obliged for all your help. Just a minute, just a minute -- (pause) Mr. Ransom says when he gets back to his office he is going to call you as to what system will do.

Sproul: Yes. All right, I'll expect a call from him then.

H.M.Jr: Thank you very much.

Sproul: Thank you.

H.M.Jr: Good bye.

December 3, 1938.
12:10 p.m.

Operator: Operator.

HMJr: Mr. Sproul please.

O: Right.

HMJr: Hello.

O: Sproul.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Allan
Sproul: Hello.

HMJr: Well!

S: Yes.

HMJr: We're all sitting here waiting to hear from the oracle.

S: Well, you must have the wrong man.

HMJr: Yes.

S: I've thought it over and figured it over, combination of a nine year two and a twenty-three twenty-eight two and three quarter . Looks all right to me. I think it would give a chance - the best chance of a proper or an even distribution of the two bond issues in the market.

HMJr: Well, the reason that the Treasury is unanimous for a sixty sixty-five -

S: Who is?

HMJr: The Treasury.

S: Yes.

HMJr: Is that they feel that this run up in the last two days is sort of fast and kind of faulty.

S: I think that's right.

- 2 -

HMJr: And it might perfectly well settle down.

S: I think there has been some covering of short positions among the dealers in the thin market for instance, and that when that is completed that the long bonds might go off a little.

HMJr: Bell pointed out to Ronald Ransom that if sixty sixty-five is a little rich, why it is just that much more of a cushion before you fellows have to come in and support it.

S: Well, I think it is more a question of how many of those long bonds get out than of the calculation of what the premium might be which can be off on either side of this point.

HMJr: If you'll just wait a minute we'll give you a decision. Just wait a minute, will you?

S: Yes.

(HMJr. talks aside to group
as follows)

HMJr: Hello.

S: Yes.

HMJr: We'll make it sixty sixty-five.

S: Sixty sixty-five?

HMJr: And a nine year.

S: And a nine year two?

HMJr: Yes, and a five year one and one-eighth.

S: And a five year one and one-eighth?

HMJr: Yes.

S: Alright.

HMJr: And thanks for all the help, and I feel very confident on the whole picture.

S: Well, I have no question about the whole thing going over well.

HMJr: Just as long as something that I can't foresee happens between now and Wednesday night, I think we are sitting pretty.

- 3 -

- S: I think that it will go very well, and the only question I had all along has been the question of the distribution as between the long and the short bond and not wanting to get too many longs out. I have no serious concern about the issue at all.
- HMMJr: I still think that something you can't figure out with a slide rule is going to make people buy nine year two.
- S: That's the point. You can't figure that the factor of scarcity, the factor about the cash, the factor of filling in a fixed maturity in a desirable area.
- HMMJr: Right! Well, I'm ever so much obliged for all your help. Just a minute, just a minute -- (pause) Mr. Ransom says when he gets back to his office he is going to call you as to what system will do.
- S: Yes. Alright, I'll expect a call from him then.
- HMMJr: Thank you very much.
- S: Thank you.
- HMMJr: Good bye.

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December 3, 1938.
12:49 p.m.

Operator: Governor Ransom.

Ransom: Yes.

HMJr: Hello.

Ransom: Turning this question of our own position over in my mind since I saw you, and speaking for myself alone because I won't have a chance to compare with the rest of them intelligently until the first of the week, it would be my thought - let's put our position fifty-fifty between the short-time bond and the note. I think we ought to stay out of the long-term bond.

HMJr: That's alright.

Ransom: Particularly in view of your thought that you are going to get a billion in it, why we want to keep as much reserve as we can on that one.

HMJr: Well, I said that was an outside possibility.

R: Well, you might -- you might at that.

HMJr: Yes, I really don't think it will go there.

R: Well, with the position you are in with the funds you have, why - ah - and excess reserve position such as it is, I wouldn't anticipate any Secretary reaction, but I think we had better stay out of it. You asked me and I hadn't even crystalized my own thinking on it, but --

HMJr: Well -

R: That would be my own feeling about it.

HMJr: That's what I thought you would do and I believe it's alright.

R: We'll get together the very first part of next week - Monday or Tuesday at the latest.

HMJr: Fine!

Ransom: We'll canvass that out and let you know.

HMJr: Thank you.

R: O.K.

- 2 -

HMJr: Hello - Hello.

R: Yes?

HMJr: Ah - after you left the Wall Street Journal ticker carried a little statement on what we were talking about.

R: They did?

HMJr: I don't know whether you have seen it. It came out at 11:54. They just brought it in now. On that thing about --

R: Yes. I'll try to check ours on it. I hadn't seen it.

HMJr: I think you will be interested in view of what you and I were talking about on the Dow Jones.

R: O.K. I'll get it right away.

HMJr: Thank you.

TREASURY DEPARTMENT

231

INTER OFFICE COMMUNICATION

DATE DEC 3 1938

TO Secretary Morgenthau

FROM Mr. Oliphant

For your information:

We have sent to the Acting Comptroller General a letter, (signed by Mr. McReynolds) about the WPA relief workers, asking them to reconsider their decision of November 22 to the Chairman of the United States Employees Compensation Commission. In its decision the General Accounting Office held that:

- (1) The Commission may not, under the provisions of Sec. 601 of the Economy Act of June 30, 1932, transfer to the United States Public Health Service from special funds under its control such sums as may be necessary for the continuation of medical services to injured relief workers; and
- (2) The appropriation made to the Employees Compensation Commission would not be available for payment of compensation of employees of the Public Health Service engaged in the work of furnishing medical services to relief workers if such employees actually continue to perform the same service under the Public Health Service as heretofore.



December 3, 1938.

MEMORANDUM

Mr. Taylor invited me in to a meeting which took place this morning when he received Mr. Bewley, Financial Counselor of the British Embassy in Washington. Also present were Messrs Lochhead, White and Butterworth. I understand Mr. Butterworth has prepared a memorandum for the Treasury of this conversation. For my own information I record the following.

Mr. Bewley explained that, in response to the request conveyed through him by Secretary Morgenthau, he had received from the British Treasury on the trip of the Queen Mary which arrived in New York December 1 certain documentation. He said this was not as complete as the Secretary requested, most importantly because such detailed information as the Secretary desired was not available to the British Treasury, due in part to the British regard for the professional attitude of the banks toward the confidential character of their clients' transactions with them.

Bewley did give specific figures in regard to gold holdings of the exchange equalization account. At the end of March, 1938, the account held 297 million pounds of gold. By September 30, the account had lost 140 million pounds; by the end of November another 60 million pounds; and 40 million pounds were required to cover future operations maturing in December. This left in the fund, therefore, approximately 60 million pounds or 300 million dollars. Bewley stated that the present plan was to increase toward the end of the year the fiduciary issue of the Bank of England by 60 million pounds which would be about 110 million pounds at the current rate or 5 hundred million dollars, thus giving the account a balance of approximately 8 hundred million dollars for the first of the year.

Bewley stated that the hoarded gold on the British market was estimated the last week in November at upwards of 200 million pounds. He could give no figures in regard to foreign capital holdings, particularly at short term, on the London market. He felt that the capital which had been leaving London recently had been entirely foreign. He thought the figures above cited proved conclusively that the British officials had been taking every appropriate and possible measure to stop the decline of sterling. There was considerable discussion of the possible effect on American prices of the depreciation of sterling, and it was agreed that any further talks on this subject be between Messrs. Bewley and White. Mr. Bewley remarked to Mr. Taylor

December 3, 1938.

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that in the conversation which Bewley had had with Secretary Morgenthau some days ago the latter had remarked that the French had not seen fit to follow American advices. Bewley asked Taylor if he could give him a little more light on the significance of this remark, particularly since it was desirable under the tripartite arrangement that the three parties there to be conversant with policies discussed between the various members. Mr. Taylor thought it would be necessary for him to speak further with Secretary Morgenthau before he could elaborate upon this point with Mr. Bewley.

B. M. Morgan
H.M.C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 3, 1938, 1 p.m.

NO.: 2044

FOR THE TREASURY DEPARTMENT.

This morning trading between banks very quiet and uneventful, and the tendency remained favorable to the franc. Rate for sterling was about the same as at closing last night. Pressure again experienced by the Belga.

The market appears to be unmoved so far by the Italian incident.

Today's financial press reports rumors that a monetary union is envisaged by Berlin and Praha; it is the view of financial writers, however, that it would be surprising if Germany would be successful in persuading Czechoslovakia to accept an arrangement which would be so detrimental to its interests.

There are reports that on the tenth of December conversations of an economic character will begin in Paris between the French and German Governments on two points - renewal of existing quota arrangements, and the situation resulting from Germany taking over Czech territory. The transfer of this territory brings up questions of customs, tariffs, quotas and financial transfer. It may be that there will also be discussion of the participation of the Reich in the service of Czech loans.

END MESSAGE.

Ea;LWW

WILSON.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: December 3, 1938, 1 p.m.

NO.: 684

No. 35 FOR TREASURY FROM HEATH.

The Financial Press (Government controlled) has predicted that the great increases in currency circulation and Reichsbank credits which took place in September would be reduced rapidly and substantially; however, this prediction has not been fulfilled as yet.

The Reichsbank statement for November 30 shows a total currency circulation of 9,844 million marks as compared with 9,856 million marks on October 30, 10,154 million September 30, and 7,180 million on November 30, 1937. Reichsbank credits (mainly bills rediscounted) totaled 8,407 million marks as compared 8,423 million marks at the end of October, 9,071 million marks at the end of September and 7,431 million marks on August 31. The increase during the last week of the month in credits was 923 million marks which offset the remarkable repayment of reichsmark credits during the first three weeks of November reported in my No. 34 for November 30.

Coincidentally with the increase of Reichsbank credits
occurred

ML -2- Berlin Dec. 3, 1938 9 a.m. #684

occurred an increase in Reichsbank deposits of 99 million marks to a total of 1,141 million marks.

With the statement there are also published figures of Reichsbank giro clearings which for November were 100 billion marks as compared with 104 billion in October, 103 billion in September and an average of 81 billion marks for the preceding eight months of 1938.

The money market which had as usual stiffened at the month-end eased somewhat yesterday. Call money was quoted at from $2 \frac{3}{4}$ to 3% as compared with $2 \frac{7}{8}$ to $3 \frac{1}{8}\%$ at the November close.

GILBERT

DDM:WNC

C A B L E

From: Bankers Trust Co. of N. Y.
London Office

Date: December 3, 1938
Saturday

ON NEWS STRAINED FRANCO ITALIAN POLITICAL SITUATION MARKET OPENED
OFFERED FOR FRANCS AND WANTED FOR DOLLARS BUT TENDENCY TURNED WHEN
FRENCH CONTROL ENTERED AS SELLER OF STERLING. BRITISH CONTROL STARTED
BUYING DOLLARS INDIRECTLY AT 4.68 AND OVER FORWARDS STEADY. DeCASTELLANE
REPORTS AGITATION BY LEFT REFERRED TO OUR 36902 MEETING SOME SUCCESS
SEVERAL UNPLEASANT INCIDENTS AND FURTHER STRIKES PROVINCES. BELIEVES
COMBINED FACTORS AGGRESSIVE LEFT ITALIAN INCIDENT AND RIBBENTROPS VISIT
TO PARIS MAY TURN CURRENT TREND FOR REPATRIATION FUNDS PARIS.

CONFIDENTIAL

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Dec. 3, 1938.

stat

Original of attached sent to the President (in Georgia)
by special messenger, train leaving at 6:45 p.m.

STRICTLY CONFIDENTIAL

December 3, 1938.

MEMORANDUM FOR THE PRESIDENT:

I understand that a proposal to impose an embargo on gold imports has been suggested as being an effective measure to protect the position of the dollar against further depreciation of sterling currencies. Such a step, in my opinion, would in the normal course of events have an effect on the exchange rates exactly opposite to the one desired, and in addition would have consequences which would increase the economic instability throughout the world.

An embargo on gold imports would increase the pressure against foreign currencies. During the past eleven months the demand for dollar exchange exceeded the supply arising from all international transactions other than gold shipments by almost \$1,500 million. The means of supplying the dollar exchange necessary to satisfy this excess demand has been the importation of gold. (So far this year about \$1,500 million of gold has been imported.) If the demand for dollar exchange continues to be in excess of the supply and if, further, dollars could not be acquired by the sale of gold to the United States, such dollars as are available on the foreign exchange market would become more valuable. In other words, numerous currencies would depreciate still further vis-a-vis the dollar. Since there does not seem to be any immediate prospect of a substantial shift in the demand-supply relationship for dollars an embargo on the imports of gold at this time would be a step in the direction of aggravating the very condition the proposal seeks to alleviate.

Furthermore, the declaration of an embargo on gold imports would -- quite apart from its political repercussions both domestic and foreign -- constitute a very disturbing factor in international economic relations. The Tripartite Accord might be terminated and the instability in exchange rates would be much intensified. Grave uncertainties with respect to international monetary and commercial matters would be introduced, the full consequences of which cannot be entirely foreseen.

FILE COPY

- 2 -

By curtailing the possibility of employing gold as a compensatory mechanism in the settlement of international balances, we would be promoting greater reliance on substitute devices. The cushioning effect that gold movements exert on exchange rates would be reduced and still more countries would resort to clearing agreements and the more undesirable forms of exchange control for the purpose of narrowing the fluctuations in exchange rates.

Finally, an embargo on gold would deal a blow to the prestige of gold which now rests almost wholly on its use as an international medium of exchange. As a nation possessing more than half the world's monetary gold stock, and as the third largest gold producer, we have a vital interest in the future of gold. In any case, any step which would help to undermine confidence in gold and endanger its use as an international medium of exchange should be taken only with the greatest reluctance.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 3, 1956

TO Secretary Morgenthau
FROM Herman Oliphant

For your information -

Nothing occurred at the Monopoly Hearing on Friday not amply reported in the press.

Today, Leon Henderson held forth for two hours in what I consider the best general presentation of our current problems that I have ever heard or read. Since he was outlining the program of the Committee, what he said was doubly important in making it clear that the purpose of the Committee is not moral reform, but the making of those functional changes necessary to restore our private competitive system to operation at that increased and constantly accelerated rate necessary to absorb the unemployed. His testimony will appear in printed form Monday.



TREASURY DEPARTMENT

242

INTER OFFICE COMMUNICATION

DATE: December 3, 1938

TO Secretary Morgenthau

FROM M. A. Harris
W. H. Hadley

	<u>Estimated Market Basis</u>	<u>Indicated Premium</u>
2-3/4% Treas. bond 1960/65 (23-27 yrs.)	2.63 - 2.65	2 pts. - 1 5/8 pts.
2-3/4% " " 1961/65 (23-28 yrs.)	2.64 - 2.66	1 7/8 pts. - 1 1/2 pts.
2-3/4% " " 1962/67 (24-29 yrs.)	2.65 - 2.67	1 3/4 pts. - 1 3/8 pts.
2-3/4% " " 1963/68 (25-30 yrs.)	2.66 - 2.68	1 5/8 pts. - 1 1/4 pts.
2% Treasury bond 12/15/47 (9 years)	1.86 - 1.90	1 pt. 5/32 - 26/32nds
2% " " 6/15/47 (8 1/2 yrs.)	1.80 - 1.83	1 pt. 18/32 - 1 pt. 10/32
1-1/8% Treasury note 12/15/43 (5 years)	0.93 - 0.95	30/32nds - 27/32nds

Note: The first premium is about the maximum that may be expected, while the second we view as a conservative estimate and probably about where the issues will open on the day of offering.

December 3, 1938

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My dear Mr. President:

I find that we no longer give allotments in full for Government subscriptions up to \$5,000. It is now \$1,000. Therefore, I thought it would not be worth your while to have me carry out your suggestion.

Yours sincerely,

The President,

Warm Springs, Georgia.



THE SECRETARY OF THE TREASURY
WASHINGTON

December 3, 1938

CONFIDENTIAL

Dear Mr. President:

In order to place the Treasury in funds to provide for expenditures authorized by law, and to meet the March 15 maturity of about \$941,000,000 of Treasury notes, I propose, subject to your approval, under authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, to offer for subscription two series of Treasury bonds and one series of Treasury notes, all to be dated December 15, 1938. The offering will consist of a 22-27 year 2-3/4 percent bond, a 9 year 2 percent bond and a 5 year 1-1/8 percent note.

The long-term bond and the note will be offered for cash to the amount of \$400,000,000, or thereabouts, and \$300,000,000, or thereabouts, respectively, and both issues will also be open for the exchange of the March notes. The short-term bond will be open for exchanges only.

The authorizing act provides that bonds and notes may be issued only with the approval of the President. Accordingly, I trust that the proposed issues will meet with your approval. It is my intention to make public announcement of the offering on Monday, December 5.

Faithfully yours,

H. H. Clegg
Secretary of the Treasury.

The President,

The White House.

APPROVED:

Franklin D. Roosevelt
Dec 4 1938

December 3, 1938

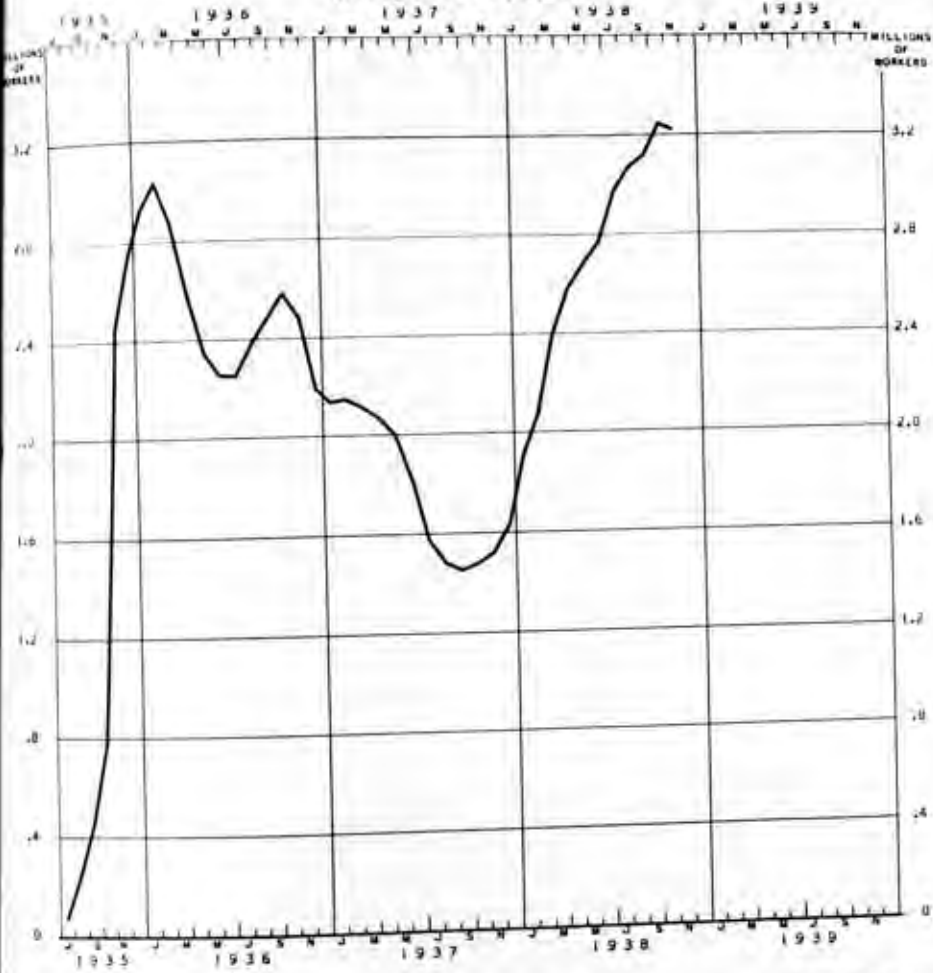
To: The Secretary
From: Miss Lonigan *E.L.*

The total number of WPA workers on November 26, 1938 is 3,215,564.

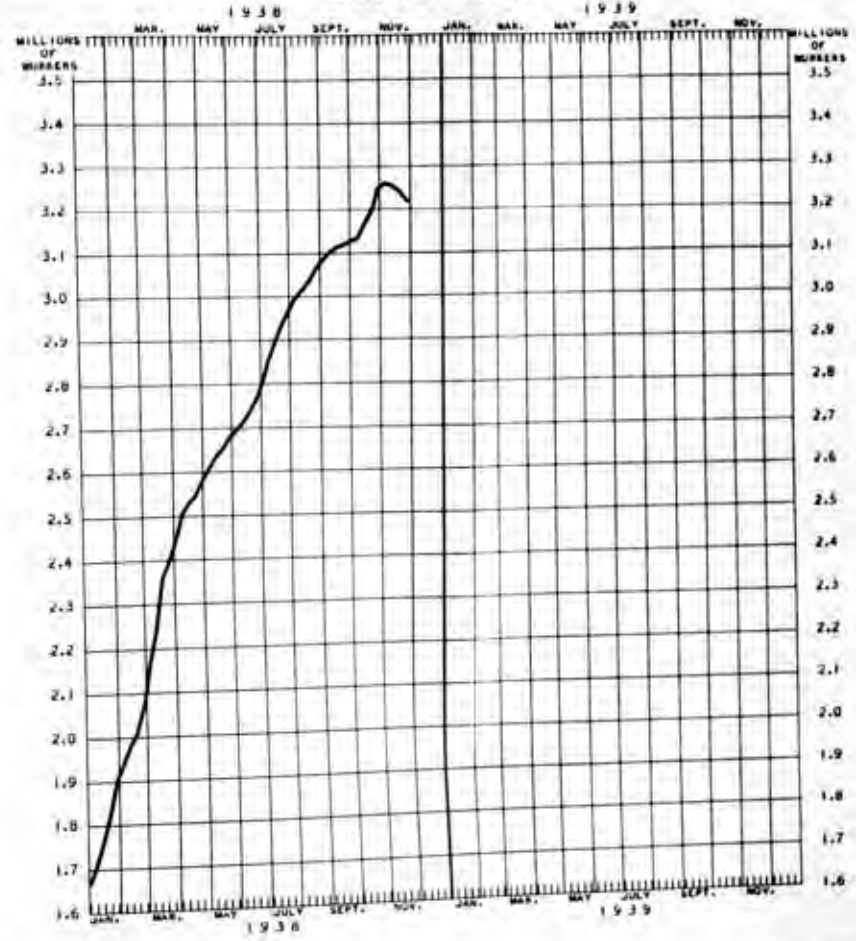
WPA
The decrease during the week from November 19 to November 26 was 27,991 workers. This is a total decrease of 47,062 workers from November 5 to November 26. The total increase from the low point of October 2, 1937 to the high point of November 5, 1938 was 1,814,215.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

WORKS PROGRESS ADMINISTRATION

247

Number of Workers Employed - Monthly

United States

	Number of Workers (In thousands)
1936	
January	2,926
February	3,036
March	2,872
April	2,570
May	2,340
June	2,256
July	2,249
August	2,376
September	2,482
October	2,581
November	2,482
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	2,967
August	3,067
September	3,120
October	3,245
November	3,216 ^{a/}

Source: Works Progress Administration

^{a/} Confidential

Monthly figures are weekly figures for the latest week of the month.

They include certified and non-certified workers.

WORKS PROGRESS ADMINISTRATION

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Number of Workers Employed - Weekly

United States

Week ending	Number of Workers (In thousands)
1938	
March 5	2,167
March 12	2,244
March 19	2,357
March 26	2,395
April 2	2,445
April 9	2,504
April 16	2,532
April 23	2,545
April 30	2,582
May 7	2,608
May 14	2,626
May 21	2,652
May 28	2,678
June 4	2,695
June 11	2,711
June 18	2,736
June 25	2,767
July 2	2,807
July 9	2,853
July 16	2,899
July 23	2,938
July 30	2,967
August 6	2,996
August 13	3,017
August 20	3,039
August 27	3,067
September 3	3,086
September 10	3,102
September 17	3,114
September 24	3,120
October 1	3,129
October 8	3,136
October 15	3,167
October 22	3,201
October 29	3,245
November 5	3,263
November 12	3,257
November 19	3,244
November 26	3,216 ^{a/}

Source: Works Progress Administration
a/ Confidential

12-3-38

Federal Surplus Commodities Corporation
 Summary of Commodities Procured -
 Fiscal Year 1938 and Fiscal Year 1939 to date

(Figures in thousands)

Commodity	Unit	Total	Total	7/1/38	9/1/38	9/8/38	9/15/38	9/22/38	9/30/38	10/6/38	10/13/38	10/20/38	10/27/38	11/3/38	11/10/38	11/17/38	11/24/38	Total
		fiscal year ended 6/30/38*	fiscal year 7/1/38 to 6/30/38	to 7/1/38	to 8/1/38	to 8/15/38	to 8/22/38	to 8/30/38	to 9/6/38	to 9/13/38	to 9/20/38	to 9/27/38	to 10/4/38	to 10/11/38	to 10/18/38	to 10/25/38	to 11/1/38	to 11/8/38
Apples (Dried)	Pounds	14,557	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	548
Apples (Fresh)	Bushels	5,625	-	-	-	-	-	3	110	198	166	70	1	-	-	-	-	548
Apricots (Dried)	Pounds	2,990	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3
Beans (Dried)	Pounds	58,800	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,430	3,430
Beans (Snap)	Bushels	33	35	-	-	1	1	-	-	-	-	-	-	-	-	-	-	38
Beets (Fresh)	Bushels	11	74	2	2	39	65	21	46	67	20	-	-	-	-	-	-	328
Blackberries (Canned)	Cases	-	-	80	80	-	-	-	-	-	-	-	-	-	-	-	-	80
Butter	Pounds	15,035	417	130	324	2,343	3,377	5,109	3,783	3,804	1,719	2,469	1,938	984	576	1,773	-	28,283
Cabbage	Bushels	990	56	154	163	357	370	236	216	194	133	36	25	45	30	-	-	2,634
Cane Syrup	Gallons	237	107	-	-	-	-	-	-	-	-	-	-	-	-	-	-	243
Carrots	Bushels	-	63	8	15	8	7	6	1	16	17	5	1	2	1	2	-	152
Chulliflower	Crates	-	19	2	-	-	-	-	-	-	-	-	-	-	-	-	-	21
Celery	Bunches	1,174	149	6	8	8	9	5	-	-	-	-	-	-	-	-	-	143
Cereal (Whole wheat)	Sacks	408	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	143
Cheese	Pounds	3,446	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8
Corn	Sacks	-	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	449
Corn Meal	Barrels	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25
Cotton	Bales	-	-	4	1	5	-	-	-	-	-	-	15	-	-	-	-	25
Cotton Fabric	Yards	1,133	60	29	44	14	-	3	22	1	-	30	22	15	16	-	-	256
Cottonseed Oil	Pounds	9,780	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cups (Shell)	Cases	270	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	279
Fish	Pounds	3,677	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Flour	Barrels	2,699	272	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grapes	Bunches	401	-	-	-	-	-	-	84	214	-	-	227	132	5	95	-	1,228
Grapefruit Juice	Cases	552	-	464	-	7	-	-	-	-	-	-	-	-	-	-	-	-
Grapes	Tons	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,560
Labels	Labels	-	-	-	15,560	-	-	-	-	-	-	-	-	-	-	-	-	2,550
Mattress Ticking	Yards	-	-	-	-	-	-	2,550	-	-	-	-	-	-	-	-	-	-
Milk (Dry skim)	Pounds	21,520	2,681	5,960	515	320	425	534	551	580	631	652	1,947	4,823	3,042	4,559	-	979
Milk (Field)	Quarts	12,497	4,709	5,909	515	524	425	534	551	580	631	652	1,947	4,823	3,042	4,559	-	831
Onions	Pounds	3,000	394	7	32	53	161	78	153	74	35	12	-	-	-	-	-	979
Oranges	Boxes	1,932	404	50	66	52	64	54	67	64	35	12	-	-	-	-	-	831
Pepper Sage	Bags	21,625	-	9,075	-	-	-	-	4,791	1,873	913	-	-	-	-	-	-	9,075
Peaches (Dried)	Pounds	2,534	-	-	1,223	-	2,300	-	-	-	-	-	-	-	-	-	-	11,190
Peas (Fresh)	Bushels	3	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6
Pears (Fresh)	Boxes	316	31	96	73	17	12	-	-	-	-	-	-	-	-	-	-	243
Pears (Canned)	Cases	862	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11
Pears (Dried)	Pounds	6,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3
Pears (Fresh)	Bushels	-	3	-	-	-	-	-	204	122	36	8	-	-	-	-	-	378
Potatoes (Sweet)	Bushels	440	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,367
Potatoes (White)	Bushels	4,315	1,907	108	12	-	42	231	45	19	2	-	-	-	-	-	-	42
Potato Starch & Flour	Pounds	2,562	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13
Prunes (Dried)	Tons	55	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11
Prunes (Fresh)	Bushels	-	-	-	5	5	3	-	-	-	-	-	-	-	-	-	-	-
Raisins	Tons	15	11	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rice (Milled)	Pounds	73,190	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	145
Tobacco	Pounds	3,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	116
Tomatoes (Canned)	Cases	50	145	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tomatoes (Fresh)	Bushels	282	73	16	20	4	1	-	-	-	-	-	-	-	-	-	-	116

December 3, 1938

Treasury Department, Division of Research and Statistics.

* Weekly figures reported by Federal Surplus Commodities Corporation are based on telegraphic reports and are unrevised. Fiscal year 1938 totals have been revised to include all contract cancellations and other adjustments.

Regraded Unclassified

DECEMBER 3, 1938

TELEGRAM (VIA WHITE HOUSE WIRE)

REAR ADMIRAL ROSS T. MCINTIRE, U. S. N.
SURGEON GENERAL OF THE NAVY
WARW SPRINGS GEORGIA

WE WERE DELIGHTED TO LEARN OF YOUR APPOINTMENT AS
SURGEON GENERAL OF THE NAVY AND WE SEND YOU OUR
HEARTIEST CONGRATULATIONS ON YOUR PROMOTION BEST
WISHES FROM US BOTH

HENRY AND ELINOR MORGENTHAU

DECEMBER 3, 1938

TELEGRAM (VIA WHITE HOUSE WIRE)

REAR ADMIRAL ROSS T. MCINTIRE, U. S. N.
SURGEON GENERAL OF THE NAVY
WARM SPRINGS GEORGIA

WE WERE DELIGHTED TO LEARN OF YOUR APPOINTMENT AS
SURGEON GENERAL OF THE NAVY AND WE SEND YOU OUR
HEARTIEST CONGRATULATIONS ON YOUR PROMOTION BEST
WISHES FROM US BOTH

HENRY AND ELINOR MORGENTHAU

DECEMBER 3, 1938

TELEGRAM (VIA WHITE HOUSE WIRE)

REAR ADMIRAL ROSS T. MCINTIRE, U. S. N.
SURGEON GENERAL OF THE NAVY
WARM SPRINGS GEORGIA

WE WERE DELIGHTED TO LEARN OF YOUR APPOINTMENT AS
SURGEON GENERAL OF THE NAVY AND WE SEND YOU OUR
HEARTIEST CONGRATULATIONS ON YOUR PROMOTION BEST
WISHES FROM US BOTH

HENRY AND ELINOR MORGENTHAU

Delee (via W.H. wire)

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Rear Admiral Ross T. McIntire, U. S. N.,
Surgeon General of the Navy
Warm Springs, Georgia

~~simply both~~
We were delighted to learn of your appointment as
Surgeon General of the Navy and we send you our heartiest
congratulations on your promotion Best wishes from us
both

Henry and Elinor Morgenthau



THE SECRETARY OF THE TREASURY
WASHINGTON

December 3, 1938

CONFIDENTIAL

Dear Mr. President:

In order to place the Treasury in funds to provide for expenditures authorized by law, and to meet the March 15 maturity of about \$941,000,000 of Treasury notes, I propose, subject to your approval, under authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, to offer for subscription two series of Treasury bonds and one series of Treasury notes, all to be dated December 15, 1938. The offering will consist of a 22-27 year 2-3/4 percent bond, a 9 year 2 percent bond and a 5 year 1-1/8 percent note.

The long-term bond and the note will be offered for cash to the amount of \$400,000,000, or thereabouts, and \$300,000,000, or thereabouts, respectively, and both issues will also be open for the exchange of the March notes. The short-term bond will be open for exchanges only.

The authorizing act provides that bonds and notes may be issued only with the approval of the President. Accordingly, I trust that the proposed issues will meet with your approval. It is my intention to make public announcement of the offering on Monday, December 5.

Faithfully yours,

H. Mayntz
Secretary of the Treasury.

The President,

The White House.

APPROVED:

Franklin D. Roosevelt
Dec 4 1938

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o
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CABLE RECEIVED FROM CHUNGKING

Dated Chungking, Dec.4, 1938
Recd. Washn.D.C. Dec.4, 1938

FROM: Dr. H.H.Kung
TO: Mr. K.P.Chen

(Dec.3rd) Please inform Mr. Morgenthau Japanese trying extensively to circulate Japanese military notes and counterfeit of Chinese bank notes in occupied area in effort to provide themselves with funds and to discredit lawful currency (stop) Have protested to British Ambassador after learning that the British Authorities in Tientsin have passed motion proposed to allow bogus government Federated Reserve Bank notes to be accepted (stop) Sincerely hope American Government will take steps to prevent their banks and firms in North China from following suit (stop) We are doing everything practicable to oppose such measures which are contrary to foreign as well as Chinese interests because such () ? are certain to involve exchange and trade control to the serious detriment of other than Japanese interests (stop) We would appreciate any steps American Government may be in position to take to oppose such schemes.

H.H.KUNG

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, December 5, 1938.
12/3/38

Press Service
No. 15-53

Secretary of the Treasury Morgenthau today announced the December 15 financing, offering for cash subscription, through the Federal Reserve Banks, at par and accrued interest, \$200,000,000, or thereabouts, of 22-27 year 2-3/4 percent Treasury bonds of 1960-65, and \$300,000,000, or thereabouts, of 5-year 1-1/8 percent Treasury notes of Series B-1943, and at the same time, offering the holders of 1-1/2 percent Treasury notes of Series C-1939 maturing March 15, 1939, the privilege of exchanging such maturing notes for additional amounts of either the Treasury bonds or the Treasury notes offered for cash subscription, or for a new series of 9-year 2 percent Treasury bonds of 1947, the exchange in any case to be made par for par, with an adjustment of accrued interest as of December 15, 1938.

The 2-3/4 percent Treasury bonds of 1960-65, now offered for cash and in exchange for Treasury notes maturing March 15, 1939, will be dated December 15, 1938, and will bear interest from that date at the rate of 2-3/4 percent per annum payable semiannually. They will mature December 15, 1965, but they may be redeemed at the option of the United States on and after December 15, 1960.

The 2 percent Treasury bonds of 1947, now offered only in exchange for Treasury notes maturing March 15, 1939, will be dated December 15, 1938, and will bear interest from that date at the rate of 2 percent per annum payable semiannually. They will mature December 15, 1947, and will not be subject to call for redemption before maturity.

Both series of bonds will be issued in two forms: bearer bonds, with interest coupons attached, and bonds registered both as to principal and interest;

both forms will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

The Treasury notes of Series B-1943 also offered for cash and in exchange for Treasury notes maturing March 15, 1939, will be dated December 15, 1938, and will bear interest from that date at the rate of 1-1/8 percent per annum, payable semiannually. They will mature December 15, 1943, and will not be subject to call for redemption before maturity. They will be issued in bearer form only with interest coupons attached, in the denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

The Treasury bonds and the Treasury notes will be accorded the same exemptions from taxation as are accorded other issues of Treasury bonds and Treasury notes, respectively, now outstanding. These provisions are specifically set forth in the official circulars issued today.

Subscriptions will be received at the Federal Reserve banks and branches, and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Cash subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case and for each cash offering to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Cash subscriptions from all others for either cash offering must be accompanied by 10 percent of the amount of bonds or notes applied for. Exchange subscriptions for either series of bonds or for the notes should be accompanied by a like face amount of 1-1/2 percent Treasury notes of Series C-1939 tendered in payment, to which final coupon dated March 15, 1939 should be attached.

The right is reserved to close the books as to any or all subscriptions or classes of subscriptions at any time without notice, for either series of the

Treasury bonds or for the Treasury notes and with respect to the cash offering or with respect to the exchange offering thereof. Subject to the reservations set forth in the official circulars, all cash subscriptions will be received subject to allotment and exchange subscriptions will be allotted in full.

Payment for any bonds or notes allotted on cash subscriptions must be made or completed on or before December 15, 1938, or on later allotment. Treasury notes of Series C-1939, maturing March 15, 1939, with final coupon due March 15, 1939, attached, will be accepted at par in payment for any bonds or notes subscribed for and allotted, and accrued interest on the surrendered notes from September 15 to December 15, 1938, (about \$3.77 per \$1,000) will be paid following their acceptance.

Treasury notes of Series C-1939, maturing March 15, 1939, are now outstanding in the amount of \$941,613,750. The present offering will be the only opportunity afforded the holders of these maturing notes to exchange them for other interest-bearing obligations of the United States. About \$173,000,000 interest on the public debt will be payable on December 15, 1938.

The texts of the three official circulars follow:

UNITED STATES OF AMERICA

2-3/4 PERCENT TREASURY BONDS OF 1960-65

Dated and bearing interest from December 15, 1938

Due December 15, 1965

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND AFTER DECEMBER 15, 1960

Interest payable June 15 and December 15

1938

Department Circular No. 598

Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, December 5, 1938.

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for 2-3/4 percent bonds of the United States, designated Treasury Bonds of 1960-65. The amount of the offering is \$400,000,000, or thereabouts, with the right reserved to the Secretary of the Treasury to increase the offering by an amount sufficient to accept all subscriptions for which Treasury Notes of Series G-1939, maturing March 15, 1939, are tendered in payment and accepted.

II. DESCRIPTION OF BONDS

1. The bonds will be dated December 15, 1938, and will bear interest from that date at the rate of 2-3/4 percent per annum, payable semiannually on June 15 and December 15 in each year until the principal amount becomes payable. They will mature December 15, 1965, but may be redeemed at the option of the United States on and after December 15, 1960, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the

Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, or gift taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and

the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Cash subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Cash subscriptions from all others must be accompanied by payment of 10 percent of the amount of bonds applied for. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, subscriptions in payment of which Treasury Notes of Series C-1939 are tendered will be allotted in full. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted on cash subscriptions must be made or completed on or before December 15, 1938, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of bonds applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for bonds allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal

Reserve bank of its district. Treasury Notes of Series G-1939, maturing March 15, 1939, with coupon dated March 15, 1939, attached, will be accepted at par in payment for any bonds subscribed for and allotted, and should accompany the subscription. Accrued interest from September 15, 1938, to December 15, 1938, on the maturing notes (\$3.770718 per \$1,000) will be paid following acceptance of the notes.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

UNITED STATES OF AMERICA

1-1/8 PERCENT TREASURY NOTES OF SERIES B-1943

Dated and bearing interest from December 15, 1938 Due December 15, 1943

Interest payable June 15 and December 15

1938
Department Circular No. 600
Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, December 5, 1938.

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for 1-1/8 percent notes of the United States, designated Treasury Notes of Series B-1943. The amount of the offering is \$300,000,000, or thereabouts, with the right reserved to the Secretary of the Treasury to increase the offering by an amount sufficient to accept all subscriptions for which Treasury Notes of Series C-1939, maturing March 15, 1939, are tendered in payment and accepted.

II. DESCRIPTION OF NOTES

1. The notes will be dated December 15, 1938, and will bear interest from that date at the rate of 1-1/8 percent per annum, payable semiannually on June 15 and December 15 in each year until the principal amount becomes payable. They will mature December 15, 1943, and will not be subject to call for redemption prior to maturity.

2. The notes shall be exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes, or gift taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority.

3. The notes will be accepted at par during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury

in payment of income and profits taxes payable at the maturity of the notes.

4. The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

5. Bearer notes with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The notes will not be issued in registered form.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Cash subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Cash subscriptions from all others must be accompanied by payment of 10 percent of the amount of notes applied for. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, subscriptions in payment of which Treasury Notes of Series C-1939 are tendered will be allotted in full. Allotment notices will be sent out promptly

upon allotment, and the basis of the allotment will be publicly announced.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for notes allotted on cash subscriptions must be made or completed on or before December 15, 1938, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of notes applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for notes allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve bank of its district. Treasury Notes of Series C-1939, maturing March 15, 1939, with coupon dated March 15, 1939, attached, will be accepted at par in payment for any notes subscribed for and allotted, and should accompany the subscription. Accrued interest from September 15, 1938, to December 15, 1938, on the maturing notes (\$3.770718 per \$1,000) will be paid following acceptance of the notes.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

UNITED STATES OF AMERICA

2 PERCENT TREASURY BONDS OF 1947

Dated and bearing interest from December 15, 1938

Due December 15, 1947

Interest payable June 15 and December 15

1938
Department Circular No. 599

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, December 5, 1938.

Public Debt Service

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par, from the people of the United States for 2 percent bonds of the United States, designated Treasury Bonds of 1947, in payment of which only Treasury Notes of Series C-1939, maturing March 15, 1939, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Notes of Series C-1939 tendered and accepted.

II. DESCRIPTION OF BONDS

1. The bonds will be dated December 15, 1938, and will bear interest from that date at the rate of 2 percent per annum, payable semiannually on June 15 and December 15 in each year until the principal amount becomes payable. They will mature December 15, 1947, and will not be subject to call for redemption prior to maturity.

2. The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, or gift taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals

partnerships, associations, or corporations. The interest on an amount of bonds authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt

any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par for bonds allotted hereunder must be made or completed on or before December 15, 1938, or on later allotment, and may be made only in Treasury Notes of Series C-1939, maturing March 15, 1939, which will be accepted at par, and should accompany the subscription. Coupons dated March 15, 1939, must be attached to the notes when surrendered, and accrued interest from September 15, 1938, to December 15, 1938, (\$3.770718 per \$1,000), will be paid following acceptance of the notes.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.
Secretary of the Treasury.

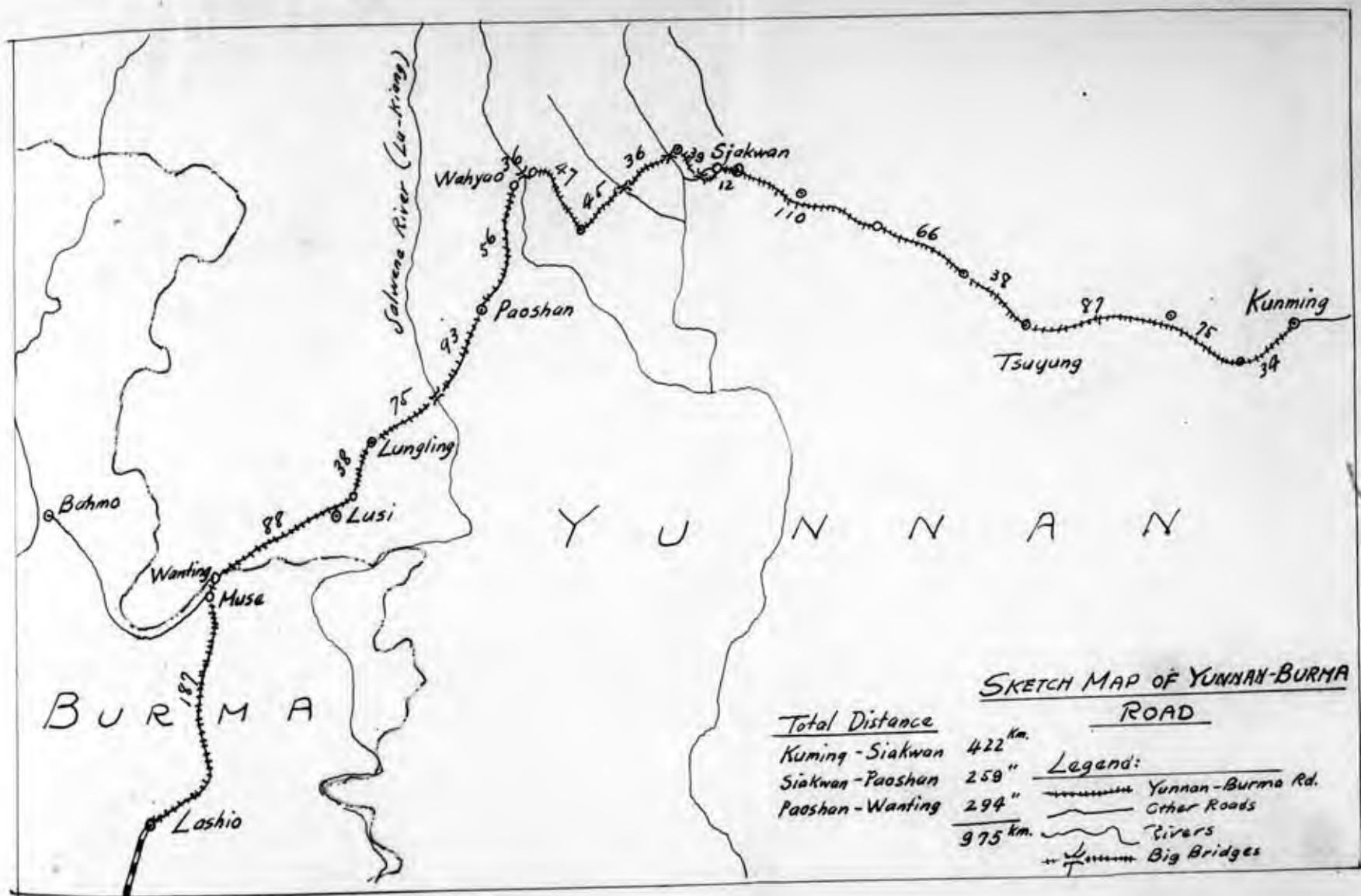
Translation of a cablegram received from
Bureau of Highways, Ministry of Communications,
Chungking. -----

Dated, Chungking, Dec. 5, 1938.
Recd., Washington, D.C., Dec. 5, 1938.

For Mr. T. K. Chao:

Your wire inquiring condition of Yunnan-Burma Road
received (Stop) Section between Paoshan and Lashio
already opened to traffic (Stop) Passage with some
difficulty (Stop) Strengthening of bridge over
Lu-Kiang for heavy loading will be completed in January
(Stop) Bridges and macadam surfacing in Lusi County
progressing slowly and Ministry issued strict orders to
complete the work before end of the year.

Remarks: Kunming Paoshan Section of the road is in good
condition, bus service being operated on the section
between Kunming and Siakwan. Lu-Kiang is the upper section
of Salwene River, the bridge is to be strengthened to
ten-ton loading.



December 5, 1938.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston
SUBJECT: Eccles bank plan.

W.F.S.

Alfred F. (Mike) Flynn dropped in to see me Friday afternoon and told me that he had learned at the Federal Reserve Board that Chairman Eccles had submitted a memorandum on the subject of banking legislation to you. After some fencing I admitted that you had a memorandum on that general subject from Eccles, but I could not tell him anything about the contents or whether it was a communication from Eccles or from the Board. He said that he knew as a matter of fact that it was not from the Board; that there was some difference of opinion on the part of the Board and that it represented only Eccles' personal views. He wrote a story about it, which appeared in the Wall Street Journal of Saturday morning and subsequently there were brief summaries on the Dow Jones and the N.F. tickers. You asked me about it during the morning and I reported in substance the above.

At your request I called up Elliot Thurston, told him what had happened and asked for his suggestions as to how we should meet further questions on the subject. He expressed amazement that the story had gotten out, that he had not given it to Flynn, that he had not seen him in several days and that he did not know of anyone around the Board that knew about it besides Eccles and himself. He added that his only contact with the Wall Street Journal within the last few days had been with Barney Kilgore, head of the Wall Street Journal Bureau here, who had wanted to talk to Eccles and on being told that Eccles was in New York had said that he would call him up. I asked Thurston if he thought Eccles might have told Kilgore in their telephone conversation, but he said he thought that was unlikely. He expressed extreme concern about how that sort of leaks occurred and said he would let me know if he learned anything further.

Later in the day there appeared on the Dow Jones ticker a denial on behalf of Chairman Eccles that he had submitted any plan of legislation to you. After this had appeared Mike Flynn called me up and told me that Thurston had called up Kilgore to try to get him to deny their story and asked me to support his recollection of what had passed between us. I repeated the conversation as I recalled it, substantially as above, and told him that of course I would not go back on anything I had told him, at which he expressed great pleasure,

- 2 -

adding "It isn't the first time that that so and so over there has tried to put me out on a limb." I also called up Kilgore and repeated to him exactly what I had said to Flynn. Later in the day Thurston called me up to tell me what he had done. *MS*

Today, Monday, the Dow Jones ticker carried a story reaffirming their assertion of Saturday that Eccles had submitted suggestions on the subject of banking legislation to you. Thurston again called me up, after seeing that on the ticker, and I told him that they had called me back and that I had confirmed what I had previously told Flynn as I had reported it to him, Thurston. He suggested it was not worth bothering about any more and I agreed. Your reply to Eric Friedheim's question at the press conference today confirmed precisely so much of the Wall Street Journal story as I had previously admitted was correct.

--oOo--

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- 2 -

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--oOo--

Translation of Cablegram

Dated Chungking, Dec.5, 1938
Recd. Washn.DC, Dec.5, 1938

FROM: Foreign Trade Commission
TO: K.P.Chen

Shipment of woodoil from Chungking via Kunming to Haiphong and Hongkong is quite practicable. Experimental shipments have been made from Chungking. One shipment of 50 tons contained in Kerosene tins was sent by junks to Suifu and then via motor road to Kunming, thence by rail to Haiphong. This shipment has already arrived Hongkong. Another shipment of 50 tons was sent in iron drums via motor roads to Kweiyang, then to Kunming, thence by rail to Haiphong. This shipment has already reached Kunming. Four hundred motor trucks are expected to be delivered within two months. With the additional equipment and improved road conditions it is possible to increase the freight carrying capacity to 60/100 tons per day.

WASHINGTON, D.C.
December 5, 1938

Memorandum on Truck Selections.

Acting upon our decision to purchase a fleet of 1000 trucks for use on the Yunnan-Burma and other South-Western motor roads in China our engineers held several consultations with Capt. Collins and Mr. Freeman. Specifications for the required trucks were then drawn up and approved by Capt. Collins. They were then sent out to all standard truck manufacturers on November 22nd inviting them to send in bids with one week's time. Whereupon most of the manufacturers submitted their bids within the specified time and two firms asked for one day's extension which was granted. The eight bids are from the following firms:-

The White Motor Company,
Mack-International Motor Truck Corporation
Chrysler Corporation
General Motor Overseas Operations
Diamond T. Motor Car Co.
International Harvester Company
The Studebaker Export Corporation
The Ford Company

Our engineers Messrs. T.K. Chao and T.G. Chang have studied over these bids very carefully and prepared a detailed table of comparison analysing all factors as stated in the various bids. It was discovered that there are three classes of trucks offered: (1) Those that come fully within our specifications; (2) Those that do not come within our specifications; and (3) Those by certain modifications and strengthening come near to our specifications.

Of the (1) class there are: Mack, White, Dodge, (Model TH47) Diamond T, and G.M.C.

Of the (2) class there is Ford.

Of the (3) class there are: International, Chevrolet, Studebaker and Dodge (Model TF37).

- 2 -

In our general consideration of the various trucks offered it was agreed: that it is advisable to consider only regular standard makes instead of those with modifications and strengthening to fit into our specifications and (2) that heavy trucks are preferable than light trucks.

In accordance with the above agreed principles a selection was made and the following trucks are chosen:-

1. Mack
2. White
3. Dodge
4. Diamond T.
5. G.M.C.

And a table of comparison is then drawn up to show their relative merits and price range. According to this table it was shown that Diamond T and Dodge are the lowest priced, White and Mack are superior in construction and G.M.C. is intermediary in both respects.

With the above materials and the various bids a consultation was held again with Capt. Collins and Mr. Freeman. After thorough discussion and careful analysis it was generally agreed that only the heavy type trucks should receive consideration and of the five selected G.M.C. and White are considered preferable by Capt. Collins and on account of the price difference being considered out of proportion to difference in construction our engineers suggested further negotiations should be conducted with all of them as to price reduction and service to be furnished. It was finally agreed to conduct such further negotiation and final decision to be made with Capt. Collins within three days.

Rangoon, Burma, December 6, 1938.

STRICTLY CONFIDENTIAL

SUBJECT: Burma Government states policy in regard to transit shipments of war materials.

THE HONORABLE

THE SECRETARY OF STATE,
WASHINGTON, D. C.

SIR:

I have the honor to report that the Government of Burma, on December 3d, issued a press communique designed to make clear the policy that it is meant to pursue in connection with transit shipments through Burma of war materials for China. The communique is that of the Government, not of the British Governor, and it amounts to a joint statement, based on agreement by the Burmese Ministers with the policy of the British Executive. The statement stresses general-trade possibilities, pointing out that for many years there has been an established trade route between Burma and China, and that as a result of recent events in China trade conditions have changed and a trade revival has already commenced; it says that, while reports of large supplies of munitions of war being already on their way to the Chinese frontier are unfounded, "there is little doubt that in present circumstances and as long as the unfortunate hostilities continue between China and Japan the transport of munitions through Burma may assume considerable proportions", and that "the Govern-

ment of Burma are not aware of any obligation on them to interfere with this particular class of trade, and, indeed, regard it as merely incidental". (Despatch no. 83 of June 15, 1938).

A copy of the press communique, as published, is being enclosed herewith.

Attitude of Ministers.

As reported to the Department (despatch no. 128 of November 29, 1938), a denial of responsibility on the part of his Government for the shipment of war materials through Burma was published unofficially by DR. Ba Maw, Premier of Burma, following extensive publicity in connection with the arrival at this port of the S.S. STANHALL with the first cargo of supplies for China. All of the Ministers indicated a desire to have nothing to do with the matter, primarily because of the possibly unfavorable political reaction of the people of Burma. However, it was made plain to them by the Executive branch of the Government that it was held that Burma's neutral position demanded that permission be granted for transit shipments of war materials over established trade routes, and that it would be unneutral to prohibit such shipments. An agreement for the issue of the communique followed.

In connection with proposed transit shipments to China it is pointed out that some of the lead produced in the Northern Shan States, which are directly administered by the Governor, is exported to Japan, presumably for war purposes, and that it passes in transit through Burma proper on the way to its destination,

being

being shipped from Rangoon.

Danger of Influx of Chinese.

In the press communique the Government of Burma makes reference to the necessity of safeguarding the country from "the possible dangers which may follow in the train of a great trade development, such as a large influx of population from China". In its issue of November 28th the NEW LIGHT OF BURMA (largest Burmese daily) printed an editorial protesting against the new motor road in Yunnan and the proposed Yunnan-Burma railway on the ground of fear that a great wave of Chinese immigration would result from improved transportation facilities, and that Burma would be crushed out of existence between India and China. Similar expressions have appeared in other Burmese papers during the last few months. The same newspaper, on December 1st, printed a statement that greatly increased travel from China to Burma had already commenced, but a possible explanation of this may be found in reports that hundreds of Chinese coolies are being brought to Lashio to handle the war supplies that will be taken off the railway there and loaded into motor trucks. However, a British army officer who is familiar with the Burmo-Chinese frontier country told me a few days ago that without a far greater force than that now available for such service it would be practically impossible to patrol the entire border, and that he considered it probable that large numbers of Chinese refugees, deserters from the army and from labor camps, and others would make their way across the frontier into Burma.

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-4-

British Paper Praises Stand.

In an editorial-page statement in its issue of today (December 5th) the RANGOON GAZETTE, leading British daily, calls the Government communique a "timely statement of policy" and declares it surprising "that anyone in possession of the facts could honestly support the case for Japan in this war". The statement follows:

"The Burma Government's communique on trans-frontier trade with China is a timely statement of policy. When the story of the current Sino-Japanese war comes to be written a small part will be devoted to appreciation for those responsible for deciding that scarcely-veiled threats and assiduous propaganda should not have been made the occasion for another instance of the recession of moral principle in international dealing and another case of unhelpful treatment of China by the Powers. The communique does not take any such attitude, and puts the transit of munitions in perspective in relation to general trade, but it is nevertheless not without importance that threats or implied threats should have been so answered. Aggression grows with success. It would have been a shortsighted policy had attention been given to that section of public opinion that opposes the transit of munitions, in some cases, it is shrewdly believed, not altogether ingenuously. That anyone in possession of the facts could honestly support the case for Japan in this war and overlook such phases as the fate of Nanking, and at present of Canton, is sufficiently surprising. Added to this is the failure of some to understand that some day China must win, that China will increase in importance as a power, and will regard trade with and via Burma as a primary consideration. Western China is due for development, and Burma can, to take the practical standpoint, do good business accordingly. Official opinion has not always been encouraging, but this communique commits the Burma Government to the future of trans-border trade. It speaks of developments. The wishes of the Chinese are well known. They wish transport facilities to be pushed forward, including a railway. Lashio is not so far from the Chinese frontier. At the same time the Burma Government is wisely committed to meeting public apprehension regarding possible population movements on the frontier."

Respectfully yours,

Austin C. Brady
American Consul

Enclosure

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Enclosure:**Copy of article.****Distribution:**

1. Original and four copies to Department.
2. Copy to American Embassy, London.
3. Copy to Consulate General, Calcutta.

800**ACE/ep**

(Published)

Enclosure to despatch no. 131, dated December 5, 1938,
from Austin C. Brady, American Consul at Rangoon, Burma.

Source: THE RANGOON TIMES, vol. LXXVI, no. 285, Decem-
ber 4, 1938, page 8.

(Copy of article)

TRADE BETWEEN BURMA AND CHINA

OFFICIAL STATEMENT OF POLICY

"STANBELL'S" CARGO STILL IN RANGOON

A Press communique states:-

Frequent references recently in the Press, even though they have been based on incorrect information as to facts, indicate a lively interest in the subject of Burma-China and particularly Burma-Yunnan trade, and the Government of Burma think it opportune to make an authoritative statement of the facts and of their policy.

There has been for many years an established and recognised trade route passing from Burma to Yunnan. A convention with China concluded as far back as 1894 dealt with mutual interests and with the fostering of trade relations between Burma and Yunnan.

The Tengyueh Route.

That trade, which followed mainly the Rhano-Tengyueh trade route, flourished in spite of difficulties of transport for many years and incidentally provided Burma with a considerable part of raw silk for its silk weaving industry. In later years conditions became adverse and the trade languished; but as a result of recent events in China, conditions have again changed and the Government of Burma have decided that they should take measures to encourage the Burma-Yunnan trade in consideration of the great benefits which the development of a flourishing trade must bring to the people and revenues of Burma.

Revival Already Started.

A revival of this trade has already commenced, but the Government of Burma envisage more important developments in future. While the reports that large supplies of munitions of war are already on their way to the Chinese frontier are unfounded, there is little doubt that in present circumstances and as long as the

unfortunate

unfortunate hostilities continue between China and Japan the transport of munitions through Burma may assume considerable proportions.

The Government of Burma are not aware of any obligation on them to interfere with this particular class of trade, and, indeed, regard it as merely incidental. Their interest lies not in this traffic but in the development of general trade between Burma and Yunnan including, in addition to the valuable transit trade, a reciprocal trade in the products of Burma and Yunnan to the maximum to which such trade can be developed under conditions acceptable to Burma.

Trade Negotiations.

The Government of Burma anticipate that negotiations for an arrangement regulating trade with the Government of China will take place at an early opportunity as they have received through His Majesty's Government assurances from the Chinese Government to that effect.

Finally the Government of Burma wish to make it clear that in considering all these questions and measures their first and foremost consideration will be their effect on the interests of Burma and the people of Burma, and they are fully conscious that it will be as necessary to safeguard the country from the possible dangers which may follow in the train of a great trade development, such as a large influx of population from China, as to be vigilant in promoting measures for the enhancement of the country's general prosperity.

RECEIVED

1942

THE SECRETARY GENERAL

INTERNATIONAL CONFERENCE

December 5, 1938.
8:58 a.m.

HMJr: Hello.

Operator: Mr. Sproul - go ahead.

HMJr: Hello.

Sproul: Hello, Mr. Secretary.

HMJr: How does it look, Sproul?

S: It looks alright. There was no bad news over the weekend that would interfere with the financing.

HMJr: Yes?

S: The market opened up this morning a little off, but it caught itself and is now holding onto the gains of last week.

HMJr: How do you think they received it?

S: I think they received it quite well.

HMJr: Good!

S: I've heard no criticism of the terms of the offering. I think the feeling is in the market that the longer bonds will go better than the intermediates, but that's not said in a cynical way.

HMJr: It will do what?

S: I say that the longer bonds will probably go out better than the short bonds, but that that is not said in a cynical way.

HMJr: Alright, I'll talk to you around noon.

S: Alright, fine.

HMJr: Good bye.

December 5, 1938.
9:30 a.m.

GROUP MEETING

Present: Mr. Oliphant
Mr. Gaston
Mr. Hanes
Dr. White
Mr. Lochhead
Mr. Gibbons
Mr. Bell
Mr. McReynolds
Mr. Haas
Mr. Duffield
Mrs. Klotz

HMJr: Herman?

Oliphant: I have nothing.

HMJr: Herbert?

Gaston: I have this letter from Mr. Merz. (Secretary read the following letter from Mr. Merz:

"Mr. Herbert Gaston, December 2, 1938
Assistant to the Secretary,
Treasury Department,
Washington, D. C.

Dear Herbert:

Thank you for sending me the material on employment about which we talked over the telephone. You may be sure that we shall study it with interest in this office.

I regret to report that I simply can not get away from New York next week, even though it means missing an opportunity of lunch with the Secretary. Part of the difficulty is the fact that we are beginning, the following week, publication of a series of seven editorials on the whole question of national defense, and I am deeply involved in this. But the main difficulty is that only a few days have passed since my appointment as Editor of The Times and I am simply snowed under with details, both inside and outside the office, in which that appointment has involved me. All this I hope will quiet down in a few days. Then I hope to get away

- 2 -

for a short rest, since I have been out of this office only two weeks since 1936.

I hope you will take this letter to the Secretary so that he may understand that it is only these extraordinary circumstances (certain to occur only once in a lifetime so far as I am concerned) that make it impossible for me at this moment to accept an invitation which I recognize to be an important one and for which I am deeply grateful.

Sincerely yours,

(Signed) Charles Merz.

THE NEW YORK TIMES *

HMJr:

Let's wait until he asks for it.

Gaston:

(Showed him the attached letter from Mr. Schwarz Assistant to the Publisher of Editor and then quoted letter.)

" December 1, 1938
The Honorable Henry Morgenthau,
Secretary of the Treasury,
Washington, D. C.

Dear Mr. Secretary:

Mr. Davenport has spoken to me about your request for tear sheets of the first Treasury article. Unfortunately we have not been able to comply with your request for 200 as these are not in existence but I am having fifty sent to you direct from our Jersey City printing plant.

These copies are what we call poor copies, and I would therefore greatly appreciate it if you would keep them within your own department. Though the December issue is almost exhausted, I have discovered that there are about twenty-five single copies left (at \$1.00 a copy) which we could let you have were you interested.

John Davenport is still away on vacation and has not spoken to me about the second Treasury story.

- 3 -

If by some chance you would care to have fifty similar tear sheets, would you be good enough to let me know as then I can be certain of getting them for you.

Sincerely yours,

(Signed) J. M. Schwarz.

Assistant to the Publisher.

FORTUNE. "

HMJr: I don't know who ordered the tear sheets. I didn't, but I would like to have 25 copies of Fortune.

Gaston: I am ordering 12 for the Treasury.

HMJr: If you will talk to Mrs. Klotz after this meeting and find out about the tear sheets too.

Gaston: All right.

HMJr: I would like 25 copies of the magazine for myself because I want to give some to Cochran and some to Butterworth to take back to Europe. It is amazing how few people read Fortune even those who take it.

Gaston: I haven't anything else.

Oliphant: I might record that Duffield did a good job of digesting the opinion on transferring the lawyers from the Comptroller's office to General Counsel's office.

HMJr: It was favorable to the lawyers?

Oliphant: Only one conclusion I see to that.

HMJr: Herman, this is Monday morning. Inside the Treasury, the sun is shining.

Oliphant: Pretty early!

HMJr: I will say here Herman is a fast worker. Oh, Herman! All right! What did you do, support the lawyers?

Duffield: I just summarized the opinion.

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HMJr: I'm off you for life!

Duffield: Preferred stock for the Anglo. All I have came over from RFC late Saturday and these are the conditions they attached to it, summarized. It came over so late everybody had gone.

HMJr: Those who are interested in the bank will stay behind. I will read it after this meeting.

George?

Haas: You might want this chart for the meeting at 10:15.

HMJr: It's all right. Incidentally, Herbert, the memo we dug up which George wrote two years ago about national income at a certain point. Will you show it to Alsop and Kintner.

Gaston: I haven't shown it to them.

HMJr: Well I would show it to them and make sure that they also get a chance to talk to Bell.

Gaston: Yes. They have asked for a chance to talk to Dan.

Bell: I have a conference at twelve o'clock with Kintner.

HMJr: Oh, you do! Good!

Haas: That's all I have.

Hanes: Giannini is going to testify today I understand instead of tomorrow. The taxation committee.

HMJr: I think Gene ought to go up to be there.

Hanes: We have had an observer during all the hearings, but this is a special case. I think you will want to have somebody else.

HMJr: I would like Gene to go especially.

Duffield: What time is it?

Hanes: They speak sometime during the afternoon, but nobody knows the exact time.

HMJr: Who is the secretary to the committee?

- 5 -

Duffield: I will find out.

HMJr: Mike Flynn will know.

Duffield: Yes.

Hanes: That's all.

HMJr: Harry, if you would be outside at 10:15 and be patient with me.

White: Do you know if that message got off. You didn't hear anything to the contrary?

HMJr: Message?

White: Saturday or Sunday.

Bell: He had ten minutes to make his train.

Mrs. Klotz: He's back.

White: Then he made it and he had less than ten minutes and it was raining cats and dogs and he couldn't get a taxi.

HMJr: That's all right. If the Coast Guard names an aide for me he will make his train. He is a good boy.

Bell: He had a minute and a half at the station and when he came back at Atlanta he had five minutes on the other end.

HMJr: McKay is a good boy. But he ran all the way?

White: I saw him running going and coming.

HMJr: Did you hold him up on the typing.

White: He couldn't get a taxi and finally had to take his own car.

He had no doubts. He said, "I'll make it".

HMJr: He's a good boy.

Mrs. Klotz: He never said a word.

- 6 -

HMJr: He was here this morning and never said a word; just said everything went along beautifully.

Mrs. Klotz: He said, "I get service when I'm down there. I get service."

Lockhead: Sterling is 4.69 $\frac{1}{2}$ and francs are quite strong. Quite a lot of gains to the French Fund this morning despite newspaper stories.

HMJr: Will you tell my friend to call up.

Why didn't they use a Coast Guard cutter with all that fussing and everything for Cardinal Mundelein?

Gibbons: He was taken down on a Coast Guard cutter.

HMJr: They went down on one of Moran's tugs.

Gibbons: They took him off and.....

HMJr: It was one of Moran's tugs. All this fussing -- you might ask the Collector.

Gibbons: The Collector of Customs went down. It may have been a tug was more suited for more people.

Gaston: That's what Harry has done in other cases, have Moran take care of it in the case of church dignitaries.

HMJr: Well, I would forget it.

Gibbons: There was quite a crowd. He called me on Saturday. The Bishop from out there was flying from Chicago and everybody had to wait until he arrived and fog was coming down and Harry was afraid that he wouldn't get there after all the fuss.

HMJr: What did he want you to do, dispel the fog?

Gibbons: Just wanted you to know they were doing everything they could.

See you later in the day with Mac.

HMJr: Oh yes. Little dirty work. Customs.

Gibbons: You saw this morning's Merry-Go-Round?

HMJr: Yes. Yes.

Bell: Shall I put in a subscription today for the new long term bonds for FDIC Postal Savings and Government life?

HMJr: Oh, Government Life! I wish I had thought of it before. We couldn't do it now, could we, put in the actual amount we want and announce that? We ought to give them one hundred per cent allotment. I suppose that should have been in today's announcement. Has that ever been done?

Bell: No.

HMJr: Then I don't want to do it.

Bell: Give everybody the same chance, Government trust funds as well as individuals.

HMJr: I would put Postal Savings in. Fifty millions.

Bell: Government Life for four and a half millions. Won't get very much.

HMJr: All right. All right. Nothing for FDIC.

Bell: They have a 105 million, 2 per cent.

HMJr: I know. I think I want to save that but I would put Postal in for fifty millions. They have fifty-five millions.

Bell: Fifty-two.

HMJr: Well, fifty millions. O.K.

Bell: Yes, and put in the Government life too.

HMJr: Yes. Think about it another time that we announce in advance, that we give Government Life - that we will set aside Government Life funds for investment in the new issue.

Bell: That can be found under the law. It just never has been done.

HMJr: I won't do it now, but I would want it in the announcement. Anything else?

- 5 -

Bell: That's all.

McReynolds: I understand that Bullitt is going to call you about this fellow Robbins. That's Oliphant's report (hands the Secretary Mr. Oliphant's report). Said he had flunked out in law school; not much of a lawyer.

Mrs. Klotz: Is that the fellow Bullitt was interested in?

HMJr: That other report for me, on how much less Taylor can sign.

McReynolds: Oliphant promised to report on that this morning.

HMJr: Yes, but I do business with you and I'm looking at you.

McReynolds: I'm still looking at him.

HMJr: I asked you on Saturday should I speak to Herman Oliphant and you said no.

Oliphant: We will have it today.

HMJr: When?

Oliphant: Well, say three o'clock to Mac?

HMJr: All right, three o'clock to Mac and Mac to me.

Oliphant: Three o'clock to Mac. Two forty-five to Mac.

McReynolds: You can have it at two forty-six then.

HMJr: All right.

McReynolds: (Handed Mr. Morgenthau a memo from Mr. Oliphant.)

Public Health came to me two months ago with a request for reallocation of Public Health funds to carry on from regular Public Health appropriation, the care of WPA patients going to Public Health hospitals. We got four hundred thousand directly allotted in the last relief appropriation bill to pay the cost of handling those patients. We asked for eight hundred millions, as a matter of fact, but they cut it down. They asked for well over a million but I cut it down to 800,000,000. Congress cut it in half and gave them four hundred thousand dollars. They came to me a couple of months ago

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with a statement that that amount will have disappeared by the first of January. They wanted to reallocate Public Health regular appropriations so as to carry them for the two months over that, January and February, until WPA could get additional funds to allot to us to make it up. What I said to them was, "If we do that and Congress does not authorize further money from WPA to pay for this hospitalization, you'll be in a hole. You'll have to go back and ask for a deficiency appropriation in violation of law." On Friday or Saturday they came in with a presentation of the case and I signed another request reopening the thing at our own instance and the Comptroller General's office, after I went to them directly, have promised to consider it and we may get it, but I thought I would tell you. I have saved a spot with respect to our own finances so that, if you decide, we can take care of it if they finally turn this down. But I thought we ought to do everything we can and go to the last ditch with them to get them to have it that way but that's the situation.

MEETING OF FISCAL AND MONETARY
ADVISORY BOARD

December 5, 1938.
10:30 a.m.

Present: Mr. Eccles
Mr. Delano
Mr. Bell
Mr. Currie
Mr. Ruml
Mr. Taylor
Mr. White
Mr. Haas
Mr. Sanford, FR Bank of NY (for part of meeting)
Mr. McReynolds

H.M.Jr: All right, teacher.

Ruml: I'm going to need some very large charts, and do you think the best place is that end of the room? I've got the charts here. I just wondered where ...

H.M.Jr: I think if you put them - yes.

Ruml: At that end of the room?

H.M.Jr: Yes.

Ruml: Does that order of business suit you?

H.M.Jr: All right with me, if it's all right with Mr. Delano.

(Hands agenda to Mr. Delano)

(Eccles and Currie come in)

Ask Mr. Eccles if that's all right.

Ruml: I've changed the order, because the first topic will take quite a lot of time.

Delano: Mr. Ruml, I believe those charts are so big, I think you'll have to bring those this side of the table.

(Messengers move charts into position)

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Rumi:

Now, if I may, let me put before you these pictures that you've already seen, simply for this reason: that this gives a somewhat simple idea of where we're going in the larger charts, and it's so simple here that I think it will be helpful to do it this way.

(Refers to charts entitled "Income and Disbursements", in which numeric velocity indicators are identified with classes of income and of disbursements to indicate effect on national income")

Now, you remember that when these were first presented, the general observations made on them were these. This is a classification of income; this is a classification of income; this is a classification of income; this is a classification of disbursement; this is a classification of disbursement. And our problem is to determine what the effect on national income is of the different classifications in the budget.

The figures which we have used here were presented - what we in the first meeting called velocity numbers, which we now call multipliers, and which we would be very glad to call nothing at all. There is a great deal of difference of opinion as to the nature of these numbers, not as to their magnitude so much, but as to their character. And for that reason I want to point out that the way these numbers are arrived at is by considerations of the relative amount that goes to consumption as compared to investment as compared to savings. What we do know is that there are differences, and we also know that within the limits of reasonable probability these things cannot give us any gross errors within terms of the magnitude of the whole problem that we're dealing with.

Now, the observations we made on these charts in our first meeting were these. In the first place, since our first meeting I have - it occurred to me that it would be helpful to refer to this as the visible budget, that is, the budget that we now know about; we can talk about this as being the invisible budget, the budget that relates itself to national income and purchasing power. By using that terminology

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we can have a way of talking about these things.

Now, the observation that we made the last time is that, although the visible and the invisible budget are related, there is not necessarily a one-to-one relationship between them; that it is possible to have a balanced visible budget with either a positive or a negative invisible budget. And by that we simply meant that this balanced budget (indicating) adds to purchasing power, this balanced budget detracts from it.

We observed that therefore there are two separate problems in considering a budget, one a financial problem, the other a production problem; that the issues relating to the financial problem are questions of whether or not the budget can be financed, the questions relating to the production problem are whether production can give the goods and services that the additional income will demand; that the inflationary problem and deflationary problem hinges around this particular budget, that the confidence problem hinges around the visible budget. We saw, in seeing that there are two problems there, that it is possible to get a consistent approach to the financial and production problem.

Now, we decided two meetings ago that the next step was to move from this abstract arithmetical analysis to a study of some concrete problems in terms of the budget as it really is. And what we did was this: we took the various budget items and asked the Treasury, the Federal Reserve Board, and the Federal Reserve Bank of New York independently to classify these various items in five classes as to their relative effect on purchasing power. These classifications were made independently; they were then taken together and any gross errors were eliminated. Mr. Sanford, of the New York Bank, helped me on that; he came to Washington, worked with one of Mr. Bell's men on the accounting side to clear up any points there.

Having done that, we then applied this analysis to the 1937 and the 1938 budgets, because we had those figures. Now if I get mixed up on detailed questions there, Mr. Sanford kindly came down from New York and

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I can step out to the other room and ask him any questions you ask me.

I think at this point, Mr. Secretary, I should like to show the 1937 budget, broken down in this form.

H.M.Jr: Mr. Bell said he thinks it's all right to bring Sanford in.

Bell: If you want to.

H.M.Jr: Would it help you?

Ruml: I'd feel a little better about it, because he might

H.M.Jr: (To Kieley) Ask Mr. Sanford to come in. He's outside. Sanford - he's outside.

(Sanford comes in)

Ruml: Mr. Sanford, do you know Secretary Morgenthau?

Sanford: How do you do, Mr. Secretary.

(Sanford is introduced to other conferees)

H.M.Jr: Go ahead, professor.

Ruml: Well now, what you see before you, ladies and gentlemen, is the 1937 budget. And whether these items are in the order with which you are familiar, I don't know, but this is the budget, excluding debt retirement and excluding trust funds. Is that correct, Mr. Sanford?

Sanford: That's right.

Ruml: I want to point out right now that this is made up for you for purposes of illustration. Being limited as it is to simply the - this budget - it does not give a complete picture of the effect of Federal operations. The trust funds ought to be taken into account, obviously, if we were making an economic analysis. But what I am trying to do now is to simply show you how the application of the arithmetic works when applied to a concrete problem of

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the budget itself.

These, then, are the items in dollar amounts on the receipt side, and this is on the expenditure side. When you take considerations into account of the effect of these various items on national income, we secure these figures, indicating that while a reduction of some 13 billion was taking place as a result of taxation, an addition of - on, of 22 billion was being made in expenditures in 1937; so that on the visible balance we have a deficit of three billion 148, and an invisible balance or an income effect of plus nine billion 044.

Now then, it is possible to, then, see here the figures that we took to get that result.

Now, it would be entirely possible, Mr. Currie tells me, to approach this thing from the other point of view, come to these multipliers, if you please, by direct considerations of spending, investment, and saving; that this particular terminology is old-fashioned and out of date. But nevertheless, I want to present this for what it is and Mr. Currie will set one up in the other form. But he assures me that the logic and the whole picture is not substantially different.

H.W.Jr: Now, Ruml, how do you get your multipliers?

Ruml: You get them this way, Mr. Secretary. You get them by giving consideration to the question of, in any particular classification of expenditure, what proportional amount of the money spent - of money put out by the Government is spent on consumption goods, what proportional amount is invested, and what proportion is saved. Now, by knowing that it is possible to determine, or to approximate, how many times per year or what the purchasing power effect of that particular activity is.

Now, the thing that I want to point out over and over again is that these figures here give an undue impression of precision from the standpoint of any knowledge we have about them; that our original classifications, Mr. Secretary, were made qualitatively; in other words, these five classifications - we simply

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talked about high, high middle, middle, low middle, and so forth; that in these three independent classifications we made there were no substantial differences of opinion; and finally that all the issues of policy with respect to budgetary policy both on the income and expenditure side - all that we can deal with today can be dealt with in qualitative terms if we must; in other words, you might debate on this point whether you wanted to use a multiplier of one, one and a half, or two, but it would have no practical effect, because anyone would agree that it's not three or three and a half. The same with anything on this side. Here's an item of one and a half - interest on public debt. It might be two, it might be one, but it certainly isn't three and a half and it certainly isn't three.

And for that reason, you see, you can have confidence in the analysis, provided you know always that the arithmetical figure gives an impression of undue accuracy. Now, you take a number, for example, such as 3.4; it looks there as if you had a slide rule and went out and measured the thing precisely. That isn't what happened at all. It means that's a composition of a number of different factors that have these rough figures that we used; namely, we used three and a half, three, two and a half, and one.

But the desirability of using the thing quantitatively comes out in getting your aggregate effect, because although this (invisible balance) might be a billion dollars plus or minus, for practical purposes it doesn't make any difference; the important thing was that it was nine, that it was not four, as it was in 1928. And the 1928 budget that I have here is analyzed in the same way, shows the thing around four billion instead of nine.

- H.M.Jr: Four billion?
- Huml: Four billion on the invisible balance.
- H.M.Jr: You mean minus?
- Huml: Plus.
- H.M.Jr: You mean it produced four billion.
- Huml: Four billion in 1938.

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- White: He said '28 but he meant '38.
- Ruml: I think you - here's the 1938 on a comparable basis (showing small hand chart). There are only two copies in that form.
- Just to show you how important it is to take the trust accounts into effect, we have an analysis here of the trust accounts which shows that in 1938, although you had a visible - I mean an invisible balance in income effect - it's four billion six, isn't it, Mr. Secretary, there over '38? - ...
- H.M.Jr: Yes.
- Ruml: ... when you take the trust accounts into account, it's dropped to three billion seven.
- Eccles: When you say trust accounts, you mean the Social Security.
- Ruml: Yes.
- H.M.Jr: I don't know what he means.
- Bell: You've got those trust accounts in there. You're talking about unemployment trust accounts.
- Ruml: What do I mean, Mr. Sanford?
- Sanford: That's right, unemployment trust fund, and the falling off in the payments to soldiers, cash bonus, between the '37 and the '38.
- Ruml: Well, the point is very important, because it shows that in terms of realistic pictures you have to take both into account and not merely this. But this is simply drawn up to give an indication as to how you would proceed under this type of analysis to, if you please, draw a program, because what you would do would be to make some estimates with respect to what you want here (invisible balance); that is, what invisible balance do you want? You'd determine that by making some examination as to what is physically possible, and you would then determine what you have to do as a going concern here. You would then determine on what tentative tax policy you wanted

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to adopt. You would then find out how far you are from that, and then you would make gross changes as you needed them. And you wouldn't expect it to come out within a billion or two dollars, and you wouldn't care very much; the errors we've been dealing with are errors of five, six, and eight billion rather than errors of one and two billion.

White: Mr. Ruml, that invisible balance - that's the additions to national income over a 12-month period?

Ruml: Over a 12-month period, of

White: Out of this particular expenditure. And therefore, when you say you'd first find out how much you'd like to increase it by, you merely say it's a very distant goal to shoot at, that there is no possibility of getting that amount within your budget - no political possibility.

Ruml: Well, obviously not; and there is no physical possibility in one year of getting there, because you have bottlenecks of one form or another; you'd disrupt your whole economic organization. But you can make a determination as to what is practical this year in view of what we know about items outside the budget, what we know about the securities market and the disposition of private business, what we know as to various capital shortages that might be taken up. And then you can determine what is conservative with respect to the budget itself.

Carrie: Moreover, Mr. Ruml, you'd say that's not - the aggregate quantity - that that's so significant as the change from the preceding year, whether it's nine billion

Ruml: I would today say that, Lauch, but I think as we learn more about these things what we're going to find out some day is that as an estimate of what private enterprise is doing all by itself. Do you see? In other words, if you take - if that figure were as good as it ought to be, and if our figures on national income were as good as they ought to be, we'd say that in 1938 nine out - in 1937 nine out of our 70 was produced; therefore, private enterprise

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was doing 61. It could do 90; you've got a 30 margin.

- White: Mr. Ruml, it would be very interesting if that were accompanied, not now but later, by an analysis of the budget for 1928, in which it would very clearly indicate the varying relationships between expenditures and national income. And you might come out, for example, with a minus addition, a net reduction on the national income, due to fiscal activities in 1928.
- Hess: Or you'd run into different multipliers.
- White: As a consequence of your different multipliers.
- Ruml: Well, Harry White, I think you might be surprised; as long as you have an income tax structure that's on a graduated basis, you're going to get low multipliers on this side (receipts) and you might find that even in 1928 the operation of the Federal Government was adding something.
- White: I think you're right. But there was a large debt reduction.
- Hess: But it was reinvested immediately, practically.
- White: There is an element in that multiplier which isn't taken into consideration. The actual expenditure, actual increase on national income on the way up, that is, has in itself a generative capacity on business conditions that's not included in that multiplier figure.
- Ruml: And for that reason, if your total potential there is, let's say, 20, you wouldn't expect your budget to take care of up to more than 8 to 10 of it, because you would expect that sort of thing to happen.
- White: That's right. That's why you can make a very large allowance at once for the generative effect, providing it's large enough.
- Ruml: Exactly. Furthermore, since you can't predict it in advance, it becomes very important indeed to have

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flexibility with respect to your high velocity income and high velocity expenditure.

- H.M.Jr: Well, Ruml, is this deduction right? This is one thing that's very interesting out of this thing. Taking '38 and the criticism of the fiscal policy - we almost had a visible balance, we missed it by a billion three; and the criticism so many people made is that we shut off spending. Well, according to this, our expenditures, roughly multiplied by two and a half, gave us - added to our national income by 19 billion. According to this, it wasn't on the expenditure side at all - I mean following the theory of so many people, that this recent depression came because we stopped spending - but the trouble was on the revenue side.
- Ruml: Particularly in the trust funds.
- H.M.Jr: Well, that's never been pointed out. The thing they keep saying all the time - people talk about it and write about it - is that the trouble in '37 was we tried to shut off expenditures too fast. Well, that doesn't show up in this thing at all.
- Ruml: That's right. Doesn't show up. You see, this ends, however, in July '37; now, I don't know
- H.M.Jr: But this doesn't show it.
- Ruml: Up to July '37 there is no evidence.
- H.M.Jr: But if this theory is right, the deflationary effect was in the kind of money that we collected.
- Ruml: That's right. Up to that time
- H.M.Jr: Well, that's never been pointed out, has it?
- Ruml: Not clearly enough. It needs to be pointed out.
- H.M.Jr: Has it ever been pointed out?
- Rocles: I've pointed it out several times. In that speech I made up in New Jersey, I referred to it and said that the difference between the Government's contribution to community spending between the calendar

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years '36 and '37 was three billion 200 million. And I explained it in this way: that in '36 the bonus was paid, in '37 there was no bonus paid, therefore the spending was less by the bonus entering the picture. But in '37 we collected a substantial amount of taxes on old-age pensions and unemployment insurance, which wasn't disbursed.

Ruml: High velocity.

McCles: High velocity. The Government's spending in '37 didn't diminish as against '36 except in the case of the bonus.

Ruml: I think this is true, Mr. Secretary: all the discussion of the fiscal policy as a spending policy or not-spending policy is entirely beside the point. You have to take the aggregate budget into account.

H.M.Jr: That is, as I say, what this - that's the interpretation that I give this, that if you take - well, we spent seven billion six in '38 and in that year we spent eight billion four, which is eight hundred million dollars more; but the difference is as between nine billion and four billion six. Is that right?

Ruml: Yes. and if you take the other thing into account, three billion seven.

H.M.Jr: Well, of course, the next thing that I'm asking - I'm getting this all cold; you fellows have had a dress rehearsal. I ask you the very obvious question - I mean on the receipt side again - I mean I'm not arguing about the theory for today, although I want you to know that I'm going to test it very hard - is it a fair question - I want to be fair -: can we do much about the receipt side?

Ruml: Well, I don't know. This - if I were - if I were king, I would look at these things first to see what can be done, this sort of thing, estate and gift taxes, where you get visible budget with no invisible budget to speak of. I would be awfully chary about this kind of thing (tax on employees - multiplier $3\frac{1}{2}$) where you have a very high multiplier. I would have a darn good social purpose in mind if I began to do anything about this sort of thing (excise and miscellaneous taxes - multiplier $3\frac{1}{2}$) I wouldn't do

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it for revenue purposes, because for every dollar you take in on this kind of thing you have to spend a dollar over here on this kind of a thing (AAA program). In other words, all you do is get into a circle of building up higher and higher expenditures, because you're getting into higher expenditures on the high velocity classifications.

White: You would increase the taxes where they are lower than the average multiplier. Where you have the zeros and the ones in the first column is where you would, if it were politically possible, increase; and reduce the high ones.

Ruml: I would reduce them if I felt the fiscal thing would stand it. You've got a double point, a production problem and a fiscal problem.

White: But you'd replace, if you could,

Ruml: If I could make a switch out of this into this - I'm not even looking at the names here - that's a question again of prudential consideration; I don't know what you can do.

(Taylor comes in)

H.E. Jr: Excuse me a minute; I think, Wayne, it would be helpful to you if you let Harry talk to you for five minutes and bring you up to date, because I lay great stress on this. I'm having all I can do to absorb it. I think if you take five minutes, it would help you like hell.

(Taylor and White go out)

Ruml: Now, the other thing, 'of course, that can be done about it is to see what is possible in terms of getting some flexibility in the high velocity taxes, because obviously 18 months ahead there are a lot of things that can happen. Now, the place that you can really affect your invisible balance is through manipulation of high velocity taxes and high velocity expenditures. So that flexibility should be sought there and there (alcohol taxes, excise taxes, and tax on employees). Politically and every other way, you can't have inequality of treatment under the income

tax law, so that that's out of the picture. If you get flexibility on the income tax, you have to take it down the whole row, and for the sake of getting flexibility for 700 million, you lose it in this bunch. So for the first time in this thing, I've seen clearly what some of my friends have told me: that there is no use talking about flexibility in income tax rates.

H.S.Jr: May I again interrupt you? This one thing there, taking your income over \$150,000 - that's quite contrary to what people keep telling us, and people who have a gross tax, who live in New York State, of 79 percent; that is, if we'd only reduce that, it would be very helpful, so forth and so on. On that chart you'd increase it from 79 percent, or at least you wouldn't reduce it.

Suml: I wouldn't reduce it, and my only reason for not increasing it is because I'm not sure the revenue consequences would be important enough for the grief you'd have to have.

McCles: That's right.

Suml: As a matter of fact, if you wanted to make a gesture on some reduction, I don't think it's important enough to the whole picture to make any difference there. In other words, you come to this paradoxical situation, Mr. Secretary: that at a time when you need to have a large invisible balance, that's the time to do what tax reform you need to do, because that's the time you can risk not getting the revenue. Now that's a very curious generalization, but nevertheless it's correct, I'm sure.

H.S.Jr: Well, again questioning you, taking off a billion dollars of expenditures on that side, ...

Suml: Yes, sir.

H.S.Jr: ... on the visible, wouldn't it be very important if you made an adjustment over on the left (receipts). I mean if, for instance, Bell and the President and myself could find a way of cutting a billion off, if this adjustment could be made so that we would show, say, an increase of three billion in the invisible.

(Taylor and White return)

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In other words, what I get out of this thing is that - I mean that the place to concentrate is on the collection side - I mean, that is, more than the other. Right?

Sumi: No, I don't think that's - I think that might lead you astray, because there are so many other problems. For example, Mr. Secretary, you've got much more flexibility on the expenditure side than you've got on the income side; therefore, in that respect you have to pay attention to the expenditure side and this other thing is terribly important. What we want to do is to arrive at a balanced budget at some higher income. Now then, if you begin to get an aggregate that's too low here, you won't have the tax structure that will produce that balance short of a much higher national income than seems probable in the near future. And so you have to take that consideration into account as well. In other words, the lower this figure (total receipts) the less influence your operations will have on the national income, and therefore the more dependent you are on forces that you can't have anything to do with. Is that right, Harry? Would you agree to that?

White: Quite right. You could take a simple case, any one item there, and illustrate how you could by, let's say, substituting this tax here - for example, this number two tax for this number three and a half, let's say, even of 200 million dollars; as a consequence of that you would earn - by that very act alone you would increase national income, without another step you would increase national income by several hundred million dollars.

Baum: That's right.

White: Just that.

H.M.Jr: Well, I think the suggestion that Harry made was very important: that if we could take the budget - would it be '28, the peak year?

White: The peak year when we were on the upswing.

H.M.Jr: And make an analysis of that.

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- White: It would demonstrate the varying relationships, which it is important to always keep in mind in this, because it indicates that you'd have to constantly watch this and constantly revamp it in the light of whether you're going up or down. The importance of each item increases or decreases as you're going up or down.
- Ruml: Well, you don't mean from month to month. From phase to phase.
- White: From phase to phase.
- H.M.Jr: Something you want to ask, Eccles?
- Eccles: I'm particularly interested in the accuracy of those multipliers. We could get very far afield if we might miss them half a point here. I understand the general principle; but now, for instance, we take this question over here of net income between five thousand and twenty-five, and between twenty-five and fifty. It would appear that it wouldn't be advisable to increase the taxes in that range of, we'd say, from five to fifty because it's a pretty good multiplier in here.
- Ruml: Well, that's on the average. I mean you've got an average in there of nearly three times, and three and a half is the highest multiplier you've got.
- Eccles: So if you should increase taxes in that range, then you would - you're taxing income which has an effect of a turnover of three times; and if you're pulling it out in taxes, then you've got to put back in expenditures the same type of income to take its place. For instance, if you increase taxes on the income of from five to twenty-five and you spend a like amount over here on public works, you actually lose a half, you are actually pulling out more money in taxes than a like amount spent over here on public works.
- I don't know, I just doubt that. I just don't
- Ruml: No, I think you're cutting the thing too thin there. I should say you don't know about that; but what you do know is that you can't finance the public works program with a sales tax.

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- Ecclcs: Oh yes.
- Suml: But that's just because there it's broad enough so you can talk policy without getting too fine.
- Haas: There's nothing new in that - I mean, you see, on that statement there's nothing new.
- White: There's nothing new in any one of these. It's merely an effective way.....
- Ecclcs: Just a question of how accurate we can get. If there's a half of a point - in other words, if that five to twenty-five should really be two and a half and public buildings and highways over here three, it would make a difference.
- Suml: Murriner, I wouldn't make a decision of policy on a discrimination of half a point. I think the big thing that we can do is to make discriminations as between zero and two and a half and so forth and so on.
- And another thing: I would never make a decision of policy on this alone, because there are many other things that have to be taken into account.
- Ecclcs: Well, you take over here this point that you make - 150 thousand and over, where the multiplier is one - you see the amount involved is small; that's the thing you've got to take into account. It's small compared with - that's 337, whereas the one item of 25 to 50 is 637 million, twice as great, you see.
- Suml: You want this as low as possible and this as high as possible. This is high and this is low. This is low and this is high. So that's a very good situation.
- Ecclcs: The point I see in an adjustment here would be, of course, this tax on employees certainly shouldn't be increased any, and if possible reduced. That shouldn't be increased. The other item, that manufacturers' tax - that accounts for a very large multiplier: three and a half times.
- Suml: Excises.
- Ecclcs: There is a place to - certainly you know those taxes

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shouldn't be increased; if anything, in that range you should reduce them, increasing them in these other - in these other fields where the multiplier is smaller.

And we also learn, it seems to me, that on this side (expenditures), if we want to get quick results, why, we want to spend the money where you get three to three and a half times.

Rumi: Well, let me make another - give you another example.

H.M.Jr: Just a minute. I want to see how my market's going. Excuse me a minute. Go ahead and talk.

(H.M.Jr goes out)

Rumi: There's another point, Harriner, that I want to bring up about this situation up here. You might want to do that anyway, and for this reason: you might want to create a tax structure with flexible expenditures on that side that would give you a balance of your budget, let's say, around 80 billion instead of around 85 billion. Do you see? I raise that to show that there are other considerations of policy that lie outside this and can't be answered from this. It is only that this is helpful insofar as it goes and provided you don't try to cut it too thin.

White: Mr. Eccles, I think there is something that must be pointed out here; that possibly we should avoid attempting to place too much importance on the magnitude. Or let me put it this way, rather: that the magnitudes we are dealing with within the range of political flexibility are not very great; that if you establish a tax structure one year and you are on the upswing, you can't alter it easily the next year, and you can't alter a great many of these taxes very much in any case, because of historical reasons and because of political reasons, and so on. So that where this sort of thing, it appears to me, is subject to the severest criticism is that it might give the impression that you're capable of creating variations in magnitude in excess of what is actually possible. That's one point.

The second is that I think it would be a little more impressive if these figures were rounded off by a

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great deal more than they are, much more approximated than they are, which would avoid the appearance of accuracy which they don't possess.

Reeles:

But now we've got a practical problem, looking ahead for the balance of this fiscal year and the following fiscal year. And it seems to me that the query is: in the balance of the fiscal year, if we expect to maintain the present rate of recovery - it seems to me we must try to do that until such time as we get a national income up very much closer to our capacity of employment and production - then we are confronted with a very practical problem of asking Congress to make available certain funds for relief, for instance. You've got that; that's the one part of the budget that isn't taken care of. The balance is already fixed, but you've got the one item, the adjustable item of relief for the last five months. The question is, what is actually likely to be needed in the picture: 500, 750 or a billion? Just what is likely to be needed? Now, we know what the multiplier - we know the effect of that, and that's the one flexible item you've got.

Now, looking at the future, the following year, from July until the following July, we know that there are certain definite expenditures that are unavoidable: interest, Veterans, and all the regular fixed expenditures. And then you have other items of expenditure such as the increased expenditure for military purposes, what you're going to use for roads, what you're going to use for C.C.C. camps, and all those various items where there is flexibility. And it seems to me if we're to advise on this question, then we've got to consider the types of expenditure that should be made, within the political range of possibility, of course. I recognize that we've got certain factors that you can't control. You might advise very strongly against public works, any further appropriation for public works, at this time and more on W.P.A., or vice versa. Or, you've got the Army and Navy expenditures coming in, and you know that it isn't - it isn't a question of saying, "Well, we're going to spend a lot or we're not because of the need for employment." That's going to be spent for other purposes, and it's something that can't be varied.

But we've got to take, it seems to me, those factors into consideration in the preparation of the budget, and there is only a very small degree of flexibility.

Now, you get over on the tax side and the question is - after you fix up the expenditure side, leaving those items where there is flexibility to be determined, then you get over on the tax side and you determine on that side where the flexibility comes and whether or not you should propose a change in the tax structure; for instance, the Social Security tax and the income tax; and if so, in what range in the income tax area? Or in the consumption taxes such as your miscellaneous, alcohol, manufacturing, and excise taxes.

Now that seems to me to be just exactly what our practical problem is if we're going to be of any assistance in the preparation of the budget with the idea of tending to keep a balance in the economy - I mean keep a degree of stability in the economy and at the same time continue the process of increasing the national income. Otherwise, I can see now we may get a tax structure - I mean may get an expenditure structure in this picture where the national income may set out on a plateau and maybe turn over or we may get a very - where the thing takes a shot up too rapidly for a short period of time and then down. Our job is to take into account just all these factors and try to project into the future in such a manner as to assure a continuance of a rise in the national income and at the same time not get too much of a rise in prices. Of course, that's

Ruml: Harriner, look; see what it does to have - if you get 368 on the negative side here, with no addition whatever (pointing to "Transfers & trust accounts, etc.")

(H.M. Jr returns)

White: There's another interesting observation in connection with this. When one considers the amount of study and the amount of fighting which is done over an expenditure of - more or less of half a billion dollars, you see, then one realizes that the amount of study and work that would be justified in getting

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the best kind of a relationship in this is considerable, when you're dealing with at least a billion or two or three. So even if you're not dealing with magnitudes of five or ten billion, even if it's only two billion, even a billion, it's worth every possible study from that point of view.

Ruml: Oh yes, I'm sure that's true.

Well, I think the thing that shows, Marriner, is this - excuse me - there is this observation that occurred to me the other day: the question isn't whether you've got a compensatory budget or not; the question is whether you know it or not.

White: That's right.

Ruml: That really is true. I was just saying, Mr. Secretary, the question isn't whether you've got a compensatory budget or not; the question is whether you know it or not.

Eccles: It's important to know it.

Ruml: Well, that's what I mean. I mean this thing doesn't change the reality any. It simply states it.

H.M.Jr: Now, what I'd like to do - I don't know how the rest - when they're ready to move, what I'm going to do is to invite a group of economists whom you know, if they can come down here Friday and Saturday, and I want them and you (Ruml) to get into a room and see if you can sell this to them fresh, you see - people you know - because this is too important. And if you'd be willing to do that when they come down

Ruml: Can't do it this week.

H.M.Jr: Can't do it this week?

Ruml: But there's a lot of fellows here who can.

White: If he can't, we can present his point of view, providing we have your permission to modify this

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somewhat.

- Rumt: Oh sure. It's not my point of view. Harry can do it perfectly. Lauch can do it. I mean it ... Can you (Sanford) come down Friday?
- Sanford: Yes.
- H.H.Jr: I don't know whether I can get them together, but I'd like to get an outside viewpoint.
- White: I think there would be no difficulty in presenting this position to whatever group you have. There are enough here who are quite familiar with it, though they might not be in agreement.
- A.S.Jr: See, I'd like to have plenty of time to go back - in back of these multipliers and everything.
- Rumt: Why don't you do this, Mr. Secretary? Let them come down, work on this stuff beforehand, raise all sorts of questions and dig into it, then have a meeting and state any points on which there is disagreement, find out what the logic of the difference is; because, I mean, they could spend a couple days on this, I'm sure.
- A.S.Jr: If they'd be willing to.
- Accles: would they come down and get into it before presenting this?
- Rumt: It should be presented to them, but I don't think it would need to be presented by me.
- White: This week is a bad week. One couldn't come down whom you'd like to have see it - he said so - unless you absolutely ...
- A.S.Jr: I'd like them - as I say, some people that have not been working with the National Resources Board, from the outside, who are not in this school of thought, to take a look at this thing, but who are intellectually honest - I mean as well as the National Resources Board. I mean people - just not a group of - not the group of people who are working with the National Resources; because this is too important, at least from my standpoint.

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- Ruml: Obviously, if there is any difference in logic ...
- H.M.Jr: Well, White and Currie are available, and they could present this.
- Eccles: Sure, they could do it. They could take all day there and give these people as much - if they come down - I don't think it's necessary for Beardsley to come down if he's tied up there.
- H.M.Jr: Well, as far as I'm concerned, I'm ready to go on to the next thing.
- Bell: May I ask one question, Mr. Secretary?
- H.M.Jr: I'm sorry that Hanes isn't here, because he's got the tax program.
- White: If you like, I'll give him
- Ruml: Shall I just leave this stuff with you, Harry? Then you can ...
- H.M.Jr: Yes. We haven't got an awful lot of time on this, have we?
- Bell: No; I personally think it's out of the question for the 1940 budget.
- White: Well, it would be a little too bad, if you were convinced of the soundness of the underlying principle. And it doesn't mean it has to be presented in this way. There are other ways of presenting it. If you were convinced of the underlying principle, it would be too bad if there weren't any time, because what they're - we're saying, in other words, is that it's too late to increase the national income by several hundred million dollars. I mean if we put it in those terms, the thing is important enough so if there is time we could
- Bell: The time isn't available. I'm getting right in a bottleneck every day.
- White: I say if it were possible to make time, the thing is important enough.
- Bell: If you could get it ready by tonight

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- Eccles: Isn't there time to do this? After all, there are certain flexible items in your budget, the question particularly - for instance, in your 1940 budget you've got the question of what expenditures are going to be made outside of the definite expenditures that can't be varied. Your roads, C.C.C., your P.W.A. - now, isn't that - can't that be flexible in the budget?
- Bell: Well, I think your 1940 picture won't change materially from what you've got there. You certainly will have a W.P.A. program.
- Eccles: But how much?
- Bell: Have a sizable amount.
- Eccles: How much?
- Bell: And you'll have a substantial increase in your national defense, which after all has a high velocity - 2.8 they've got there, which isn't a lot different from the 3.5.
- Eccles: That's right.
- Bell: And your public works might come down a little, although the cash outgo will probably be as large in 1940 as it is in 1939. Now, on the other side, you've got to determine what you're going to do there anyhow after Congress meets and you have an opportunity of studying that. The budget will go up as a deficit, and how much you reduce that deficit by additional taxation has got to come as a subsequent study anyhow.
- White: There would be opportunities for that before it was passed by Congress.
- Taylor: There are plenty of them.
- Ruml: Well, Mr. Bell, I would not be so ambitious as to expect that this budget could be drawn up on this set of principles. I think we'd be awfully lucky to have them applied to the budget a year from now. Awfully lucky. What I do think, however, as Harry

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points out, is that it may be possible to take certain hedges in case there are things you want to do now in terms of this type of analysis. For example, if it could be written into the law that the President in January, 1940, might have some discretion with respect to the tax on employees, that would be a good thing to do. Now, there may be a number of other good things to do that don't require complete acceptance or application of this type of thing. I think it's too much to ask. We started this whole business, really getting into it, in the middle of October. This thing is of the most immense importance as far as the whole national welfare is concerned. You can't go too fast.

H.A.Jr: Well, what I'd like to do, if the President will do it and we're ready, would be to ask him for an afternoon either Monday or Tuesday, Mr. Delano, to show him this, you see, so that he could have this in his mind when he sits down and writes his budget message. And I think that this is important enough that he should give us an afternoon Monday or Tuesday and I'm going to ask him for it.

White: I think this ought to be modified somewhat, but we'll have time to do it. There are some points... - want to remove all possible major points of disagreement.

H.A.Jr: But I think this is too important; certainly as Secretary of the Treasury I will do everything I can to get him to give us a couple hours so he can take a look at this.

Amal: For me Tuesday would be much better than Monday, because that Fortune dinner is Monday night.

H.A.Jr: Listen, young fellow, take it when the President gives it to us.

Amal: I know, but I'm just giving

H.A.Jr: I'll do it, but I'm going to ask him for the first afternoon that's available next week and I'll take the first afternoon cheerfully. I mean ...

Amal: I know.

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- H.M.Jr: I mean I'll put it that way.
- Ruml: I appreciate it.
- H.M.Jr: Because you can't get many afternoons. We'll ask him for two hours. See what I mean? I mean I'm going to ask him to give us the first two-hour period that he can. I'm going to tell him it takes two hours.
- Bell: Mr. Ruml, let me ask you a question on the chart, on the revenue side. Of course, there is a missing link, which is the deficit and which means receipts to the Treasury in the form of borrowed money. On that side, in each case, '37 and '38, it's just about - the addition to national income is just about three times your deficit. Now, the conclusion that one might draw from that is that, adding each side and getting an average and multiplying the deficit gives you your addition to national income, and therefore what would be the situation if you had an absolutely balanced budget? - might it not come out even?
- H.M.Jr: With no addition to national income.
- Bell: Yes. I'm wondering if people, just looking at this thing, won't think of it as a mathematical thing: addition to one side, getting your averages, and multiplying.
- Ruml: That would be terrible, because really the hopeful thing in this whole thing, Mr. Bell, is that it is possible after we get a balanced budget to still go on adding to national income. In other words, we can have a balanced budget and not freeze the economy by the proper arrangement of receipts and expenditures.
- H.M.Jr: Well, if you couldn't do that, I wouldn't be interested.
- White: There wouldn't be anything to the whole thing unless that were possible.
- McCles: The budget is just as important after it's balanced as before it's balanced.

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- Ruml: That's right.
- Eccles: Because you may have a balanced budget temporarily and then lose the darn thing by an improper type of tax or expenditure based upon a given situation.
- Reas: Then you also, Mr. Ruml, on your deficit - some kind of a multiplier or something should be attached to that, because it depends on where you borrow that money from.
- White: Very important thing whether it's bills, notes or bonds.
- Eccles: It's important whether the banks buy it or whether it's bought by investment trusts or investors. If it's bought by the banks, you create new money; if it's bought by investors, all you do is take idle money and put it into circulation. That's awfully important on the question of the inflationary or deflationary side of the picture.
- Wells: Which that doesn't bring up.
- H.S.Jr: You want to bring up something else?
- Bell: No, that's all.
- S.W.Jr: Now, couldn't we just go on to the next thing, because I've got as much as I can absorb on this, Ruml.
- Ruml: May I then go on to the last one?
- H.S.Jr: What I'll do - I'll try to get a clearance - I don't know how much more time Mr. Eccles wants to spend on this, but if I'm successful in getting these people down I'll ask Mr. Delano and Mr. Eccles, if they're here, if they'd like to sit with me when I hear from the other people. I mean if they're here.
- Eccles: Well, I'd like to spend some time, whether it's then or in between - but I'd like to - before the question of a White House conference, I'd like to spend some time; I've got a few doubts about a few things and I'd like to go into it a little more thoroughly with Currie or White here and myself.

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Sanford: I'd be glad to give you what I have here.

H.M.Jr: I think inasmuch as that's that - I think we'll excuse you (Sanford). You might wait, because maybe somebody would like to see you afterwards.

Sanford: All right. (Sanford leaves)

Ruml: My position on the conference is that I don't think we should go any farther than we all agree we've had enough progress.

The reason, Mr. Secretary, I asked to go to the last point is that you mentioned the White House conference and you said at the last meeting it was desirable to have some sort of a memorandum to put before the President if such a conference were had. I haven't tried to draw such a memorandum, but if the group would take fifteen minutes to consider some questions that I have written down to put into the memorandum, it might be helpful; because I don't think that that thing standing alone is the basis for a fiscal policy; there are some other things.

These are the questions: How much national income per year can we produce with reasonably full employment? How much national income must we have to create a demand for substantial private investment? Will the present revenue system produce enough income to the Federal Government to take care of the expenditures to which we are committed for normal times? What national income is necessary to produce this result? How can Federal fiscal and monetary policies contribute to fuller employment and larger production? How does the budget affect national income? Now, it's just that one subject we're discussing. How do fiscal operations outside the budget affect national income? What should be the immediate objectives of fiscal and monetary policy? What action needs to be taken?

Now, I've just jotted these things down. Is that the scope of the type of paper you want? Is it complete? Is it too much?

H.M.Jr: I think it's too much.

Ruml: Too much. This more or less maps the whole problem.

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White: That is the whole problem.

Ruml: Huh?

White: That is the whole problem.

Ruml: As I see it, that's the whole problem.

Delano: I say no group of men could take this in by just having it read to them. They'd have to have it before them.

H.M.Jr: You mean that memorandum, or ...

Delano: I mean those questions. They're too searching.

Ruml: Mr. Delano, I had in mind that - are these the questions, or others, which should be answered in a memorandum? That's all.

Delano: I think they should be posed anyway.

H.M.Jr: Well, they can be. You can answer them.

White: I think a report should be prepared attempting to answer them. What portion of that you wish to use for the President, say, is another matter.

H.M.Jr: But here's the thing. You've got one thing where we're looking ahead five or ten years as to what this committee - which is what this committee should be doing. Then, on the other hand, two members of this committee, Mr. Bell and myself, have got a thing which is on an hourly basis. And, talking for myself, I'd like to - after I've digested this thing, to get as much of this, if we decide that this is all right and will stand up, into the President's message - some indication, you see, that he is thinking in terms of national income; and that's the important thing - and then get as much of that in the message ... On the revenue side, I doubt if he'll recommend any definite new forms of taxes, because he never has, has he?

Bell: No.

H.M.Jr: What?

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- Bell: No, he has not. He's given suggestions.
- Eccles: But he could say that taxes should be considered in the light of their influence on the economy.
- Taylor: That's exactly it.
- Eccles: Point that out, leave it up to Congress.
- H.M.Jr: That's all right, Marriner, I agree with you there. And then if he's going to - and then in terms of what he does on the expenditure side, he could bring that philosophy in.
- Eccles: That's right, he could leave that somewhat open and point out this, couldn't he?
- H.M.Jr: Now, if you and I and the rest of us can digest this thing, be thoroughly sold on it, go to the President with a recommendation as to the philosophy, I think we're really making some progress.
- Eccles: Put something in his message along that line.
- H.M.Jr: Yes. But I don't - to answer Ruml, I think that anything anybody can do to study how we can increase the national income should be done; but as to how much we can get the President to say in a week, I don't think we can get much more than what's before us.
- Ruml: Well, the thing I'm wondering, Mr. Secretary, is whether this - yes, I think that's all right. I'm rather inclined - it would be just as well if I did not go to the White House with you.
- H.M.Jr: Well, we can think about that.
- Ruml: The thing I'm thinking about is this: that when you and Mr. Eccles and Mr. Delano and Mr. Bell come to the point that's as far as you think you can go in view of your own convictions, that probably is as far as the President ought to go, and he probably ought not to be over-persuaded by any language that I would use or might use in that connection. But let's think about that.
- H.M.Jr: Yes, that's something to come.

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- Eccles: The important thing, as I see it, at this time is if we can get the President in his message to raise the question and get Congress to consider taxes and consider expenditures in the light of their influence on national income; so that when you get up there in connection with hearings on expenditures and on taxes, you then have the opportunity to consider them in the light of their effect on national income, which is entirely a new approach, isn't it?
- Haas: No, I think the President has expressed this underlying philosophy time and time again.
- Taylor: He hasn't said it in quite the right way, George.
- Haas: Well, he just said in his speeches - the Pittsburgh speech - "We unbalanced the Federal budget to balance your national budget," which is the underlying philosophy, and so on.
- Eccles: What I'm speaking of is in his message to Congress, the budget message; that's the place to put it.
- H.M.Jr: Go ahead, Wayne, please.
- Taylor: It seems to me the best we're going to get out of this at this stage is possibly two paragraphs for inclusion in the President's budget message, and I think we're all pretty clear in our mind that two such paragraphs, regardless of how far they go in expressing these thoughts, will have to be written. I would really suggest that we direct ourselves to trying to write two paragraphs. All this other stuff can go along on the side.
- Eccles: You mean the small part of the message; but two paragraphs - they might - may be big ones or little ones; may take a page or two.
- Taylor: What you're hoping is that there will be a mention of this theory, if you want to call it that, in the message, at least calling the attention of Congress to this thing. That's as far as you're going to be able to go at this time.
- Ruml: Well, I would like some time in the course of the next six months to get this across to the public mind: that the crucial issue is not a spending-lending

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program, that it isn't a deficit program; that the crucial issue is the compensatory program about which we can do something. Now, there's my two paragraphs.

Taylor: That's right.

H.M.Jr: Well now, is it agreeable to you we go ahead, Marriner?

Eccles: Yes.

H.M.Jr: Mr. Delano, agreeable?

Delano: Yes.

H.M.Jr: Now, what's the next thing?

Let me ask something which isn't on there. I'd like to ask Mr. Eccles whether he wants to report on this question of railway equipment.

Eccles: We have one.

Ruml: That's in the operations outside the budget.

Eccles: That's one of them. And we've got a lot of stuff here. I don't know just how extensively you want to go into it. Currie, can you - you don't want to take too much time, I guess - can you give the high spots?

Currie: I can state what I have on this overlapping problem - budget bottlenecks and the agencies outside the budget.

Eccles: We've got a rather complete report there - the question of type of legislation and the whole thing. You don't want to go into that

H.M.Jr: Just the high spots.

Eccles: ... but we've got the whole thing.

Currie: I have a statement of the proposal, the arguments for

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it, the objections that can be raised against it, and the alternatives. I have also the proposal in - draft of it in bill form, which I sent to Mr. Taylor, in order to take up the points you (Taylor) mentioned as to some of the legal points.

Taylor: I think it's unimportant, but we don't quite agree in the approach there. In other words, you took one form, we would have chosen another.

Currie: Well, I'm perfectly willing to change it. I just wanted to get your guidance on that problem. And then I have a technical memorandum, which I will not read, on the potential inadequacy of freight cars. We have done very much more intensive work on that of a statistical nature - by the experts.

Then, fourth, a note on that question you asked me about the railroads' and automobiles' demand for steel.

Now, the memorandum on the - would you care, Mr. Secretary, for me to run over the arguments for the proposal and the objections to it?

W.A.Jr: Yes, I would, please.

Currie: "Proposal: to establish a railroad equipment authority, with capital stock owned by the Treasury, empowered to issue guaranteed debentures for the purpose of contracting for the purchase of new railroad rolling stock to be rented or leased to railroads."

The arguments for the proposal are as follows:

"1. The stimulation of recovery. Expenditures of some \$500 million on railroad equipment could be assured in the first year of operation. Apart from the stimulation this would afford the economy in general, it would provide work for the railroads' own car shops and increased traffic for the roads themselves.

"2. The removal of future bottlenecks. Preliminary estimates indicate that in order to handle the volume of traffic consequent upon the continuance of recovery at a desirable rate, yearly expenditures on rolling stock of about \$800 million at present prices would have to be incurred in the period 1939-41. From the standpoint of the national economy it would obviously

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be to our interest to utilize idle plant and labor in the immediate future in order to relieve the shortages, stoppages, and bottlenecks that will arise in freight traffic, the railroad equipment industry and in the steel industry with the continuance of recovery.

"3. A contribution to future stability. The railroad equipment field has traditionally a feast and famine character and is consequently an important source of economic instability. A federal authority, not pressed by financial considerations or immediate profit considerations, could level off the peaks and valleys of railroad equipment buying.

"In addition, variation in rental rates for equipment would offer a highly desirable alternative to variations in freight rates as a means of bringing about greater stability in railroad net earnings.

"4. National defense. A modernized supply of rolling stock adequate to handle the volume of traffic incident upon war appears to be an indispensable element in any comprehensive program of national defense. Moreover, experience in the handling of a national car pool will be invaluable in the event of war.

"5. Betterment of the financial structure of railroads. The gradual substitution of rented and leased rolling stock for owned equipment would permit a reduction in the debt of railroads and a substitution of variable for fixed charges. Moreover, the proposal offers a means whereby the Government could stimulate private expenditures without getting deeper involved in the complicated financial structure of the railroads.

"6. Improved efficiency. The proposal, through making possible continuous buying, greater standardization, and more liberal provisions for research, should permit very substantial reductions in costs to be achieved. It should also permit more efficient utilization of rolling stock in the handling of empties, etc.

"7. Relation to the 'Railroad Problem'. The proposal could be adopted independently and without prejudice to any comprehensive program of reorganization and consolidation of the railroads, which may

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take a long time to accomplish."

Now we list the objections to the proposal.

"1. Government ownership. The proposal does, of course, involve a degree of Government ownership, so far as rolling stock is concerned. It may be pointed out here, however, that

(a) it is only a degree removed from the present practice of making loans to financially shaky roads,

(b) it is far removed from the actual Government operation of railroads as is practiced in certain other democratic countries such as Canada and Sweden,

(c) it is proposed that the Government operations be confined to research and ordering, renting or leasing equipment and that no construction or repair be undertaken in Government shops.

"2. Loss to the government. It may be objected that the Authority's equipment will be used only during peak periods and years of exceptionally high traffic volume and that for the rest 'the Government will be left holding the bag.' This objection can easily be disposed of by pointing out that this all depends on the terms of leasing or daily rentals. If they are set sufficiently low, it will pay the railroads to use the Authority's equipment, and rely on old high-repair-cost equipment for peak requirements. Low rental rates will also constitute an inducement to retire old equipment.

"This way out, however, raises another objection. If rentals are set too low, the revenues of the Authority will be inadequate to service its obligations and keep its equipment in good repair. It should, however, for the following reasons, prove possible for the authority to set sufficiently low rentals to induce the railroads to use its equipment and yet not suffer a loss:

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(a) it will have the advantage of borrowing at lower interest rates than the railroads can secure;

(b) being a very large and continuous buyer of standardized equipment it should be able to secure greater price concessions than any individual road could obtain;

(c) there should be economies consequent upon the growth of a national car pool;

(d) it will be in a position to charge higher rentals in good years to recoup any losses sustained in bad years.

"Finally, it must be kept in mind that even though the Authority should actually show a loss, this would not be incompatible with a large net national gain in more stable and higher national income, production and employment.

"3. Technical difficulties. The proposal has been examined by a number of operating railroad men and although problems have been pointed out in connection with repairs, zoning, storage, etc., it appeared to be the general consensus that the problems would be similar to those now encountered in connection with 'foreign' cars" - cars of other roads - "and the private leasing companies, such as Pacific Fruit Express, and various ways of meeting these problems were at hand.

"In connection with the determination of the volume of new equipment of various types, it would appear feasible to make far better national estimates of the number of different types of freight cars and locomotives that a certain volume of traffic will require than could possibly be arrived at as the sum of individual estimates made independently by the various roads.

"4. Inequities as between roads. Some companies have normally an excess of cars and others a deficiency. Some companies, therefore, would be in a better position to take advantage of low rentals on new equipment while others might suffer a loss of revenue now derived from the use of their cars by other lines.

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"Again, many roads now build a substantial amount of equipment in their own shops and individual hardships might result from the inevitable changes in the location of work consequent upon national bidding for a single buyer. These changes might be tempered by policies of the Authority in distributing new equipment, repair and reconditioning work."

That's the advantages and the objections as I have been able to uncover them so far. Now, the thing I run into immediately is the alternative which is always proposed.

"The alternatives appear to be either to do nothing or to stimulate railroad equipment purchases through loans to railroads from the R.F.C., on favorable terms. It is said that if the R.F.C. should announce that it was prepared to purchase equipment trust certificates (a) up to 100 percent of the cost of new equipment, (b) at a 2½ percent rate, (c) for comparatively long maturities, (d) the offer to be available for a limited period only, a very large amount of anticipatory railroad equipment buying would be induced.

"While this alternative is far better than doing nothing at all, it appears inferior on various counts to the proposal under discussion.

"1. It lacks flexibility. The chief objection, from the compensatory fiscal policy viewpoint, is that an emergency loan operation does not provide a mechanism through which the Government could operate continuously, and outside the budget, to smooth out fluctuations in expenditures in an important field.

"With reference to the immediate situation, it is almost impossible to forecast the extent to which a favorable loan offer would be taken up. Once announced, it would be difficult to change the terms. If a big rush of orders ensued, deliveries would have to be spread over a future period, or else a temporary bottleneck would occur. If few orders came in, the terms could not be lowered further or the offer extended without arousing a sense of grievance on the part of those who had already availed themselves of the offer.

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"2. There are definite obstacles in the way of offering terms that will really be effective.

"The R.F.C. must consider the soundness of each individual loan and cannot explicitly rely upon averaging and upon higher interest returns in good years offsetting low returns in bad, as could the proposed Authority. The most favorable terms offered to date by the R.F.C. were in connection with the purchase of equipment trust certificates of the Southern Railroad for 100 percent of the cost of freight cars, at 4 per cent, and for fifteen years.

"In bad years, when on national economic grounds expenditures on railroad equipment are most desirable, the credit of the railroads is weakest and, confronted with surplus equipment on the one hand and financial difficulties on the other, they would be most reluctant to borrow and purchase new equipment even on the most favorable terms.

"3. A loan operation does not offer a good possibility for securing cost reductions and efficiencies.

"Each loan being an individual loan, there does not exist the same opportunity to derive the economies arising from large, continuous orders of standardized equipment, or from research, or from car pooling.

"4. Other implications. Further large loans to the railroads would involve the Government still more in the complex financial structure of railroads, and would result in a further increase in railroad debt and fixed charges. Moreover, it would be difficult to refuse to other borrowers the particularly favorable terms that would have to be offered to the railroads."

H. J. Jr: Well, what I'd like to do is this. Do you have a copy for Mr. Delano?

Currie: Yes.

H. J. Jr: Of course you have one for Mr. Eccles.

And it's a question of time and if you're available Wednesday night, Currie, I'd like you to come to the house at 8:30; I'd like to sit down and go over that

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stuff with you. I take it that the other people - if they want you, they can send for you. Is that all right with you, Mr. Delano?

Delano: Yes. I'm very much interested in it.

H.M.Jr: I think it's interesting. But I'd like to spend an evening just on this, like to go to school on this. In this little time I can't absorb it.

Eccles: I realize this - it's like everything else; you've got to sort of live with it. We spent a lot of time last year on it.

H.M.Jr: I'd like to spend Wednesday evening with Currie, if he can come at 8:30.

Eccles: In the meantime you can take that memorandum that he just read - if he'd leave you a copy of that, then I think you might have some questions.

H.M.Jr: Now, do you (Delano) have a copy?

Eccles: As I say, possibly you'd find it very helpful because that covers, as I see it, pretty generally the problem.

Currie: Are there other things you'd like me to do that evening, which you have there now?

H.M.Jr: I think not.

Currie: Just this.

H.M.Jr: This is the only one.

Currie: I have two or three other things to report on. You may not be - I think you need not be bothered with the actual bill, which I'll take up with Mr. Taylor.

Eccles: Don't you think, Currie, if you get time on Wednesday night it might be advisable to be prepared to present to the Secretary some of the other items that might be handled outside the budget? That's part of this whole picture. If you've got time

H.M.Jr: I'll give the evening to Currie - shoot anything he wants at me.

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- Eccles: It occurs to me he should be ready, and if you have the time that would be a good field for discussion.
- H.M.Jr: I just can't take it in this - on this short notice, but I do want to get it. Go ahead, Currie.
- Currie: Then there is that further question you asked me about the railroads' and automobiles' demand for steel. A memorandum has been prepared on that. Two conclusions appear. Just taking them very briefly, they are:
- "1. The demands of railroads and automobiles for finished steel products are largely non-competitive. The railroads require mainly plates, shapes, rails and track accessories. The automobile industry's demand is mainly for bars, sheets and strip. The demands are, of course, competitive so far as steel ingots, from which finished products are made, are concerned.
- "2. Railroad demands for steel at the 1922-26 average rate, would absorb 16 percent of present ingot capacity. To meet the railroad steel requirements necessary to avoid bottlenecks should full recovery be attained in three years, would absorb considerably more of present ingot capacity."
- I haven't been able to convert all these things back yet, but it would be over 20 percent steel capacity.
- H.M.Jr: Have you got a copy for Mr. Bell too? And can you give me a copy of this, because this would go with the railroad thing, wouldn't it?
- Currie: Yes. I would like to do a little bit of work on this, Mr. Secretary.
- H.M.Jr: why not bring it in Wednesday night?
- Currie: I much prefer that.
- Eccles: You don't mean on the copy of the one you gave to the Secretary.
- McR: He's talking about the one he just read.
- Eccles: Just got one for Mr. Bell, the same one you gave to the Secretary.

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

Bell: Thanks.

H.M.Jr: What else?

Currie: I thought on the technical memorandum I'd turn that over to Mr. Haas and he could work with his people.

H.M.Jr: Fine.

Currie: That covers the bottlenecks of the agencies outside of the Government.

H.M.Jr: I'm sorry to push, but I

Ruml: There is nothing more.

Currie: Yes, there is one other, the timing.

Ruml: Oh, the timing.

Currie: You asked Mr. Eccles two weeks ago if he would have prepared an estimate of the national income in 1939.

H.M.Jr: Yes.

Currie: So the Division has been working on that. We can tell you now what the national income will be in 1939. (Laughs)

H.M.Jr: Wonderful. Are you in agreement?

Currie: Yes.

Bell: Underwrite it?

Ruml: Calendar year.

Currie: It's a guess, but it seemed to be about the best guess.

H.M.Jr: Calendar year?

Currie: Calendar year.

H.M.Jr: All right.

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- Currie: "It is estimated that the national income produced will be approximately \$68 billion in 1939."
- H.M.Jr: How much?
- Currie: 68.
- H.M.Jr: Not enough.
- Eccles: No, it isn't, but
- White: Can't you boys go back and make a better guess?
- Ruml: It's very important to know what is the rate in December going to be as compared to the rate in January. The rate will be over 70, you see.
- H.M.Jr: What rate?
- Ruml: You see, this is the average for the year, so at the end of the year it'll be running at a much higher average than 68.
- Currie: "This compares with an indicated \$62 billion in 1938 (on the basis of data available for ten months only) and \$70 billion in 1937. On this basis approximately three-fourths of the loss from 1937 to 1938 should be recovered in 1939."
- This was based generally on index averages - Federal Reserve Board index of 106 for next year.
- H.M.Jr: That's off. Just put it in your envelope, will you? Put it in your vest pocket: I say you're low. What?
- Eccles: I hope so. That's going to depend a good deal, though, on this picture right here.
- Ruml: That's just what I was going to say. It's on the assumption we can't do anything about it.
- Eccles: Remember this, Mr. Secretary, that that may be low or it may be high, all depending upon
- H.M.Jr: Well, I'll bet anybody a dime that you're five percent off. Ran out of nickels the other day. You said 106 for the year; you're five percent low at least. All right.

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- Currie: It doesn't look so good for the next three months, Mr. Secretary.
- H.M.Jr: All right.
- Currie: You have to average it, you know.
- H.M.Jr: You're at 100 now.
- Currie: But you may not go up from here on. May go back in our tracks a bit; that's a possibility.
- H.M.Jr: Oh yes.
- Currie: There is always a little bit of confusion when you talk of national income, because we use two different senses. When we talk about national income, we mean value of goods and services produced; that's what we call national income produced. The monthly service we get from Commerce deals with monthly payments, which may not coincide with income produced. This year we expect that income payments will be two billion higher than income produced, because there are two billion losses that have to be deducted from that.
- Woolley: Make that clear, though: business losses after dividends are paid and depreciation and everything taken off.
- Currie: That's right.
- Woolley: In other words, there is more money paid out in dividends and depreciation and so forth, by about two billion dollars - that's by individual businesses, farmers and everybody - than is actually taken in and earned. So you pay out two billion more than you take in because you've been in a deflationary period. I think that's correct.
- Currie: "The estimated rise in national income produced from \$62 billion to \$68 billion is approximately ten percent, which reflects in part the improved position with reference to business savings. This item, after payments of dividends and withdrawals by entrepreneurs, is expected to show only a small net loss in 1939, as compared with an estimated net loss of more than \$2 billion in 1938. National income paid out is expected to rise approximately six percent from \$64 billion in

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1938 to \$68 billion in 1939. Since income payments are running at about an annual rate of \$66 billion at the present time, it will be necessary for them to increase to an estimated rate of approximately \$71 billion at the end of 1939 in order that the estimated average for the year can be attained."

Now Mr. Secretary, we have also attempted, in the case of the income paid out, to break that down according to compensation of employees and various fields such as dividends and interest, with the idea that it might possibly be helpful in your budget estimates, because you'd like to have them set up in that way.

- H.M.Jr: Have you seen this, George?
- Haas: No. We've made an estimate too, but I'll give it to you as soon as we get through with it.
- Currie: I'm finished now.
- H.M.Jr: You going to give us each a copy of that?
- Haas: I'd like to have those.
- Lucas: Think that's very conservative?
- Haas: I'm afraid to give mine now.
- Bell: You're above that, aren't you?
- H.M.Jr: I think Currie and Haas should exchange notes. I mean not here - do it
- Haas: Do you want to hear mine?
- H.M.Jr: How long will it take you, George?
- Haas: It's quite at variance with his.
- H.M.Jr: Where is it? I mean will it take long?
- Haas: No. It's just a couple figures. But I think the important difference that I've got here is that - you can tell easier by looking at the chart. I wonder if I could hold this

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- White: Can I hold it for you, George?
- EMAS: I think I'd better hold it, it's so small. This black line is the national
- H.M.Jr: Better stand back so we can all see it.
- EMAS: This black line is national income for 1929 right on through to date, and this finer line is the Federal Reserve Board index of industrial production; and this dotted line is an estimated basis which we put on here to show how it operated or how well it worked during this period. Now this FRB industrial production, you will note here, goes up - precedes the upward movement of national income payments. These are national income payments. And up here we projected it up into 1939, with this sharp rise of the FRB; I took 104, I thought, so we'd be on the same basis; Mr. Eccles said 104 the other day when he was over here.
- H.M.Jr: Well, you're only one percent off.
- EMAS: All right. And that was the average of a group that we had down here talking about it, so for convenience I took that. And then this estimated formula was based upon the relationship between the Federal Reserve Board index of industrial production, the Bureau of Labor Statistics index of wholesale prices - and then we took a third factor, which is the ratio of durable goods to other goods in the FRB index, because their index many times runs up sharply due to the increased proportion of durable goods, and in those instances it runs above the general level of production, which is so great - it has a higher correlation with national income. The point is that down here we - then we lagged those three factors six months with national income, and we got this type of estimates, which ran very close.
- Now, it shows for 1939 that the estimate will be about as it is this year, because the outstanding factor is that the average price situation has just about compensated for the increase in the Federal Reserve index.
- H.M.Jr: So you arrive at what?

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- Haas: I arrive at - if the Department of Commerce is estimating 64 or 65, I'd say the - this study shows that the national income for 1939 will be about that figure. There is only one out in it; that is that labor policies might have changed this lag. But if you're figuring on something higher than that, it seems to me that it's on that situation that you're basing your forecast: that the usual lag will not take place for next year.
- Currie: About what figure, Mr. Haas, for 1939?
- Haas: About the same figure as this year.
- Currie: This year they estimated 62 billion.
- Haas: Income payments out this year, somewhere between 64 and 65.
- H.M.Jr: No increase?
- Haas: Practically none. I'd say a billion and a half, two billion, on either side is the error.
- Eccles: Income receipts will be the same as income payments this coming year. That's what you're estimating. Income receipts and payments will about balance out, whereas last year there was the two billion dollar difference.
- Haas: I made mine on the basis of income payments, that's right. One thing we have to realize is that the price level is still going down. It's down to about 76; was about 88 - the high in '37, you'll notice on this curve here; and we assumed a gradual increase which we may not get. It hasn't turned yet, you see, so
- Currie: Mr. Haas, you're assuming that with the index of production of this year averaging 86, next year 104, no change in income.
- Haas: Well, the
- H.M.Jr: Listen, won't you boys get together? You fellows get together with those two memoranda, then come and see us, because this is important - the two organizations, if that's agreeable to you, Eccles. Is it?

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Eccles: Oh sure.

H.M.Jr: What?

Eccles: Sure.

Haas: I did this Saturday. I thought maybe you wanted independent estimates.

Agenda

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Problem 4: Effect of
budget items on
national income

Problem 5: Federal fiscal
operations outside the
~~go~~ budget

Problem 1 + 2: Potential
national income and
probable federal revenue

Problem 6: Flexibility

Questions for a memorandum

U. S. GOVERNMENT RECEIPTS AND EXPENDITURES (GENERAL AND SPECIAL ACCOUNTS ONLY)
 (Fiscal Year Ended June 30, 1937—Dollar Amounts in Billions)

RECEIPTS

<u>Visible Budget</u>	<u>Estimated Direct</u>	
	<u>Withdrawal from</u>	<u>Expenditure Stream</u>
(Dollar Amounts)	<u>Percentage</u>	<u>Amount</u>

I. INTERNAL REVENUEIndividual Income Tax

Net income under \$5,000	54	90	48
Net income of \$5,000 and under \$25,000	227	80	183
Net income of \$25,000 and under \$50,000	172	75	129
Net income of \$50,000 and under \$150,000	299	70	210
Net income of \$150,000 and over	337	40	135

Corporation Income and Capital Stock Taxes	1,220	90	61
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Estate and Gift Taxes	306	25	77
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Alcoholic, Mnfra., Excise and Misc. Taxes	1,124	95	1,066
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Tobacco Taxes	552	95	524
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Employment Tax (Title VIII—Old Age)

Tax on employees	97	95	92
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Tax on employers	97	85	92
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Tax on Employers of 8 or More (Title II—Unemployment)

	98	75	43
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II. CUSTOMSIII. ALL OTHER RECEIPTS (incl. ad.)

Total Receipts	<u>5,294</u>		<u>3,293</u>
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EXPENDITURES

<u>Visible Budget</u>	<u>Estimated Direct</u>	
	<u>Withdrawal from</u>	<u>Expenditure Stream</u>
(Dollar amounts)	<u>Percentage</u>	<u>Amount</u>

I. GENERAL

Departmental	560	90	514
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Public bldgs., highways, river and harbor work, and flood control	264	85	224
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Social Security Act (grants to states for needy persons, etc.)	167	100	167
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National Defense	857	85	727
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Veterans Administration	580	90	522
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Agricultural Adjustment Program	527	85	448
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Civilian Conservation Corps	386	95	366
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Interest on Public Debt	856	25	217
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II. RECOVERY AND RELIEF

Public highways, river and harbor work, and flood control	355	85	300
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U.F.A.	1,796	95	1,800
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Other	394	95	365
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Aid to home owners (inc. Farm Security Adm.)	298	95	283
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III. REVOLVING FUNDS (RRF)

Public Works, loans and grants to states, etc.	221	90	200
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IV. TRANSFERS TO TRUST ACCOUNTS, ETC.

	868	0	0
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V. ALL OTHER EXPENDITURES

Total expenditures (excl. debt retirement)	<u>8,442</u>		<u>6,293</u>
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Visible Balance (Deficit)	- 3,148
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Invisible Balance (Income effect)	+ 9,044
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U. S. GOVERNMENT RECEIPTS AND EXPENDITURES (GENERAL AND SPECIAL ACCOUNTS ONLY)
(Fiscal Year Ended June 30, 1917--Dollar Amounts in Millions)

RECEIPTS	Visible Budget		Invisible Budget		EXPENDITURES		Visible Budget		Invisible Budget	
	Multiplier (Dollar Amounts)	(Dollar Amounts)	Multiplier	(Dollar Amounts)	Multiplier (Dollar Amounts)	(Dollar Amounts)	Multiplier (Dollar Amounts)	(Dollar Amounts)		
<u>I. INTERNAL REVENUE</u>					<u>I. GENERAL</u>					
<u>Individual Income Tax</u>					Departmental	3	560		1,680	
Net income under \$5,000	3 1/2	54		189	Public bldgs., highways, river and harbor work, and flood control	2 1/2	264		660	
Net income of \$5,000 and under \$25,000	3	229		687	Social Security Act (grants to states for needy persons, etc.)	3 1/2	167		585	
Net income of \$25,000 and under \$50,000	2 1/2	178		430	National Defense	2.8	857		2,356	
Net income of \$50,000 and under \$150,000	2	299		598	Veterans Administration	3.4	500		1,983	
Net income of \$150,000 and over	1	337		337	Agricultural Adjustment Program	3 1/2	527		1,845	
Corporation Income and Capital Stock Taxes	2 1/2	1,220		3,050	Civilian Conservation Corps	3.2	384		1,233	
Estate and Gift Taxes	0	306		0	Interest on Public Debt	1 1/2	866		1,299	
Alcoholic, Prof., Excise and Misc. Taxes	3 1/2	1,124		3,734	<u>II. RECOVERY AND RELIEF</u>					
Tobacco Taxes	2 1/2	552		1,360	Public highways, river and harbor work, and flood control	2 1/2	355		889	
<u>Employment Tax (Title VIII--Old Age)</u>					W.P.A.	3.5	1,896		6,606	
Tax on employers	3 1/2	97		340	Other	2.6	384		1,007	
Tax on employees	2 1/2	97		242	Aid to home owners (ins. Farm Security Adm.)	3.1	298		932	
<u>Tax on Employers of 8 or More (Title IX--Unemployment)</u>					<u>III. REVOLVING FUNDS (NET)</u>					
	3	58		154	Public Works, loans and grants to states, etc.	2 1/2	221		553	
<u>II. CUSTOMS</u>					<u>IV. TRANSFERS TO TRUST ACCOUNTS, ETC.</u>					
	3	486		1,458		0	868		0	
<u>III. ALL OTHER RECEIPTS (incl. ad.)</u>					<u>V. ALL OTHER EXPENDITURES</u>					
	1	263		263		2.3	213		498	
	aver.					aver.				
Total receipts		5,294		13,082	Total expenditures (incl. debt retirement)		8,442		22,126	

Visible Balance (Deficit) - 3,148

Invisible Balance (Income effect) + 9,044

RAILROAD AND AUTOMOBILE DEMANDS FOR STEEL

1. The demands of railroads and automobiles for finished steel products are largely non-competitive. The railroads require mainly plates, shapes, rails and track accessories. The automobile industry's demand is mainly for bars, sheets and strip. The demands are, of course, competitive so far as steel ingots, from which finished products are made, are concerned.

2. Railroad demands for steel at the 1922-26 average rate, would absorb 16 percent of present ingot capacity. To meet the railroad steel requirements necessary to avoid bottlenecks should full recovery be attained in three years, would absorb considerably more of present ingot capacity.

It appears from the following table that the steel mill products used by railroads and the automobile industry differ considerably and consequently that mills equipped to product finished products for one industry would not be greatly influenced by demand or lack of demand from the other.

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Table I

PRINCIPAL STEEL MILL PRODUCTS TAKEN BY THE RAILROAD
AND AUTOMOBILE INDUSTRIES - 1937

Product	Percent of total takings	
	By railroad industry	By automobile industry
Plates	19	1
Shapes	11	..
Bars	8	22
Sheets	6	41
Strip	2	30
Rails	31	..
Track accessories	<u>14</u>	<u>..</u>
	91	94
Other	<u>9</u>	<u>6</u>
Total	100	100

Note: The percentages shown are based on tonnage figures, as estimated by THE IRON AGE.

Two supplementary tables are attached. One shows that the steel mill products used by the railroads vary widely depending on whether they are for cars and locomotives, buildings, or track. The other shows the percentage of total output of principal products that were shipped to the railroad industry and to the automobile industry in 1937.

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TABLE II
DISTRIBUTION OF CERTAIN STEEL MILL PRODUCTS
1937

Product	Percent of total taken	
	By railroad industry	By automobile industry
Plates	24	5
Shapes	16	1
Bars	6	24
Sheets	3	32
Strip	2	57
Rails	87	0
Track accessories	89	0
Other	25	15
Total	12	17

Note:—The percentages shown are based on tonnage figures, as estimated by THE IRON AGE.

TABLE III
PRINCIPAL STEEL MILL PRODUCTS TAKEN BY THE RAILROADS
1937

Product	Percent of total takings for			Total
	Cars and locomotives	Rails and accessories	Buildings and bridges	
Plates	36	1	18	19
Shapes	17	..	56	11
Bars	14	1	12	8
Sheets	12	..	3	6
Strip	5	..	1	2
Rails	..	87	4	51
Track accessories	<u>1</u>	<u>29</u>	<u>1</u>	<u>14</u>
	85	98	95	91
Other	<u>17</u>	<u>2</u>	<u>5</u>	<u>9</u>
Total	100	100	100	100

Note:—The percentages shown are based on tonnage figures, as estimated by THE IRON AGE.

Shipments of steel mill products to the railroads in 1937 were about half the peak level of the early 1920's, while shipments to the automobile industry were nearly 60 percent greater than at that time. Data for selected years are shown in the following table. These figures represent shipments from steel mills, not consumption of steel for which data are not available. In the past three years actual consumption of steel probably differed considerably from shipments, owing to the accumulation of stocks in late 1936 and the first three quarters of 1937 and the reduction of stocks subsequently.

TABLE IV
SHIPMENTS OF STEEL MILL PRODUCTS
(In thousands of gross tons)

	Total	To railroads	To Automobile industry
1922-1926 (average)	30,530	7,680	5,600
1929	40,600	6,900	7,500
1932	10,300	1,250	1,750
1936	32,000	5,300	6,500
1937	32,500	5,890	5,650

Source:—THE IRON AGE

In terms of present ingot capacity shipments to the railroads at the 1922-1926 average rate would require about 16 percent of ingot capacity; the requirement was about 24 percent of the capacity at that time. In 1937 shipments to the railroad industry required about 8 percent of current ingot capacity. The automobile industry required 11 percent of ingot capacity in 1937, as compared with 10 percent in the early 1920's.

Confidential
December 2, 1938.

UNITED STATES RAILROAD EQUIPMENT AUTHORITY

Proposal: Establish a railroad equipment authority, with capital stock owned by the Treasury, empowered to issue guaranteed debentures for the purpose of contracting for the purchase of new railroad rolling stock to be rented or leased to railroads.

1. The Stimulation of Recovery

Expenditures of some \$500 million on railroad equipment could be assured in the first year of operation. Apart from the stimulation this would afford the economy in general, it would provide work for the railroads' own car shops and increased traffic for the roads themselves.

2. The Removal of Future Bottlenecks

Preliminary estimates indicate that in order to handle the volume of traffic consequent upon the continuance of recovery at a desirable rate, yearly expenditures on rolling stock of about \$800 million at present prices would have to be incurred in the period 1939-41. From the standpoint of the national economy it would obviously be to our interest to utilize idle plant and labor in the immediate future in order to relieve the shortages, stoppages, and bottlenecks that will arise in freight traffic, the railroad equipment industry and in the steel industry with the continuance of recovery.

3. A Contribution to Future Stability

The railroad equipment field has traditionally a feast and famine character and is consequently an important source of economic

-2-

instability. A federal authority, not pressed by financial considerations or immediate profit considerations, could level off the peaks and valleys of railroad equipment buying.

In addition, variation in rental rates for equipment would offer a highly desirable alternative to variations in freight rates as a means of bringing about greater stability in railroad net earnings.

4. National Defense

A modernized supply of rolling stock adequate to handle the volume of traffic incident upon war appears to be an indispensable element in any comprehensive program of national defense. Moreover, experience in the handling of a national car pool will be invaluable in the event of war.

5. Betterment of the Financial Structure of Railroads

The gradual substitution of rented and leased rolling stock for owned equipment would permit a reduction in the debt of railroads and a substitution of variable for fixed charges. Moreover, the proposal offers a means whereby the Government could stimulate private expenditures without getting deeper involved in the complicated financial structure of the railroads.

6. Improved Efficiency

The proposal, through making possible continuous buying, greater standardization, and more liberal provisions for research, should permit very substantial reductions in costs to be achieved. It should also permit more efficient utilization of rolling stock in the handling of empties, etc.

7. Relation to the "Railroad Problem".

The proposal could be adopted independently and without prejudice to any comprehensive program of reorganization and consolidation of the railroads, which may take a long time to accomplish.

Objections to the Proposal

1. Government Ownership

The proposal does, of course, involve a degree of Government ownership, so far as rolling stock is concerned. It may be pointed out here, however that

(a) it is only a degree removed from the present practice of making loans to financially shaky roads,

(b) it is far removed from the actual Government operation of railroads as is practiced in certain other democratic countries such as Canada and Sweden,

(c) it is proposed that the Government operations be confined to research and ordering, renting or leasing equipment and that no construction or repair be undertaken in Government shops.

2. Loss to the Government

It may be objected that the Authority's equipment will be used only during peak periods and years of exceptionally high traffic volume and that for the rest "the Government will be left holding the bag."

This objection can easily be disposed of by pointing out that this all depends on the terms of leasing or daily rentals. If they are set sufficiently low, it will pay the railroads to use the Authority's equipment, and rely on old high - repair - cost equipment for peak requirements. Low rental rates will also

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constitute an inducement to retire old equipment.

This way out, however, raises another objection. If rentals are set too low, the revenues of the Authority will be inadequate to service its obligations and keep its equipment in good repair. It should, however, for the following reasons, prove possible for the authority to set sufficiently low rentals to induce the railroads to use its equipment and yet not suffer a loss:

- (a) It will have the advantage of borrowing at lower interest rates than the railroads can secure;
- (b) being a very large and continuous buyer of standardized equipment it should be able to secure greater price concessions than any individual road could obtain;
- (c) there should be economies consequent upon the growth of a national car pool;
- (d) it will be in a position to charge higher rentals in good years to recoup any losses sustained in bad years.

Finally, it must be kept in mind that even though the Authority should actually show a loss, this would not be incompatible with a large net national gain in more stable and higher national income, production and employment.

5. Technical Difficulties

The proposal has been examined by a number of operating railroad men and although problems have been pointed out in connection with repairs, zoning, storage, etc., it appeared to be the general

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consensus that the problems would be similar to those now encountered in connection with "foreign" cars and the private leasing companies, such as Pacific Fruit Express, and various ways of meeting these problems were at hand.

In connection with the determination of the volume of new equipment of various types, it would appear feasible to make far better national estimates of the number of different types of freight cars and locomotives that a certain volume of traffic will require than could possibly be arrived at as the sum of individual estimates made independently by the various roads.

4. Inequities as Between Roads

Some companies have normally an excess of cars and others a deficiency. Some companies, therefore, would be in a better position to take advantage of low rentals on new equipment while others might suffer a loss of revenue now derived from the use of their cars by other lines.

Again, many roads now build a substantial amount of equipment in their own shops and individual hardships might result from the inevitable changes in the location of work consequent upon national bidding for a single buyer. These changes might be tempered by policies of the Authority in distributing new equipment, repair and reconditioning work.

Alternatives:

The alternatives appear to be either to do nothing or to stimulate railroad equipment purchases through loans to railroads from the R. F. C., on favorable terms.

It is said that if the R. F. C. should announce that it was prepared to purchase equipment trust certificates

(a) up to 100 percent of the cost of new equipment,

(b) at a $2\frac{1}{2}$ percent rate,

(c) for comparatively long maturities,

(d) the offer to be available for a limited period only,

a very large amount of anticipatory railroad equipment buying would be induced.

While this alternative is far better than doing nothing at all, it appears inferior on various counts to the proposal under discussion.

1. It Lacks Flexibility.

The chief objection, from the compensatory fiscal policy viewpoint, is that an emergency loan operation does not provide a mechanism through which the Government could operate continuously, and outside the budget, to smooth out fluctuations in expenditures in an important field.

With reference to the immediate situation, it is almost impossible to forecast the extent to which a favorable loan offer would be taken up. Once announced, it would be difficult to change the terms. If a big rush of orders ensued, deliveries would have to be spread over a future period, or else a temporary bottleneck would occur. If few

orders came in, the terms could not be lowered further or the offer extended without arousing a sense of grievance on the part of those who had already availed themselves of the offer.

2. There are definite obstacles in the way of offering terms that will really be effective.

The R. F. C. must consider the soundness of each individual loan and cannot explicitly rely upon averaging and upon higher interest returns in good years offsetting low returns in bad, as could the proposed Authority. The most favorable terms offered to date by the R. F. C. were in connection with the purchase of equipment trust certificates of the Southern Railroad for 100 percent of the cost of freight cars, at 4 per cent, and for fifteen years.

In bad years, when on national economic grounds, expenditures on railroad equipment are most desirable, the credit of the railroads is weakest and, confronted with surplus equipment on the one hand and financial difficulties on the other, they would be most reluctant to borrow and purchase new equipment even on the most favorable terms.

3. A loan operation does not offer a good possibility for securing cost reductions and efficiencies.

Each loan being an individual loan, there does not exist the same opportunity to derive the economies arising from large, continuous orders of standardized equipment, or from research, or from car pooling.

4. Other implications

Further large loans to the railroads would involve the Government still more in the complex financial structure of railroads, and would

-9-

result in a further increase in railroad debt and fixed charges. Moreover, it would be difficult to refuse to other borrowers the particularly favorable terms that would have to be offered to the railroads.

ESTIMATE OF NATIONAL INCOME IN 1939

It is estimated that national income produced will be approximately \$68 billion in 1939. This compares with an indicated \$62 billion in 1938 (on the basis of data available for ten months only) and \$70 billion in 1937. On this basis approximately three-fourths of the loss from 1937 to 1938 should be recovered in 1939.

The above estimate is based upon analysis of underlying conditions and current trends. This analysis indicated a probable average of 106 for the Federal Reserve Index of Production in 1939. In December of 1938, the index is expected to be in the neighborhood of 100 and after a levelling out, or perhaps even a small decline, in the early part of 1939, to increase rapidly in the later part of the year.

The estimated rise in national income produced from \$62 billion to \$68 billion is approximately ten percent, which reflects in part the improved position with reference to business savings. This item, after payments of dividends and withdrawals by entrepreneurs, is expected to show only a small net loss in 1939, as compared with an estimated net loss of more than \$2 billion in 1938. National income paid out is expected to rise approximately six percent from \$64 billion in 1938 to \$68 billion in 1939. Since income payments are running at about an annual rate of \$46 billion at the present time, it will be necessary for them to increase to an estimated rate of approximately \$71 billion at the end of 1939 in order that the estimated average for the year can be attained.

Estimates of National Income in 1939

B.

The accompanying table summarizes the above estimates and gives the comparable figures for 1937 and 1938, the latter being partly estimated also.

	<u>1937</u>	<u>*1938</u>	<u>B 1939</u>
National Income Produced	69.8	68.0	68.0
Business Savings	+0.5	-2.5	-0.5
National Income Paid Out	69.3	64.8	68.5
Compensation of Employees	45.4	42.1	44.6
Manufacturing, mining, construction	15.9	12.9	15.1
Transportation and utilities	4.8	4.4	4.6
Trade and Finance	7.9	7.6	7.9
Government, Service, Other	15.0	14.9	15.1
Work Relief	1.8	2.2	1.9
Dividends and Interest	9.5	8.2	9.0
Entrepreneurial Withdrawals	10.4	9.8	10.3
Net Rents and Royalties	2.6	2.6	2.6
Social Security Contributions, etc.	1.4	1.6	1.8

*Partly estimated

B- Estimated

DEC 5 1938

Secretary Morgenthau

Heran Oliphant

For your information

Hamilton, Chief of the Far Eastern Division of the State Department, had raised the question whether the proposed arrangement with reference to tung oil, etc. would violate our Treaty with China of 1884 and the International Treaty concerning China of 1922. I understand that Mr. Welles told Hamilton to take the matter up with the Treasury and see what we said since he wanted to take it up with the President on Wednesday.

We have looked into the questions which Mr. Hamilton raised and have concluded that there is nothing to his objections. I got in touch with Hamilton at once, so advised him, and suggested that we would be glad to discuss the question with any of the lawyers in the State Department he may designate. He is sending someone over at 10 a.m. tomorrow.

(initialed) H G

cc to Lochhead
White ✓
Taylor
Hanes

HO:s Typed 12/5/38

TREASURY DEPARTMENT

347

INTER OFFICE COMMUNICATION

DATE DEC 5. 1930

TO Secretary Morgenthau
FROM Herman Oliphant

For your information

Hamilton, Chief of the Far Eastern Division of the State Department, had raised the question whether the proposed arrangement with reference to tung oil, etc. would violate our Treaty with China of 1844 and the International Treaty concerning China of 1922. I understand that Mr. Welles told Hamilton to take the matter up with the Treasury and see what we said since he wanted to take it up with the President on Wednesday.

We have looked into the questions which Mr. Hamilton raised and have concluded that there is nothing to his objections. I got in touch with Hamilton at once, so advised him, and suggested that we would be glad to discuss the question with any of the lawyers in the State Department he may designate. He is sending someone over at 10 a.m. tomorrow.



5 December, 1938

From: Miss Jacobson.
To : Mr. Nicholson.

Closing exchange rates today sell U. S. dollar at sixteen one sixteenth and buy at sixteen three sixteenths.

Silver sale proceeds held by Federal Reserve Bank close of business December 3, \$6,852,781.33. Change during week, debit, \$5,000,000 withdrawn.

December 5, 1938

After reading the attached article by Alsop and Kintner, the Secretary decided not to say anything to Hanes until he approached him on it.

Hanes came in on Saturday morning and made some reference to the article, whereupon Mr. Morgenthau took the opportunity of cautioning Mr. Hanes. He said, 'I want you to know that Arthur Krock hates the President and he and his group will do everything they possibly can to build you up in order to show that you are the man who has the businessman's point of view, and they will reach the point where they will have you on one side and the President on the other -- you, saying 'this is what business wants; this is what the country wants, and Hanes is the fellow to put it through, but with the President on the other side directly opposing you.' He said, 'John, you can't find yourself in that position. They will use every conceivable method to bring this about and you have got to watch your step. When the President's machine goes to work on a fellow, God help him! They are going to use Oliphant; they will use me; they will use anybody. Now, that's too unimportant. I don't care what they say about Oliphant or what they say about me, but their whole idea is to prove that you are going to use you as a symbol which the President is opposing.'

The Capital Parade

1430

Treasury Seen Adopting Business Point of View On Taxes Under Hanes Influence

By JOSEPH ALSOP and BOBBY KUTNER.

There has been a highly significant change in the Treasury's approach to tax and budget problems. After these last years it may sound improbable, but the fact cannot be gotten around—there is a new inclination to consider taxes from the businessman's point of view.

The change is pretty well symbolized by the withdrawal from the tax field of Treasury General Counsel Herman Oliphant. Oliphant is an able and far-sighted man, whose radical tendencies have been ridiculously exaggerated, but he cannot be called business-minded. In the period of the undistributed profits tax his influence undoubtedly predominated in the Treasury's tax programs. Yet he has had no sort of hand in the elaborate study of the tax structure which Treasury experts are now completing.

Instead the study's guiding mind has been that of Undersecretary John W. Hanes, a considerable businessman himself, and the leading exponent of conciliation between business and the New Deal. Since Hanes' transfer to the Treasury he and Oliphant have struck up a warm friendship. There is no question of rivalry between them. But as Secretary of the Treasury Henry Morgenthau, Jr., has virtually given Hanes carte blanche, the Treasury's approach to tax problems is bound to reflect Hanes' opinions rather than Oliphant's.

The difference between Hanes' and Oliphant's opinions is considerable. Oliphant, a practicing economist, envisions taxation as an instrument of economic change as well as a method of raising revenue. And he is not a budget-balancer. Hanes, on the other hand, regards taxes solely as a way of getting money for the Government, and believes they should be planned, not to reform the working of the economic system, but to interfere with it as little as possible. Hanes, like Secretary Morgenthau, very emphatically is a budget-balancer. He is also a believer in the importance of business confidence.



Sometimes in his tobacco-dealing ancestry, there have been a revivalist strain. He is positively evangelical on the relationship between his two cherished projects—budget balancing and the restoration of confidence. At the same time, he does not depart from the New Deal line so widely as Morgenthau did last autumn, when he wanted to balance the budget by severe economy. Hanes' theory is that, with an improvement of business, brought about by the restoration of confidence, the national income will rise to a point where the budget can balance itself.

Since the reversion to spending last spring, Morgenthau has come around to the Hanes view. Their joint prayer now is that the national income will reach \$80,000,000,000 by 1940, in which case the budget can be balanced on the basis of present taxes. And they have real hope that their prayer will be answered.

Concerning the immediate future, several interesting inferences can be drawn from Hanes' new



power taxes. In the first place, unless the President himself countermands Hanes' plans, it is very unlikely that financing national defense will be made an excuse for revitalizing the undistributed profits levy. Generally speaking, punitive or disturbing taxes on business will be avoided.

There may be no call for new taxes of any sort, for Morgenthau and Hanes are not yet convinced that the next fiscal year's armament and relief expenditures will be big enough to necessitate more revenue.

If new taxes are called for, they will probably take the form of increased surtaxes on incomes between \$10,000 and \$50,000 a year. As one Treasury expert rather grimly put it, "that's where the fat is." At present, total income taxes in the \$10,000 to \$50,000 class range only from 12 to 31 per cent. The ability to pay 10 there, and about \$4,000,000,000 of taxable income is also there.

Whatever the final recommendations, they will be based on a careful, realistic examination of the entire tax structure. Some may be disappointed that budget-balancing has been deferred again. But they should recognize that, in the last election, even the Republicans hesitated to raise the cry of economy. And they should remember that, unless the national income rises or the Government spending apparatus is dismantled, the budget cannot be balanced without a 30 per cent increase in taxation.

December 5, 1933.

Dear Mr. Spraul:

On behalf of the Secretary I am acknowledging your letter of December 3rd, commenting upon the security issues offered during the past week.

The information contained in your letter will be brought to Mr. Mergenthau's immediate attention.

Sincerely yours,

H. S. Klotz,
Private Secretary.

Mr. Allen Spraul,
First Vice President,
Federal Reserve Bank of New York,
New York, New York.

GW/abc

Noted

A. Lochhead

December 5, 1933.

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Sincerely yours,

H. S. Klets,
Private Secretary.

Mr. Allan Spraul,
First Vice President,
Federal Reserve Bank of New York,
New York, New York.

GHF/dbs

December 8, 1933.

Dear Mr. Spraul:

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GW/ab

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**H. S. Klotz,
Private Secretary.**

**Mr. Allen Spruill,
First Vice President,
Federal Reserve Bank of New York,
New York, New York.**

GW/als

**FEDERAL RESERVE BANK
OF NEW YORK**

December 3, 1938.

Dear Mr. Secretary:

For the first time since October some corporate security issues were offered in the open market this week. Three utility company issues, of which two were bonds and one a preferred stock, were promptly bid up to high premiums, ranging from 2 to 5 1/2 points. A fourth issue, an industrial convertible preferred stock, is still being quoted at the syndicate offering price. The four publicly-marketed issues were:

\$13,780,000	Union Electric Company of Missouri \$5 preferred stock at 106, for re- funding;
4,000,000	Blackstone Valley Gas and Electric Company mortgage and collateral trust 3 1/2s of 1968 at 104 3/4, for re- funding;
2,800,000	Michigan Associated Telephone Company first mortgage 4s, of 1968 at 102, all but \$200,000 for refunding, and
6,000,000	National Gypsum Company \$4.50 con- vertible preferred stock at par, about three-quarters for refunding.
<u>\$26,580,000</u>	Total

There were also two small offerings of speculative common stocks and the private placement of a \$1,000,000 utility bond issue.

The largest flotation during the week was the award and successful resale of \$40,000,000 of bonds of the City of New York. A Chase National Bank syndicate won the award at an interest cost to the City of 2.883 per cent. The issue was divided into \$25,000,000 3s maturing 1939-73 and \$15,000,000 2 1/4s maturing 1940-44. They were reoffered to yield 0.50 to 3.15 per cent;

80 per cent were sold the first day and the balance on the day following. This is the quickest distribution of a large New York City issue in some time, and was carried out despite the prospect of the exchange of up to \$315,000,000 City bonds for subway unification in the fairly near future. The City also placed \$21,000,000 of revenue bills bearing 0.50 to 0.75 per cent interest due in 3 to 12 months.

In contrast to the sale of the New York issue, the \$25,000,000 State of Connecticut issue reported last week is still unsold to the extent of about \$13,900,000. The yields at which the Connecticut issue was offered were about half those on the corresponding maturities of the New York bonds.

To the list of forthcoming issues reported last week should be added \$55,000,000 of Public Service Company of Colorado bonds, debentures, and preferred stock. They were registered last Friday and are eligible to emerge from registration December 15, which would put them in the market as the new Treasury securities are going into distribution. No serious conflict of interest is indicated, however, the situation being comparable to that of September 15th, when a \$25,000,000 issue of Atlantic Refining Company debenture 3s of 1953 was offered at 99 and was readily sold despite the market's preoccupation with Treasury financing.

Corporate issues during November amounted to about \$175,000,000, only half of the high total in October. Eighty-five per cent of the November flotations were by private sale. Some \$75,000,000 was for new capital. The December total gives promise of being a little higher than \$175,000,000, with about the same amount for new capital as in November.

The public market for corporate issues was not really tested last month, because so much of the financing was placed privately, but, despite a period of some decline in bond prices, both the taxable market and the tax-exempt market seemed more than willing to absorb all offerings on which the yield was fairly attractive. That issues were not greater is due to lack of offerings rather than lack of demand.

The rates for the different maturities of municipal bond issues emphasized the familiar point that, under present conditions, the long-term interest rate is predominantly a charge for the lenders' assuming the risk of fluctuations in short-term interest rates. When the borrower is willing to assume that risk, the current interest cost is much lower.

Yours faithfully,



Allan Sproul,
First Vice President.

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Treasury Department,
Washington, D.C.

RECEIVED
DEC 11 1938
FEDERAL RESERVE BANK OF NEW YORK

December 5, 1938.
12:15 p.m.

HMJr: Hello.

Operator: Governor Harrison. Go ahead.

HMJr: Hello.

Harrison: Hello, Henry.

HMJr: Hello, George.

Harrison: First of all I want to tell you I was sorry I missed you Saturday, but a friend of mine was quite ill with pneumonia in the hospital and wanted to see me so I had to go up.

HMJr: That's alright.

Harrison: And secondly, I think you -- frankly, I think you've done just the right thing. As you know, from what I said down there that day, I think this is the best possible offering you could have made.

HMJr: I think from what I gather the way the market is taking that it has worked out beautifully.

Harrison: It is fine, because it is going to make a real demand for those twos rather than forcing the holders of rights into the longs which otherwise they would have gone into and then resold.

HMJr: I am trying to convince them that there was a demand for a short-term bond of a fixed date which the pencil and paper just wouldn't indicate.

Harrison: Well, that's what happened.

HMJr: Yes. That's what I told them.

Harrison: With pencil and paper I think your men paid just about one hundred and one twelve. We figured about one hundred and one sixteen up here.

HMJr: Yes.

Harrison: That's around the market's talking in terms of one hundred and one twenty-one. If that is true, I think that you will find that the fair proportion of the conversions into the two percents.

HMJr: That's alright.

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H: Which is what we want.

HMJr: That's alright.

H: And yet the other one - the long one - is priced well enough.

HMJr: Yes.

H: To make over your past success.

HMJr: It looks awfully good, George.

H: So I think you did just the right thing and I'm very happy about it.

HMJr: Thank you so much. I appreciate your saying so.

H: And I don't think there is anything wrong at all in the three-way thing this time.

HMJr: Thank you, George.

H: Fine! And on our old conversion I don't know -- have you got just a minute?

HMJr: Always.

H: Last night, or Saturday night, when I went home I was thinking of -- this is just between you and me, because I haven't talked to the other fellows yet -- of converting half into notes and half into the short bonds on the theory that we might then be able to pick up some long ones later on if necessary.

HMJr: Yes.

H: I'm rather of the feeling that we had better get a few of the long ones anyway in case we have to have something to dispose of. I mean, if insurance companies and others don't get all the twos and three-quarters they want. They may make an artificial market unless somebody is able to provide them.

HMJr: Can you take a little joking?

H: What's that?

HMJr: Oh, I just couldn't think it that the Federal Reserve system subscribe to a sixty-sixty-five bond. I couldn't take it, George. The shock would be too great! O.K.

- 3 -

Harrison: That's alright. But I don't know that they will, but I think I would like to. A small amount of them.

HMJr: I don't know whether I could stand the shock! The first thing I know Wintrop Aldrich will take some and then I will be sunk!

Harrison: Well, it is especially true if there is a very heavy subscription in the twos, which I think we ought to get a majority of.

HMJr: Well, I'll be interested what you make up your mind to do.

Harrison: Alright. Well, I rather think we better wait until tomorrow, if we are going to have tomorrow for exchanges.

HMJr: Oh yes, I'll give you until Wednesday night.

Harrison: Just so as to see where the pressure is.

HMJr: I'll give you until Wednesday night.

Harrison: You think you will?

HMJr: Yes, because when I put out a notice of close I always liketwo-day notice.

Harrison: I think that is very wise.

HMJr: I think because there is a big turn-over you have to let those bond fellows make a little money.

Harrison: Yes. Then we have to think of some way we can put a little money back into the market over the fifteenth.

HMJr: Oh, really?

Harrison: Well, I think you're going to take out an awful wad.

HMJr: Well, if you are worried, talk to me about it.

Harrison: Yes, we'll work on that. Don't worry about it until I call you back on it.

HMJr: Alright, George.

Harrison: First rate.

HMJr: Thank you.

December 5, 1938.
12:20 p.m.

Ransom: To be sure that I had the Dow Jones item that you referred to Saturday. I couldn't locate it Saturday. Was it the one signed the Federal Reserve officials stated today on behalf of Chairman Eccles?

HMJr: That's right.

Ransom: With no banking law amendments?

HMJr: That's right.

Ransom: That's the one you referred to?

HMJr: Yes.

Ransom: Well, you think that is helpful, I take it. You didn't make any comment on it Saturday.

HMJr: No, and I'm not going to, if you don't mind.

Ransom: Surely.

HMJr: No, because there's another one came out today which was just handed to me. It says, "Despite Reserve Board denial on behalf of Chairman Eccles Saturday it insists in well-informed circles - - it is reported that I did receive the memorandum." I don't know where that comes from. No, I just showed it to you. If you don't mind, I don't want to make any comment, because --

Ransom: Let me tell you the history of it, if I may, because I think always facts help in a situation of this kind. Gaston talked to Thurston and Thurston called Kilgore and talked to him, and Kilgore said, "Well, in view of your statement I think I should put a correction on the ticker", and this resulted from that. I just tell you that so you may know the origin.

HMJr: You mean the one that is out today?

Ransom: No, the one that was out Saturday.

HMJr: Oh, I see.

Ransom: Now the one today -- of course, I take it we've heard nothing about. I haven't.

HMJr: No. Well, I got everything off my chest when you were sitting there.

Ransom: Well, if I can serve to take some things off your troubled chest at times, I'm very glad to do so.

HMJr: Well, you did Saturday, and I appreciate it, and, oh -

Ransom: Let me ask you this -- I am in the process of preparing a little memorandum for my own information, merely. If when I have finished that I might have an opportunity to sit down with you.

HMJr: I'd love it!

Ransom: Give it to you, and before I give it to anybody else. If it isn't going to anybody else -

HMJr: I'd love it!

Ransom: I'd like to do that.

HMJr: You just call me and we'll fix it up.

Ransom: Alright, fine.

HMJr: Thank you.

December 5, 1938.
2:48 p.m.

Operator: Hello.

HMJr: Hello.

Sproul: Hello, Mr. Secretary.

HMJr: Yes, how does it look to you?

S: It still looks alright.

HMJr: Good.

S: The cash offerings are out the window as far as we are concerned.

HMJr: Really? What are the figures?

S: Well, at 2:30 we had seven hundred and two million on the two and three-quarters; four hundred and forty-six million on the one and one-eighth.

HMJr: Two and three-quarters, how much?

S: Seven hundred and two million.

HMJr: Seven hundred and two million, yes.

S: And on the one and one-eighth we had four hundred and forty-six million.

HMJr: Four hundred and how much?

S: Four hundred and forty-six million.

HMJr: I see. Well that looks good, doesn't it?

S: Yes.

HMJr: Yes.

S: Very good. And on the exchange offering they are still working with sharp pencils. There is not much coming in on that yet.

HMJr: I see.

S: But the market still thinks they are going more heavily for the twos and for the two and three-quarters, and the quotations for rights which stays around one hundred one twenty-two indicates that that might well be the case.

HMJr: Well, I thought I'd leave the exchange open until Wednesday midnight.

S: Yes.

HMJr: Don't you think so?

S: Well that's the -- you usually give them about that much time, don't you?

HMJr: Yes, the only-- last time we didn't because it was in the middle of the week, you know.

S: Yes, you were a little rushed for time there.

HMJr: Yes, and the European thing. I think we'll announce Wednesday night.

S: Close the other tonight and announce the closing of the exchange for Wednesday night?

HMJr: That's right.

S: I think that makes a good program.

HMJr: Fine! Alright,

S: I'll let you know later if anything further develops.

HMJr: Thank you very much.

S: Good bye.

December 5, 1938.
2:55 p.m.

Operator: Alright, Mr. Bell is calling you.
HMJr: Alright.
O: Go ahead.
HMJr: Hello.
Bell: Bell.
HMJr: Morgenthau.
B: Did you get the two o'clock report?
HMJr: Well, I got the two-thirty.
B: That's fine.
HMJr: Two and three quarters, seven hundred and two million;
one and one-eighth, four forty-six.
B: Well, it's nine forty long.
HMJr: Nine forty?
B: Yes. Five seventy notes.
HMJr: Wait a minute - how much long?
B: Nine forty.
HMJr: Nine forty, yes.
B: Five seventy.
HMJr: And the short is how much?
B: Five seventy notes.
HMJr: Alright.
B: And twenty-one is on the short notes. No exchange is
in there to amount to anything.
HMJr: Well, I'd get out the telegrams.

- 2 -

B: We'll have them all ready when we get the four o'clock report.

HMJr: We'll announce tonight we'll give them until Wednesday night on the exchanges.

B: Yes, that's right.

HMJr: Cash offerings closed tonight.

B: Alright.

HMJr: Going very well, isn't it?

B: Going fine.

December 5, 1938.
4:30 p.m.

Farley: Keep everything under control with Eccles and all the other boys until I get down there.

HMJr: No!

Farley: You can't?

HMJr: No, I need you badly.

Farley: How badly?

HMJr: Oh, very badly.

Farley: I'll send you a couple of brain trusters.

HMJr: Gee, don't Jim.

Farley: How are you?

HMJr: Well, I'm alright, and some of these fellows are kind of talking themselves almost out of a job.

Farley: Well, I would imagine so. I've been up here trying to relax and trying to get a proper prospective on things. Trying to catch up with my telephone calls and letters and I am trying to get a little rest. I haven't had very much of it but I'm alright, I want you to know that.

HMJr: Yes, well, I miss you. I really do, I'd like to see you.

Farley: Well, I tell you, when I get down there I'll give you a buzz and we'll get together. I thought maybe I might need a little assistance these days.

HMJr: We do.

Farley: Any candidates you want me to promote? I'd be glad to be of service to you.

HMJr: Well, some of these fellows are sitting so high about the only way you could promote them is out into the vacuum.

Farley: Bad as that, eh?

HMJr: Yes.

Farley: How do you feel about things generally, Henry?

HMJr: Well, I tell you, Jim, I think that things generally are alright, but I think it is terribly important what the

- 2 -

President's attitude is going to be after Congress gets here.

Farley: So do I.

HMJr: And I haven't got the slightest idea what it is going to be.

Farley: Well, neither have I. I spent an evening with them before he went away. He was over there for a few hours. I was tired; he was tired, and I wasn't even able to argue. I was so damn tired. We just chatted a bit and I made many observations with the distinct understanding that I was too tired to even argue in favor of them if he disagreed with me, but I told him that -- I gave him some views. I don't know whether he liked them or not. He probably didn't, but they were honest -- the things I told him. I thought in the first place he shouldn't continue this attitude of a purge and trying to knock over every fellow who didn't agree with him. I said that these fellows are going to be back in Congress and in the Senate and there is just no sense in getting in a fight over appointments and trying to force appointments of men they won't confirm. There is just no sense in that. Of course, he still has his views on Carter Glass, Tydings, and a lot of other fellows, and as I told you I was too tired to argue with him, but, of course, I don't see any sense in having a fight in this section of the country. I think that the conditions of the country and the betterment of the country is more important than whether you or I hold a job.

HMJr: Much more! And we've got to get things going a good deal better than they are now or they ever have been before. I mean, we've got to get business going.

Farley: That's right. I don't think we can start kicking people around. It is just not going to get us anywhere.

HMJr: Well, I think the next two years, -- as far as I am concerned, there is just one thing I am interested in -- to make this country more prosperous than it has ever been before.

Farley: That's right.

HMJr: And in order to do that -- I mean, we've got to stop doing a lot of things we are doing now.

Farley: That's right.

HMJr: Unless we do that --

- 3 -

Farley: You didn't go down below at all?

HMJr: No, sir!

Farley: Good!

HMJr: No, sir. I talked to him a couple times, but it was always like things on my financing or the pound sterling, or something like that.

Farley: Between you and me, I didn't even bother to do that. Of course, I didn't have anything worth while to bother, so I didn't.

HMJr: Well, I had to speak --

Farley: He had a couple notes that I sent to him, and a couple memorandums, and I heard from him, but I didn't bother beyond that.

HMJr: Well, I had a couple calls, all very friendly, but it was on this financing, you see.

Farley: Yes.

HMJr: Or on the English situation, but outside of that, nothing.

Farley: I kidded him about his Ambassador over there.

HMJr: Which one?

Farley: Joe.

HMJr: OH! He doesn't mind being kidded about it either.

Farley: No, he is quite annoyed with that.

HMJr: Because Bullitt was sitting at his elbow and he said to me, "How is the French franc?", and I said, "As long as you can keep Bill out of France, it will be alright". He loved that, and I said, "That goes for Joe Kennedy too", and he just loved it. He repeated it all to Bill and he just howled and he thought that was great.

Farley: Yes, he -- of course, he is terribly peeved with Joe, you know that?

HMJr: Yes, well, I mean he's not --

Farley: I think when Joe comes back that that will probably be the beginning of the end.

- 4 -

HMJr: Don't misunderstand me. I have no criticism of Bullitt, but I was just kidding, but he does seem to be peeved on Joe.

Farley: Terribly.

HMJr: He's got reason to be.

Farley: Yes, of course he has. Are you going in the motion picture business?

HMJr: Say listen, you're good!

Farley: I'm alright today.

HMJr: You're alright!

Farley: Take it easy. Have you read Farley as an author?

HMJr: No, but I enjoyed your inscription.

Farley: Well, I meant every word of that.

HMJr: Well, I finally got my picture taken and I'm sending you one.

Farley: O.K. Well, thanks a million, Henry, and I'll see you when I get down there.

HMJr: Alright.

Farley: Thank you.

UNITED STATES LINES COMPANY

369

OFFICE OF THE
VICE PRESIDENT

ONE BROADWAY
NEW YORK

December 5, 1938

My dear Mr. Secretary:

I find it a most difficult matter to try to condense in a few paragraphs the many thoughts that you and I discussed, and further thoughts which I have had since my talk with you, but I am putting these down on a separate sheet of paper, making them just as brief as I can.

I cannot get it out of my mind that the real ultimate goal can only be arrived at by a very close working arrangement between industry, the railroads, and American shipping, and over and above that, the paternal assistance of the Government in regard to foreign credits. This is a matter which cannot be dealt very well in a letter and really requires a great deal of explanation.

I have an appointment this afternoon with Mr. Charles Hook, President of The American Rolling Mills Company, and also President of the American Manufacturers Association. After talking with him, and without disclosing just what I have in mind, I hope to have a much clearer picture. I have already quietly sounded out some of the railroad people without concealing my hand, and I know what can be done with American shipping.

I think you are proceeding on absolutely the right lines, although, as I said to you, I am not sure that you have the right man. However, that is something that perhaps can be decided a little later. There are a number of people that I would like to consult but I cannot very well do it without violating your confidence, and as soon as you feel that this is a matter that can be discussed in quiet confidence with three or four people I would like your permission.

Sincerely yours,

Basil Harris.

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D.C.

1. Trade Ship

This is a most excellent idea and undoubtedly one of the Munson ships, recently taken over by the Maritime Commission, would be ideal for your purposes.

2. State Dinners

At least one or two should be given along the lines which I outlined to you.

3. If serious penetration is to be made in South America it is absolutely necessary that a wider knowledge of Spanish and Portuguese be obtained. Therefore, the question of making this part of the curriculum in State universities should be explored.
4. Close cooperation with motion picture industry most essential for the purpose of showing the high-lights of South America and this country, and vice versa.
5. A systematic exploration and educational program followed to break down present general American feeling of looking down on South American republics.
6. Cooperation of all Federal purchases and possibly establishment of a preferred list of bidders, based on their willingness to give first preference to American ships on all exports.
7. The determination of cardinal trade routes.
8. Establishment of a speakers' bureau to furnish competent orators to various dinners, trade meetings, etc.
9. The question of foreign credits.
10. Joint committee of shipping, railroads and industry for the purpose of being able to quote promptly through export freight rates.
11. Indirect Trade Routes

To discover some method of preventing Japanese ships, for example, destroying rate structure between New York and U.K. ports and possibly establishing differential favoring national flags between respective countries.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE December 5, 1938

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: The Business Situation,
Week ending December 3, 1938.

Conclusions

(1)

Industrial production appears to be approaching the end of its initial rebound from the 1938 depression lows. A moderate setback may occur during the early part of 1939 while underlying factors develop strength for a further advance in business activity.

(2)

National income in 1939 seems likely to prove disappointing in comparison with the trend of industrial production, and may show no material change from the 1938 figure. This is due to the considerable lag between industrial production and national income payments, and to the tendency for lower commodity prices to offset the effect of business improvement.

(3)

Both the New York Times index and Barron's index, seasonally adjusted, declined fractionally during the week ending November 26. The possibility of some further setback is indicated by a drop of about 4 points in the New York Times adjusted automobile index and 2 points in the steel index during the week ending December 3.

(4)

Our index of consumer buying for October suggests that production currently is slightly in excess of the actual "offtake" of goods. A well-maintained level of national income, and a rising trend in the estimated index of basic demand, are stabilizing and strengthening factors in the general business outlook.

The steel situation

Steel operations are believed in most quarters to have passed their seasonal peak, though the decline from now until the end of the year is expected to be less than seasonal. In line with the belief that steel activity will decline during the next few weeks, new orders reported by the U. S. Steel Corporation have fallen off for the third week in succession, reaching a figure equivalent to about 39 per cent of capacity during the week ending November 24. Steel operations this week were reduced further to 60.7 per cent of capacity, which compares with a rate of 61.9 per cent last week.

Prices on all steel products have been reaffirmed at present levels for the first quarter of 1939 by the U. S. Steel Corporation, with other steel makers expected to follow suit. Since the possibility of some increase in prices had been rumored, the present announcement should have little or no effect in stimulating buying. New steel purchases are continuing to taper off, according to trade reports, with many important consumers following the usual seasonal procedure of working down stocks for year-end inventory purposes.

The automobile industry continues to take steel in heavy volume as production expands. Automobile output this week increased to 98,695 units, a new high for the year, which compares with 84,930 in the preceding holiday week. The output was less than generally expected, however, due to the curtailment of production by a strike at the Plymouth plant. Operations at the Buick and Nash plants, and at several plants making auto bodies and parts, have been curtailed this week by labor troubles.

Not much change in national income in 1939

A level of national income not substantially different from this year's figure, which is unofficially expected by the Department of Commerce to be around 64 to 65 billion dollars, appears indicated for 1939 on the basis of a recent study we have made. While it is possible that 1939 may prove an exception to previous rules, due to such factors as increased wages under recent labor policies, the study raises the question whether current estimates of national income which assume a substantial increase next year may not be too optimistic.

Despite the fact that industrial production during 1939 is expected to be sharply higher than in 1938, two factors will operate against an increase in national income next year:
(1) A lower level of commodity prices; and (2) the usual lag

Secretary Morgenthau - 3

in the effect of business activity and prices on national income. National income was held up in 1938 by the continuing effect of the high business levels of 1937. It will similarly be held down in 1939 by the influence of the low business levels in 1938.

The analysis we have made of the factors causing year-to-year changes in national income shows it to be strongly affected by both business activity and commodity prices, but with a considerable lag. Over the period from 1922 to date, the level of national income has been closely related to the levels of industrial production and commodity prices six months previous, the lag being due to various delays in the adjustment of wages, employment, farm incomes, dividends, etc., to changes in business trends. A third factor of less importance during this 16-year period has been the extent to which industrial production was concentrated in durable goods. When industrial activity is featured by a high proportion of durable goods production, its influence is less strongly reflected in national income than when production is more evenly balanced.

On the basis of this analysis, the national income may be estimated with a reasonable degree of accuracy from three factors: (1) The FRB index for the year ending six months previous; (2) the BLS index of wholesale prices with a similar lag; (3) the ratio of durable goods production to the production of non-durable goods.

In the upper section of Chart 1 we show the national income by years since 1929 in comparison with estimates of national income that we have made from the three factors cited, based on average relationships existing during the period since 1922. On the same chart is shown the trend of the FRB index during the same calendar years, to illustrate the point that national income does not exactly follow the concurrent variations in industrial activity. On 1933, for example, the FRB index showed a sharp rise, while national income showed a substantial decline.

In the lower section of Chart 1 we compare the national income figures with the two factors which we have found to be most influential in causing changes in national income: industrial production and commodity prices during the year ending six months previous. In this chart the reason for the decline in 1933 is clearly apparent since both prices and production, after allowing for lag, were lower than in the previous year. Similarly, in our estimate of national income for 1939 it will be noted that the decline in commodity prices offsets the effect of improved business, leaving the national income estimate about the same as in 1938.

Secretary Morgenthau - 4

Basic demand improves further

A further rise in basic demand is indicated by our estimates for October, which show a rise in the combined index paralleling the rise in industrial production (See Chart 2). This was largely due to an estimated increase in basic demand for steel, textiles and lumber. We have extended the estimates of basic demand tentatively through November for steel and automobiles, as shown on the individual charts for these two groups in the lower section of Chart 2. A sharp upturn in November is indicated for automobiles and a slight downturn for steel.

Confirming our belief that a second advance in the production of non-durable consumers' goods may become a supporting business factor during the next few months, the basic demand for textiles and leather products continued to rise during October, contrary to the trends of production in those industries.

Consumer buying increasing

Our combined index of consumer buying (in physical volume, seasonally adjusted) increased 2 points to 96 in October (preliminary), continuing the rise which began in August. (See Chart 3.) It has not increased as rapidly as production, however, and industrial production in November is apparently at a higher level than the level represented by the movement of goods into consumption during October.

In past years, as indicated on the chart, industrial production has usually turned down shortly after exceeding the level of consumer buying, and has renewed its rise only after production had been brought into adjustment with the actual "offtake" of goods. This provides some ground for our belief that industrial production is approaching the end of its initial rebound from the 1938 depression lows.

While a moderate setback in production may follow early in 1939, the underlying situation continues to favor a further recovery, probably after the first quarter of 1939. National income payments (shown in the lower section of Chart 3) remain at a relatively high level in relation to the present rate of consumer buying. The estimated trend of basic demand, as previously mentioned, likewise remains higher than production. These would indicate that any setback in industrial production is likely to be moderate and of a temporary nature, assuming that nothing occurs to turn basic demand and national income trends downward. This unforeseeable development might conceivably arise if commodity prices, under the influence of the unfavorable situation abroad, should continue to decline.

Secretary Morgenthau - 5

New orders decline

Our weekly index of new orders (See Chart 4) declined sharply during the fourth week of November, largely because of downturns in steel orders and textile orders. Holiday influences, and a tendency in some industries to postpone orders at this period of the year in order to keep year-end inventories at a low level, were probably responsible in large part for the decline in new orders. The somewhat less optimistic business sentiment recently, which is influenced by (and reflected in) the declining trend of stock prices, may also have been a factor.

The Business Survey Committee of the influential National Association of Purchasing Agents continues to recommend a conservative buying policy on the basis of its analysis of the business outlook. It reports that "there is insufficient demand in many circles and too much lethargy in others, to bring about any marked quickening in the industrial price structure". Inventories at the coming year-end are expected to be at the lowest point in several years, and no efforts are being made to increase supplies on hand, according to this report, owing to the stable price outlook.

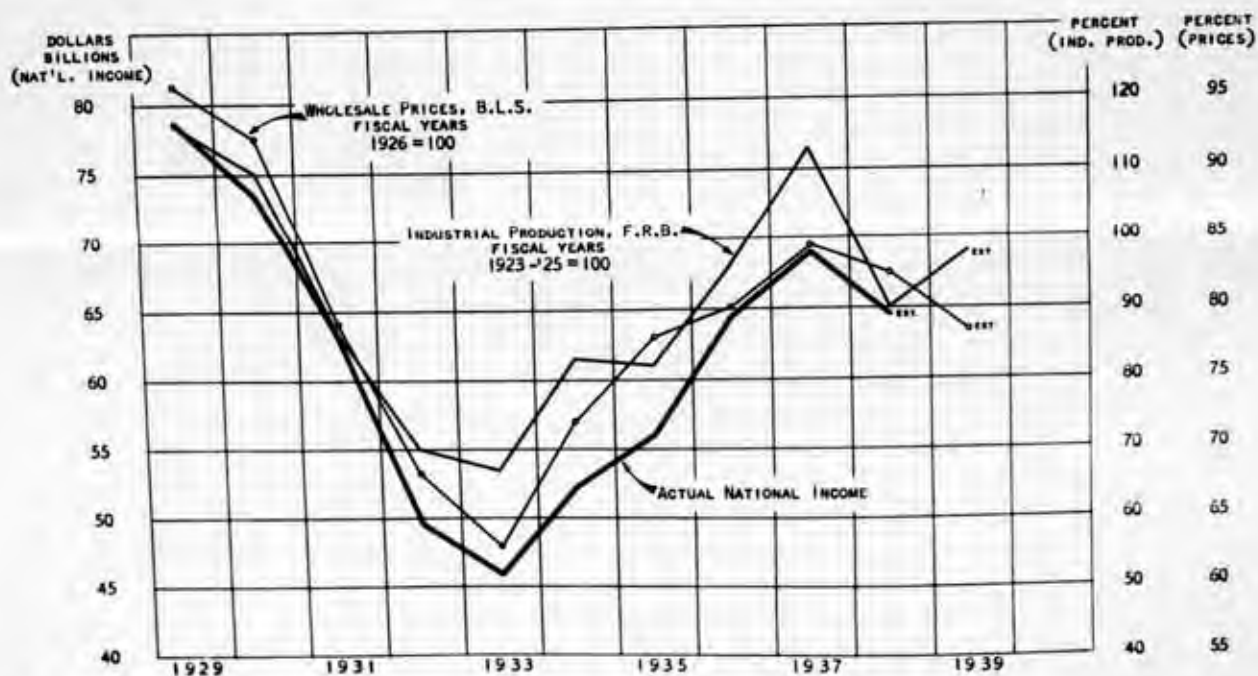
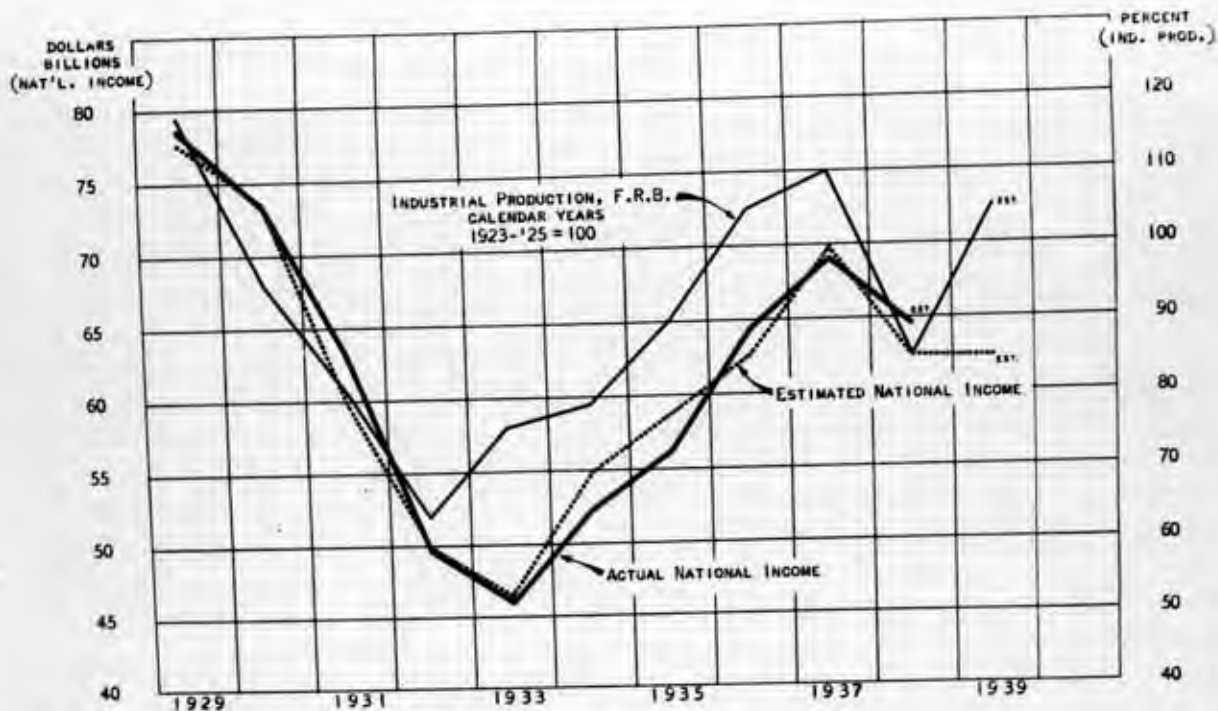
Weekly business indexes lower

Some tendency for business to turn downward from present levels is suggested by a fractional decline in the New York Times index and in Barron's index for the week ended November 26, and the prospect of a further decline the following week. The New York Times index of 92.7 for that week represented a loss of .4 point arising from substantial declines in the seasonally adjusted figures for lumber production and miscellaneous carloadings, which were not entirely offset by improved figures for steel production, automobile production, and "all other" carloadings. It is worthy of note that cotton mill activity held its gain of the previous week, which had carried the adjusted index to the highest figure since August.

For the week ending December 3, a decline of about 4 points in the adjusted index of automobile production and 2 points in the estimated steel production figure tentatively point to the possibility of a further downturn in the New York Times combined index.

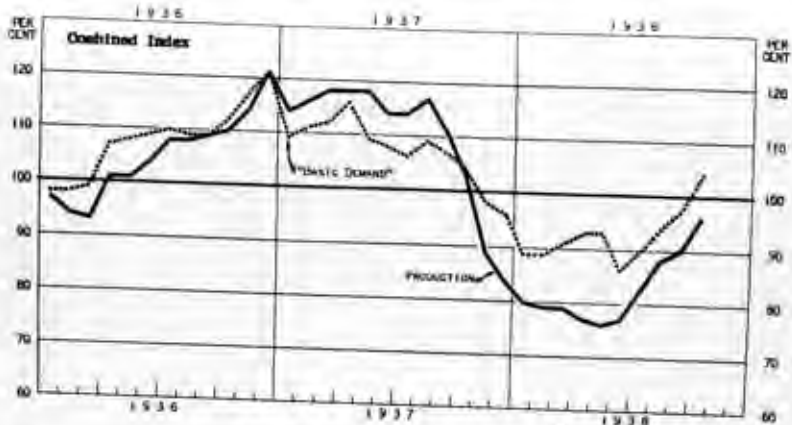
276

NATIONAL INCOME, PRODUCTION AND PRICES

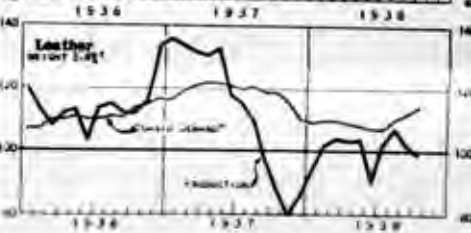
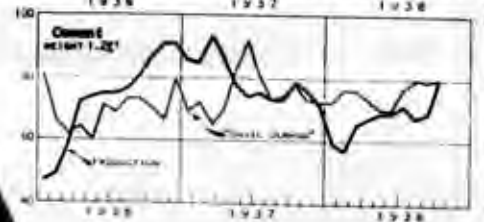
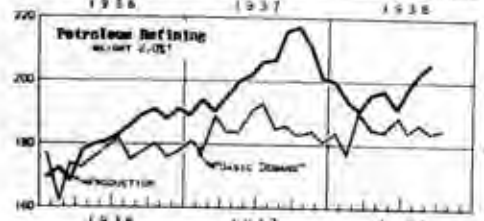
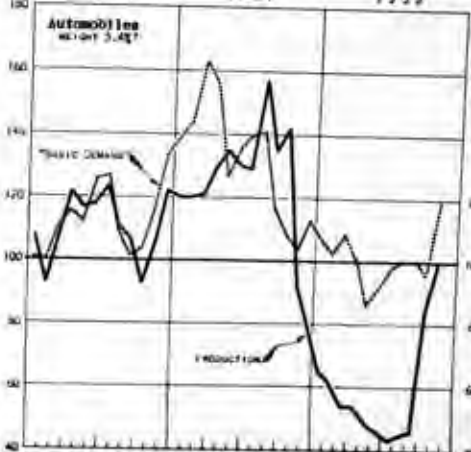
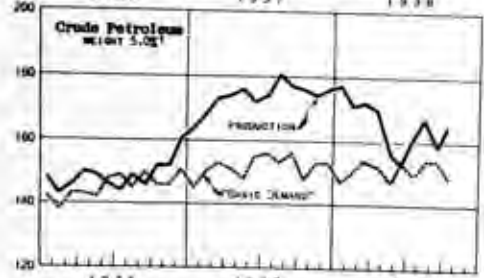
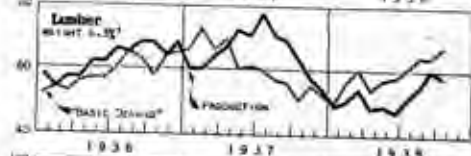
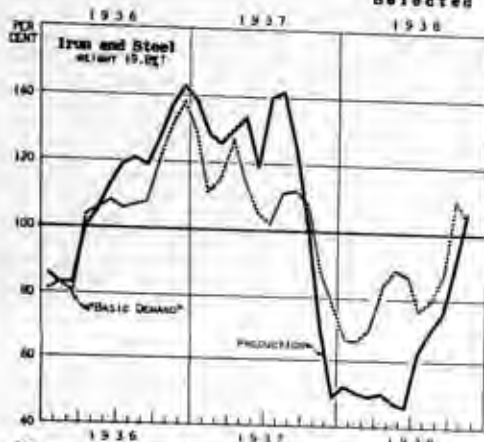


NOTE: 1938 FIGURES ARE PARTLY ESTIMATED.

ESTIMATED BASIC DEMAND COMPARED WITH PRODUCTION, BY INDUSTRIES
1933-25 = 100, Adjusted



Selected Industrial Groups



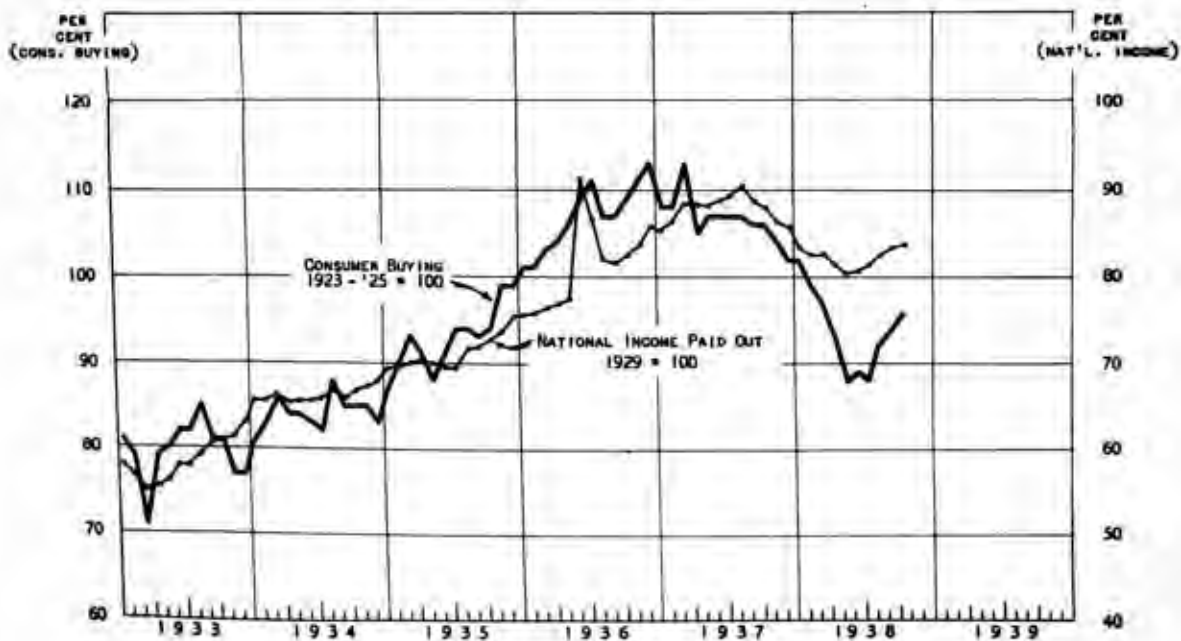
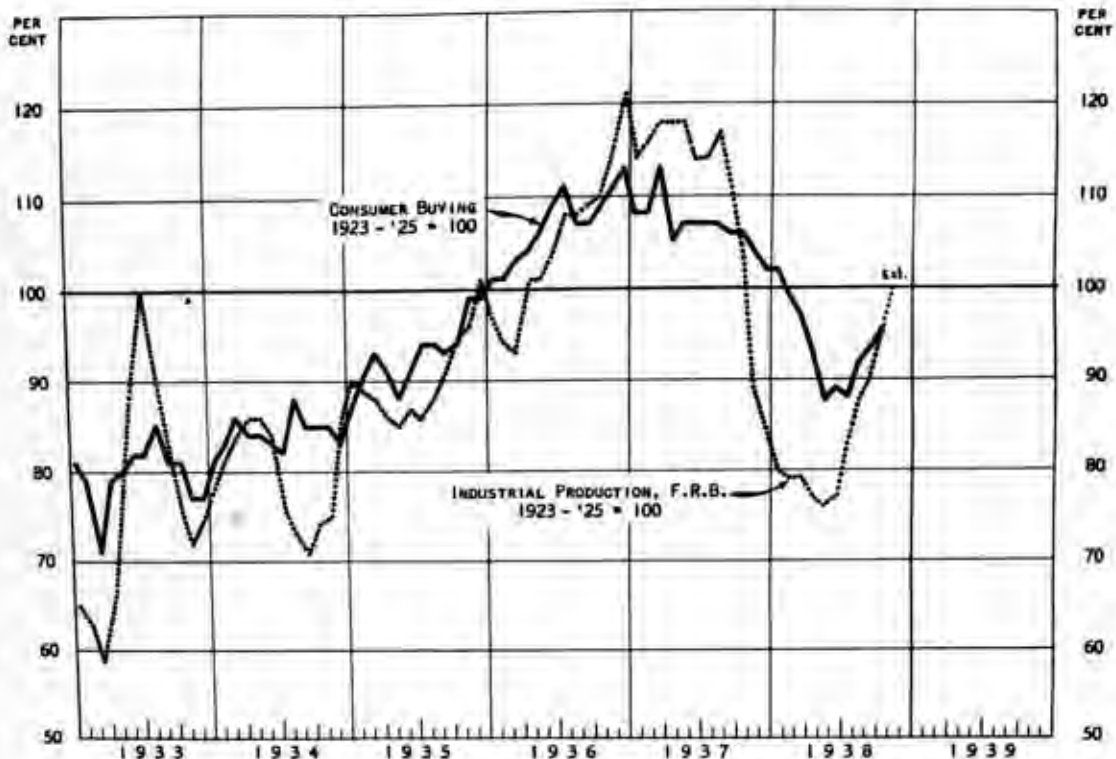
NOTE: LATEST FIGURES ARE PROVISIONAL IN BLUE INK.

FIGURES IN SQUARE INDEX

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CONSUMER BUYING COMPARED WITH INDUSTRIAL PRODUCTION AND WITH NATIONAL INCOME

SEASONALLY ADJUSTED



INDICES OF NEW ORDERS
 Combined Index of New Orders and Selected Components

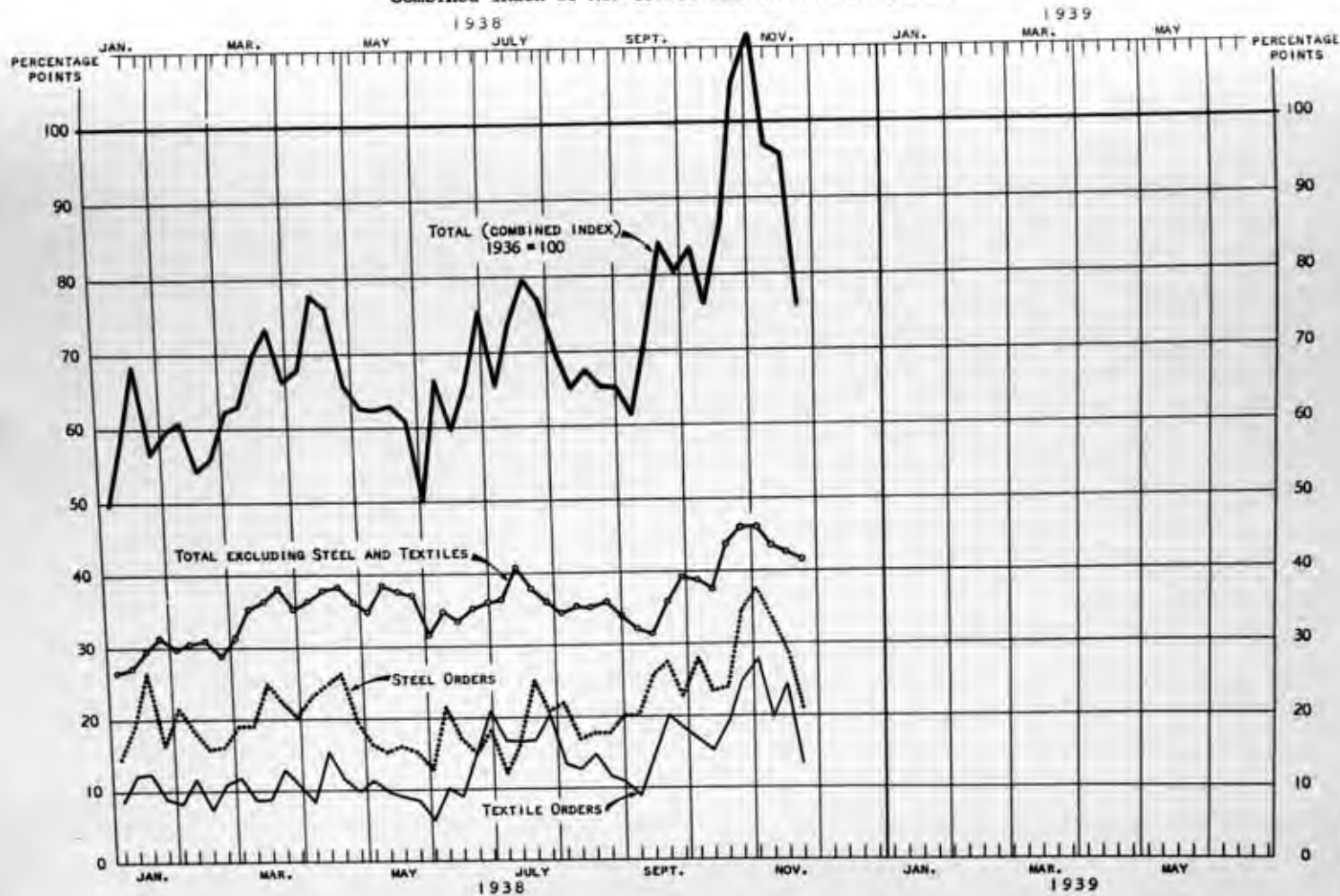


Chart 4
 CONFIDENTIAL

December 5, 1938.

MEMORANDUM

At twelve noon today I talked, at the request of the Secretary of the Treasury, with M. Cariguel of the Bank of France by long distance conversation with Paris. Cariguel told me that since I had seen him last, which was November 25, he had doubled the amount of gold and foreign exchange in the French Stabilization Fund. The amount which Cariguel had at the time I last saw him was slightly over five billion francs, calculated on the basis of the latest revaluation of the gold stocks of the bank of France. The French Stabilization Fund had, therefore, acquired another five billion francs since November 25, or more precisely, since the market turned with the favorable outcome of the suppression of the general strike attempted on November 30.

In addition, Cariguel told me that he had acquired over four million pound sterling so far today, December 5. The rate was 177.63. I asked Cariguel as to the nature of the transactions which yielded him so much foreign exchange. He said that at the beginning of the movement there had been the usual covering of short positions and speculative operations. There had now set in, however, a bona fide repatriation by banking clients. Both sterling and dollars were offered, but the latter in small quantities. The strike situation had been awkward but was not endangering progress. Cariguel said the public was paying no attention to the Italian bluff in regard to Tunisia, etc. He said that important demands for francs had come from London, Zurich and Amsterdam. When I asked Cariguel about sales of dollars to the fund, he said these had not been important and that he had been converting such dollars into gold on the London market. He took particular pains to explain this feeling, I suspected, that we might be a little unhappy because he had not been working directly with us on his dollar account. He said that Bolton of the Bank of England was very happy to have him operate this way since it relieved the pressure on sterling somewhat. If this policy had not been followed, Cariguel said Bolton had expressed the opinion that the sterling dollar rate would have declined to 4.60. I assured Cariguel that we were delighted to know of his success and that his method of operating over London in dollars was entirely satisfactory to us.



FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE: December 5, 1928.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoke

Mr. Bolton called at 11:40 today. The atmosphere in Paris was still very good and there was a very much greater feeling of confidence, the public apparently taking little or no notice of the strike situation. The Italian demands were treated with complete contempt. Quite obviously the French were acquiring much more faith in themselves and more confidence in the general situation. As a result of this change, money was going to Paris in fairly big quantities. Cariguel had acquired £5,000,000 today. What we were witnessing today was real repatriation, no longer just a movement of professional money. That was proven by the fact that the discount on forward francs was gradually narrowing down and the premium on foreign gold coin dropping. For once France seemed to be able to take a certain amount of trouble in her stride without worrying too much. People were beginning to feel that France had definitely turned the corner.

The sterling squeeze in the London market was not showing so much in the forward rates because what they were getting now was liquidation. So far he had taken in \$20,000,000 but of course lost it to Cariguel to whom he had to give gold against the £5,000,000 purchased by the latter. The price of forward gold had dropped from 8d for three months to 1 3/4d for three months. They felt that they would be able to keep this up through the rest of the month; at the beginning of the new year the position, however, would probably have to be

OFFICE CORRESPONDENCE

DATE December 5, 1938.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knake

BANK OF ENGLAND.

2

reconsidered. Time was probably in their favor and the longer they could keep going the better. The Italian situation had caused some uneasiness in political circles in London but Paris seemed to think it was largely an isolated action due to the French willingness to give Jewish emigrants from Italy French citizenship in Tunis, thus throwing out of balance the claim that Tunis is primarily colonized by Italians. It was probably safe to say that what the Italians really wanted was to retain their nuisance value.

LWK:KW

EDA

GRAY

LONDON

Dated December 5, 1938

Received 3:15 p.m.

Secretary of State

Washington

1395, December 5, 6 p.m.

FOR TREASURY.

The dollar has been offered all day opening 4.68 1/4 and moving gradually to its present rate of around 4.69 1/2 with the British authorities easing the movement and buying a fair amount of dollars. An exchange market source reports signs of fairly heavy liquidation of dollars from Switzerland. The rate was 4.69 1/8 at the forming when only 49 bars were sold at 148 shillings 3 1/2 pence giving about one penny premium.

The franc was bid fairly heavily all day with the Bank of France buying sterling starting at 177.76 and moving gradually to .60. A feature of the day has been the weakness of the belga due to rumors of Belgium joining the sterling area and probably also influenced by the limitation of arbitrage operations resulting from the French shipping strike.

The stock market closed weak with British Government securities generally down, war loan 3 1/2% being down

3/8

EDA - 2 - #1395, DECEMBER 5, 6 p.m. from London

3/8 to 98 11/16 and British industrials generally lower.

KENNEDY

CSB

(*) Omission.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

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

NO.: 2051

FOR TREASURY.

Today on the exchange market in Paris there was again a very substantial demand for francs. It is believed that during the day the fund acquired about five million pounds at rates varying between 177.73 and 177.83. One month sterling rate is between five and ten centimes; for three months it is about sixty centimes. Our market contact tells us that today substantial amounts of dollars were bought by the British control. Moderate pressure again on the belga; some gold was lost to both London and Paris.

Some irregularity on the security market in rentes and other French securities.

The Chambers are to reassemble on the eighth of December, but as yet the parliamentary groups have not reached an agreement regarding the order of discussion for important questions on the agenda. Certain of the groups it appears demand precedence for the electoral reform law; immediate discussion of the budget is demanded by others. The Chambers could express their views on the decree laws if the budget were discussed. In financial circles the impression prevails that if the Government will agree to modify certain of them, particularly the special tax on earnings of two percent, there would be less opposition

to

- 2 -

to these laws. There are rumors that the Government is prepared to consider such modification.

There has been such improvement in conditions on the money market that the Government has been able to reduce the interest rate on ordinary Treasury bonds once more. Beginning with the fifth of December, instead of being 2.25 percent the interest rate of 75 to 105 day ordinary Treasury bonds will be 2 percent. The new rate is one-half point below the official rate of discount.

Yesterday's NEW YORK HERALD carried a telegram under a Washington date line to the effect that Secretary Morgenthau had started an extensive examination of the financial situation of Europe with the first of a series of conferences with Mr. Cochran and Mr. Butterworth; the telegram said that officials of the Treasury had emphasized that the meetings do not indicate that any changes in the monetary pact are being contemplated. The New York office of AGENCE ECONOMIQUE telegraphed a similar report to Paris. So far there has not been any press comment here.

END SECTIONS ONE, TWO, THREE.

WILSON

EA:LWW

PARAPHRASE OF SECTION FOUR OF TELEGRAM NO. 2051
of December 5, 1938, from Paris

Today's FINANCIAL TIMES gives some notice to the "elastic" policy which the French fund adopted in recent movements. The TIMES suggests that the French authorities apparently have yielded to the argument of those who have insisted that elasticity is better calculated than stability to stimulate and sustain the inward movement of capital and promote a general money cheapening. It is not considered likely, however, that there will be very considerable appreciation of the franc versus sterling. The TIMES points out certain objections to a policy of paying steadily less for sterling. One objection mentioned was that the fund does not buy dollars and that it takes gold from the British fund whenever it sells francs. It claims that the practice also has a tendency to encourage speculation.

END MESSAGE.

WILSON.

EA:LWW

C A B L E

388

From: Bankers Trust Company, N. Y.
London Office

Date: December 5, 1938.

398.

LIQUIDATION OF BULL POSITION IN DOLLARS CONTINUING.
PRINCIPAL SELLERS FRANCE AND SWITZERLAND. CONTROL BUYING
AT RISING PRICES. FORWARDS STEADY. SPOT FRANCS WANTED
FORWARDS STEADY.

CONFIDENTIAL

C A B L E

389

From: Bankers Trust Co., N. Y.
London Office

Date: December 5, 1938

#407

DE CASTELLANE REPORTS CONTROL RECEIVED TODAY POUNDS
THREE MILLION BOURSE ACTIVE WITH SMALL CHANGES SOME
PURCHASES BONDS AND SHARES EMANATING ABROAD LIQUIDATION
MOSTLY FROM COMMERCIAL FIRMS INDIVIDUALS STILL HESITATING.
CALL MONEY VERY EASY RATE TREASURY BILLS AGAIN REDUCED.

CONFIDENTIAL



OFFICE OF THE DIRECTOR

Chambers
TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON
December 5, 1938

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MEMO. TO MR. MC REYNOLDS:

Subject: Public hearing of Temporary National
Economic Committee

The third public hearing of the National Economic Committee was held in the Senate Caucus Room at 10:30 A.M. Saturday. Mr. Leon Henderson, Executive Secretary, addressed the meeting on an analysis of subjects pertaining to national economy as part of the ground work of subjects for the committee's consideration.

The fourth public hearing was held on Monday, December 5 at 10:30 A.M. continuing session until about 4:45 P.M.

The subject of this meeting was the use of patents in the automobile manufacturing industry, and following a general statement by Mr. Thurman Arnold, the following witnesses were called in turn to the stand:

- Mr. Edsel B. Ford, President Ford Motor Company
- Mr. Joseph Farley, Patent Counsel, Ford Motor Company
- Mr. Alfred Reeves, Vice President - General Manager
of the Automobile Manufacturers Association
- Mr. Alvan Macauley, President Packard Motor Car Company

The Committee was again called to meet at 10:30 A.M. for the fifth hearing tomorrow, Tuesday, December 6.

[Signature]
Director of Procurement

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: December 5, 1938

TO Secretary Morgenthau

FROM M. A. Harris
W. H. HadleyA short review of the U. S. Government
security market during the past week

The dominating influence in the market continued to be adjustments of portfolios by outside investors as well as government security dealers (see figures below for changes in dealers' holdings) in anticipation of the Treasury quarterly financing program. As a result of preliminary announcements on Wednesday and Friday giving the amount of new cash and the types of securities to be offered respectively, the market was able to adjust itself rather smoothly. For most of the week trading was rather widespread although on particular days banks and some insurance companies appeared to be the principal participants.

Wednesday's announcement of \$700 million new cash had no material effect on the market which showed strength at the time. On Friday the market turned strong and fairly active in response to announcement that there would be offered a 2-3/4% long term bond and a 5-year note for cash (\$400 million and \$300 million respectively) and in addition a 2% shorter term bond to be offered only in exchange for maturing March, 1939 Treasury notes. The long bond and new Treasury note were also to be included in the exchange offering. The market continued exceptionally strong and moderately active up to the close on Saturday.

Reversing the downward trend which started the last week in October, prices of all Treasury issues, except for the longest issue (the 2-3/4s of

1958/63, which declined 1/32nd) rose 1/32nd to 15/32nds for the week as a whole. The greatest gains were in the intermediate bond issues with callable dates from 1946 through 1951 which showed an average rise of 10/32nds. This gain in intermediate bond prices may be attributed in the main to the fact that the Treasury offering did not include a 3-1/2% intermediate bond, which some segments of the market had been expecting. Treasury notes showed gains up to 6/32nds for the longest issue. The March, 1939 "rights" also gained 6/32nds, closing the week 101.22/32nds bid, 101.24/32nds offered. Guaranteed issues were up 2 to 9/32nds.

As a result of these changes, the average price of all Treasury bonds rose 9/32nds to 107.12/32nds, only 1/4 point below the recent October high point. The five longest bonds showed a gain of 10/32nds, despite the decline of 1/32nd by the 3-3/4s of 1958/63, and closed the week only 14/32nds below the October high.

Dealers' Portfolios

Dealers increased their portfolios \$30.3 million during the week in preparation for the quarterly financing. In contrast to the previous week, when holdings of "rights" were reduced about \$4 million, net position in 1-year notes was increased almost \$20 million. This change was counter-balanced in part by a \$17.5 million reduction in Treasury bond holdings, thus giving a net short position in bonds of \$12.5 million, apparently in anticipation of exchanging the "rights" for new bonds. Holdings of 1-5 year Treasury notes, on the other hand, were increased almost \$22 million from a minimum point of \$1.1 million at the close of last week. This latter change would seem to indicate that dealers do not plan on exchanging many of their "rights" for the new notes and are building up their long note

position with outstanding issues.

(in millions of dollars)

	Holdings Nov. 25	Holdings Dec. 3	Change
Treasury bonds	5.0	-12.5	- 17.5
Treasury notes (1 yr.)	52.7	72.4	+ 19.7
Treasury notes (1-5 yrs.)	1.1	22.9	+ 21.8
Treasury bills	12.8	16.2	+ 3.4
H. O. L. O. bonds	-1.4	1.4	+ 2.8
F. F. M. C. bonds	3.4	3.5	+ 0.1
	73.6	103.9	+ 30.3

New Security Issues

Corporate security financing this week consisted of several small issues totaling \$28,600,000, all of which were well received. Only \$3,600,000 was for new cash. Municipal bond awards amounted to \$54,000,000 and municipal temporary borrowing to \$30,900,000.

Corporate Bond Market

High grade corporate bonds reversed their downward trend of the previous two weeks with gains which brought Moody's AAA average back to the high point of the year reached November 12. However, second grade bonds continued to decline with Moody's BAA average falling 1/4 point to close the week 1 point below November 12. There was no indication of a definite trend in the list as a whole. There was a slight appearance of strength in the rail groups toward the close of the week; utilities and industrials showed irregular tendencies, while listed foreign issues showed an excess of gains over losses.

Federal Reserve System Account

The only transaction in the System Open Market Account during the past week was the replacement of \$53,293,000 maturing Treasury bills by the purchase in the market of a like par amount of the new Treasury bills due March 1, 1939.

Treasury Investment Accounts

There were no purchases or sales made in the New York market last week. However, an investment of \$300,000 in 2½ special 5-year Treasury notes was made for the account of the U. S. Government Life Insurance Fund. This account now holds \$4,100,000 of these special 2½ notes.