

DIARY

Book 10

September - October, 1935

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, September 3, 1935.
8-31-35.

Press Service
No. 5-70

Secretary of the Treasury Morgenthau today announced an offering of 10-12 year 2-3/4 percent Treasury bonds of 1945-47 and of 3-1/2 year 1-1/2 percent Treasury notes of Series C-1939, both in exchange for Fourth Liberty Loan 4-1/4 percent bonds of 1933-38 called for redemption on October 15, 1935 (Fourth-called Fourth 4-1/4's), and at the same time invited cash subscriptions at par for \$500,000,000, or thereabouts, of the Treasury notes. About \$1,250,000,000 of the Fourth Liberty Loan bonds are included in the fourth and final call for redemption on October 15, 1935.

The Treasury bonds now offered in exchange for Fourth-called Fourth 4-1/4's will be dated September 16, 1935, and will bear interest from that date at the rate of 2-3/4 percent per annum payable semiannually. They will mature September 15, 1947, but may be redeemed at the option of the United States on and after September 15, 1945.

The Treasury notes of Series C-1939 now offered for cash subscription and in exchange for Fourth-called Fourth 4-1/4's, will be dated September 16, 1935 and will bear interest from that date at the rate of 1-1/2 percent per annum payable semiannually. They will mature March 15, 1939 and will not be subject to call for redemption before that date.

The Treasury 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 will be issued in the same denominations but only in bearer form with coupons attached.

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 being specifically set forth in the official circulars issued today.

Applications will be received at the Federal Reserve banks and branches, and at the Treasury Department, Washington. Banking institutions generally will handle applications for subscribers, but only Federal Reserve banks and the Treasury Department are authorized to act as official agencies.

With respect to cash subscriptions for Treasury notes, applications from incorporated 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. Applications from all others must be accompanied, if for more than \$5,000 by payment of \$5,000 or 5 percent of the amount of notes applied for, whichever is the greater; and if for \$5,000 or less by payment in full.

With respect to exchange subscriptions for either bonds or notes, applications should be accompanied by a like face amount of Fourth-called Fourth 4-1/4's tendered in payment. Such bonds will be received on exchange at par and interest thereon will be paid in full to October 15, 1935, the date all Fourth-called Fourth 4-1/4's cease to bear interest. Both the 2-3/4 percent Treasury bonds of 1945-47 and the 1-1/2 percent Treasury notes of Series C-1939 will be issued at par, with the right reserved to the Secretary of the Treasury to increase the issue price of the bonds by public announcement effective as to subscriptions tendered after the time fixed by the Secretary, which time will be after the date of the announcement and in no event earlier than September 10, 1935.

The right is reserved to close the books as to any or all subscriptions or classes of subscriptions at any time without notice, either with respect to the cash offering of Treasury notes or with respect to the exchange offerings of either Treasury bonds or Treasury notes, or both.

No further exchange offering will be made to the holders of the Fourth-called Fourth 4-1/4's, and if such bonds are not now exchanged, they should be presented for redemption on October 15, 1935, in accordance with the provisions of Treasury Department Circular No. 539, dated May 13, 1935.

The texts of the official circulars follow:

UNITED STATES OF AMERICA

2-3/4 PERCENT TREASURY BONDS OF 1945-47

Dated and bearing interest from September 15, 1935. Due September 15, 1947

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND
AFTER SEPTEMBER 15, 1945

Interest payable March 15 and September 15

OFFERED ONLY IN EXCHANGE FOR FOURTH-CALLED FOURTH LIBERTY LOAN BONDS

1935
Department Circular No. 550
Public Debt Service.

TREASURY DEPARTMENT
Office of the Secretary,
Washington, September 3, 1935.

I. EXCHANGE 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, for refunding purposes, invited subscriptions from the people of the United States for 2-3/4 percent bonds of the United States, designated Treasury bonds of 1945-47, in payment of which only Fourth Liberty Loan 4-1/4 percent Bonds of 1933-38 included in the fourth and final call for redemption on October 15, 1935 (hereinafter referred to as Fourth-called Fourth 4-1/4's) may be tendered.¹ The amount of the offering will be limited to the amount of Fourth-called Fourth 4-1/4's tendered and accepted. Fourth Liberty Loan bonds not included in the fourth and final call for redemption on October 15, 1935, all of which have previously been called for redemption and on which interest has ceased, will not be accepted for exchange under this circular.

2. Fourth-called Fourth 4-1/4's will be received on exchange at par, and 2-3/4 percent Treasury Bonds of 1945-47 will be issued at par, with the right reserved by the Secretary of the Treasury to increase the issue price by public announcement

¹ Pursuant to the fourth and final call for redemption (see Department Circular No. 539, dated May 13, 1935) all outstanding Fourth Liberty Loan 4-1/4 percent Bonds of 1933-38 bearing serial numbers ending in 3 or 4 (in the case of permanent coupon bonds preceded by the distinguishing letter C or D, respectively) have been called for redemption on October 15, 1935, on which date interest on such bonds will cease.

effective as to subscriptions tendered after the time, not earlier than September 10, 1935, fixed in the announcement.

3. In addition to the exchange offering under this circular, holders of Fourth-called Fourth 4-1/4's are offered the privilege of exchanging all or any part of such called bonds for 3-1/2 year 1-1/2 percent Treasury Notes of Series C-1939, which offering is set forth in Department Circular No. 551, issued simultaneously with this circular.

II. DESCRIPTION OF BONDS

1. The bonds will be dated September 16, 1935, and will bear interest from that date at the rate of 2-3/4 percent per annum, payable on a semiannual basis on March 15 and September 15 in each year until the principal amount becomes payable. They will mature September 15, 1947, but may be redeemed at the option of the United States on and after September 15, 1945, 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 will handle applications for subscribers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in 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. TERMS OF PAYMENT AND ISSUE

1. Treasury bonds offered under this circular will be issued at par, or at such increased issue price as may be fixed by public announcement in the case of bonds issued upon subscriptions tendered to a Federal Reserve bank or branch or to the Treasury Department after the time stated in the announcement. The effective time for any increase which may be made in the issue price will be after the date of the announcement and in no event earlier than September 10, 1935. Any such announcement fixing an increase in the issue price and the time when such increase becomes effective will be communicated promptly to the Federal Reserve banks.

Payment for any bonds allotted under this circular may be made only in Fourth-called Fourth 4-1/4's, which will be accepted at par, provided that payment of the premium by reason of any increase in the issue price shall be made in cash or other immediately available funds. The bonds tendered in payment, and the premium, if any, should accompany the subscription.

2. On all exchanges, interest on Fourth-called Fourth 4-1/4's will be paid in full to October 15, 1935, on which date interest on all Fourth-called Fourth 4-1/4's will cease. Such payments will be made, in the case of coupon bonds, through payment of coupons dated October 15, 1935, when due, which coupons should be detached by holders before presentation of the bonds for exchange, and, in the case of registered bonds, through the issue of interest checks for final interest due October 15, 1935, in accordance with the assignments on the bonds surrendered.

V. SURRENDER OF FOURTH-CALLED FOURTH 4-1/4'S ON EXCHANGE

1. Coupon Bonds. - Fourth-called Fourth 4-1/4's in coupon form tendered in exchange for Treasury bonds offered hereunder, should be presented and surrendered with the subscription to a Federal Reserve bank or to the Treasurer of the United States. Coupons dated April 15, 1936, and all coupons bearing dates subsequent to April 15, 1936, should be attached to such coupon bonds when surrendered, and if any such coupons are missing, the subscription must be accompanied by cash payment equal to the face amount of the missing coupons.² The bonds must be delivered at the expense and risk of the holder. Facilities for transportation of bonds by registered mail insured may be arranged between incorporated banks and trust companies and the Federal Reserve banks, and holders may take advantage of such arrangements when available, utilizing such incorporated banks and trust companies as their agents. Incorporated banks and trust companies are not agents of the United States under this circular.

² The final coupon attached to temporary coupon bonds became due on October 15, 1920. The holders of any such temporary bonds which are included in the fourth and final call for redemption on October 15, 1935, will receive the past due interest from October 15, 1920, if such bonds are tendered for exchange under this circular.

2. Registered bonds. - Fourth-called Fourth 4-1/4's in registered form tendered in exchange for Treasury bonds offered hereunder should be assigned by the registered payee or the assignee thereof, in accordance with the general regulations of the Treasury Department governing assignments for transfer or exchange, in one of the forms hereafter set forth, and thereafter should be presented and surrendered with the subscription to a Federal Reserve bank or to the Treasury Department, Division of Loans and Currency, Washington. The bonds must be delivered at the expense and risk of the holder. If Treasury bonds are desired registered in the same name as the Fourth-called Fourth 4-1/4's surrendered, the assignment should be to "The Secretary of the Treasury for exchange for Treasury Bonds of 1945-47"; if Treasury bonds are desired registered in another name, the assignment should be to "The Secretary of the Treasury for exchange for Treasury Bonds of 1945-47 in the name of _____"; if Treasury bonds in coupon form are desired, the assignment should be to "The Secretary of the Treasury for exchange for Treasury Bonds of 1945-47 in coupon form to be delivered to _____".

VI. 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

1-1/2 PERCENT TREASURY NOTES OF SERIES C-1939

Dated and bearing interest from September 16, 1935

Due March 15, 1939

Interest payable March 15 and September 15

OFFERED FOR CASH AND IN EXCHANGE FOR FOURTH-CALLED FOURTH LIBERTY LOAN BONDS

1935
Department Circular No. 551

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, September 3, 1935.

Public Debt Service

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 from the people of the United States, for 1-1/2 percent notes of the United States, designated Treasury Notes of Series C-1939.

2. Cash subscriptions are invited at par and accrued interest. The amount of the issue for cash will be \$500,000,000, or thereabouts.

3. Exchange subscriptions, in payment of which only Fourth Liberty Loan 4-1/4 percent Bonds of 1933-38 included in the fourth and final call for redemption on October 15, 1935 (hereinafter referred to as Fourth-called Fourth 4-1/4's) may be tendered, are invited at par. ¹ The amount of the issue upon exchange subscriptions will be limited to the amount of Fourth-called Fourth 4-1/4's tendered and accepted. Fourth Liberty Loan Bonds not included in the fourth and final call for redemption on October 15, 1935, all of which have previously been called for redemption and on which interest has ceased, will not be accepted for exchange under this circular.

4. In addition to the exchange offering under this circular, holders of Fourth-called Fourth 4-1/4's are offered the privilege of exchanging all or any part of such

¹ Pursuant to the fourth and final call for redemption (see Department Circular No. 539, dated May 13, 1935) all outstanding Fourth Liberty Loan 4-1/4 percent Bonds of 1933-38 bearing serial numbers ending in 3 or 4 (in the case of permanent coupon bonds preceded by the distinguishing letter C or D, respectively) have been called for redemption on October 15, 1935, on which date interest on such bonds will cease.

called bonds for 10-12 year 2-3/4 percent Treasury Bonds of 1945-47, which offering is set forth in Department Circular No. 550, issued simultaneously with this circular.

II. DESCRIPTION OF NOTES

1. The notes will be dated September 16, 1935, and will bear interest from that date at the rate of 1-1/2 percent per annum, payable on a semiannual basis on March 15 and September 15 in each year. They will mature March 15, 1939, 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 \$50, \$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 will handle applications for subscribers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Cash subscriptions from incorporated 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, if for more than \$5,000, by payment of \$5,000 or 5 percent of the amount of notes applied for, whichever is the greater; and, if for \$5,000 or less, by payment in full. 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, cash subscriptions for amounts up to and including \$5,000 will be given preferred allotment, and cash subscriptions for amounts over \$5,000 will be allotted on an equal percentage basis, but not less than the maximum preferred allotment; and exchange subscriptions 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. TERMS OF PAYMENT AND ISSUE

1. Cash subscriptions. - Payment at par and accrued interest, if any, for notes allotted on cash subscriptions must be made or completed on or before September 16, 1935, or on later allotment. In every case where payment is not so completed, the payment with application up to 5 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.

2. Exchange subscriptions. - Payment for notes allotted on exchange subscriptions may be made only in Fourth-called Fourth 4-1/4's, which will be accepted at par, and should accompany the subscription. On all exchanges, interest on Fourth-called Fourth 4-1/4's will be paid in full to October 15, 1935, on which date interest on all Fourth-called Fourth 4-1/4's will cease. Such payments will be made, in the case of coupon bonds, through payment of coupons dated October 15, 1935, when due, which coupons should be detached by holders before presentation of the bonds for exchange, and, in the case of registered bonds, through the issue of interest checks for final interest due October 15, 1935, in accordance with the assignments on the bonds surrendered.

V. SURRENDER OF FOURTH-CALLED FOURTH 4-1/4'S ON EXCHANGE

1. Coupon bonds. - Fourth-called Fourth 4-1/4's in coupon form tendered in exchange for Treasury notes offered hereunder, should be presented and surrendered with the subscription to a Federal Reserve bank or to the Treasurer of the United States. Coupons dated April 15, 1936, and all coupons bearing dates subsequent to April 15, 1936, should be attached to such coupon bonds when surrendered, and if any such coupons are missing, the subscription must be accompanied by cash payment equal to the face amount of the missing coupons. ² The bonds must be delivered at the expense and risk of the holder. Facilities for transportation of bonds by registered mail insured may be arranged between incorporated banks and trust companies and the Federal Reserve banks, and holders may take advantage of such arrangements when available, utilizing such incorporated banks and trust companies as their agents. Incorporated banks and trust companies are not agents of the United States under this circular.

2. Registered bonds. - Fourth-called Fourth 4-1/4's in registered form tendered in exchange for Treasury notes offered hereunder should be assigned by the registered

² The final coupon attached to temporary coupon bonds became due on October 15, 1920. The holders of any such temporary bonds which are included in the fourth and final call for redemption on October 15, 1935, will receive the past due interest from October 15, 1920, if such bonds are tendered for exchange under this circular.

payee or the assignee thereof to "The Secretary of the Treasury for exchange for Treasury Notes of Series C-1939", in accordance with the general regulations of the Treasury Department governing assignments for transfer or exchange and thereafter should be presented and surrendered with the subscription to a Federal Reserve bank or to the Treasury Department, Division of Loans and Currency, Washington. If the Treasury notes are to be delivered for the account of other than the registered payee or the assignee thereof, the assignment should be to "The Secretary of the Treasury for exchange for Treasury Notes of Series C-1939 to be delivered to _____". The bonds must be delivered at the expense and risk of the holder.

VI. 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.

September 4, 1935

The President today signed the third and last of my proposed Executive Orders bringing under the Budget all of the emergency groups. Included in today's Executive Order are the Agricultural Adjustment Administration, Federal Emergency Relief Administration, National Recovery Administration, Tennessee Valley Administration, the Railroad Coordinator, Commodity Credit Corporation and Public Works Administration.

I am very happy to know that this matter has been concluded.

Arthur H. Sulzberger

September 4, 1935.
Wednesday.

H.M.Jr: Hello.

S: Hello, Henry.

H.M.Jr: Arthur -

S: Yes.

H.M.Jr: - I'm calling you up because I just got word that the President signed the third and last executive order -

S: Oh, fine.

H.M.Jr: - bring all of the independent agencies in.

S: Good.

H.M.Jr: And we have a U. P. Ticker here because what he said just tickles me pink and he said - let's see -

S: He said what?

H.M.Jr: I was just reading what - it says here - "signed another Executive Order bringing seven more Emergency Federal Agencies under Budget requirements where expenditures were concerned and in this connection brought out that from now on there would be a gradual tapering down of personnel under various agencies as fast as the Emergency part of their works slows up or stops. This is particularly true of N.R.A., one of the agencies

Budget and the Home Owners' Loan which now has reached the status of a management corporation, having completed its lending activities. Approval of the order brought the last Emergency groups to the Budget Catagory. Those affected under today's orders are Triple A., F.E.R.A., N.R.A., T.V.A., Railroad Coordinated, Commodity Credit and P.W.A. Mr. Roosevelt expressed high satisfactory work accomplished by the Emergency groups, saying that more than a million homes had been saved, a million farm homes kept from foreclosure and seven thousand banks put under their feet." Well, you see that brings the last of them, and I think it's a real -

S: When does it go into effect?

H.M.Jr: Immediately. Well, no, we give them, I think, as I remember, I think it goes into effect November 1. What we've done is this. It's taken them every two weeks to three weeks and then we give ourselves or rather give the Budget about a month to handle it, you see?

S: Well, of course, the Budget hadn't been prepared for these, had it?

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

S: Well, how can they be brought under it?

H.M.Jr: Well, I mean, in this way it, from whatever the signed date, the effective date which your reporter will have up there -

S: Yes.

H.M.Jr: - it means from that time on that they'll be treated just the same as the regular department.

S: As a regular item.

H.M.Jr: As a regular department.

S: In other words, next year's Budget, there'll be only one Budget.

H.M.Jr: That's right.

S: Yes.

H.M.Jr: Well, what it does is this, Arthur. This is what I was trying to get at. It gives us a chance to study these things before we actually prepare the next Budget. We can't do much with them this year, but it gets our foot in the door.

S: Yes.

H.M.Jr: And then in preparing next year, they'll all be treated - you see, if anybody studies the regular departments, their expenses and their personnel are more or less either stood still or gone down, but the big expenditures are the Emergency Agency and nobody had any control over them.

S: Yes, of course.

H.M.Jr: And now, they're going to be treated just the way all of the other agencies are and they've got to go through the same channels and it gives the President his whole Budget machinery to supervise. Before that they'd come in and see him for ten or fifteen minutes and they'd tell him their troubles and walk out, but it's impossible, I don't know what the thirty-five independent agencies - he couldn't supervise them.

S: And now the last of them

H.M.Jr: The last of them and I thought it sufficiently important that - I mean, I'm not talking to you now as Secretary of the Treasury -

S: No.

H.M.Jr: - I'm simply bringing it to your attention because I think it's a very, very -

S: Yes, well, I agree with you entirely.

- 3 -

H.M.Jr: - hopeful thing and people want facts, they want something concrete. Well, here it is.

S: Yes. Listen, Henry, I'm delighted to say that you were wrong about that story yesterday. In three places in the Times we had the facts that the Government bonds have gone up.

H.M.Jr: (Laughing) Then, all I can say is, I don't read your paper well enough.

S: We had - we certainly should have had it, however, in the main headline -

H.M.Jr: I see.

S: - and it wasn't there.

H.M.Jr: Well, you -

S: I'll send it to you just for your information.

H.M.Jr: Well, you'd be very glad to know I appreciate it and I'm glad I was wrong. The President called me up, at least I talked to him yesterday and said, Henry, have you seen the Times and the Tribune. I said, no, well, he said, get them and put them on your desk; and I have them now. The story - the way the Tribune and the Times interpret the National City Bank Review and he said - well, I have it here and the Times says "City Bank visions wide gain this fall" and the Tribune headlines says, "Grave dangers ahead," Bank warned."

S: Yes.

H.M.Jr: Don't you love it? I mean, get it: yesterday's - The New York Times yesterday, "City Bank Visions wide fall gain." Monthly says "Business made more than seasonal advance" and the Tribune says, "Grave dangers ahead, bank warned. Jobless huge U. S. outlays held ample evidence of

S: Yes.

H.M.Jr: Don't you love it?

S: Yes, that's fine.

H.M.Jr: Now, that's the other way around. (Laughing)
thought you'd like to know the President compared the two stories.

S: O.k.

H.M.Jr: What?

S: That's fine.

H.M.Jr: So that and that Ethiopian thing last night has cheered me up a

lot.

S: Yes, that's pretty bad.

H.M.Jr: No, I mean, that we cancelled the oil thing.

S: Yes, that was very good, but I mean the way the Standard Oil led the They were the first ones to come in with the denial to us that they had anything to do with it.

H.M.Jr: But inasmuch as I - I mean, if he hadn't done this, I'd been out on the end of the limb with you.

S: Yes.

H.M.Jr: So, I'm taking -

S: I'm delighted you called my attention to it because it gives us that much more time on it.

H.M.Jr: Thank you.

S: All right, Henry.

H.M.Jr: Goodbye.

S: Goodbye.

ADD PRESIDENT, HYDE PARK

BEFORE TOUCHING ON THE ETHIOPIAN SITUATION IN RESPONSE TO A QUESTION THE PRESIDENT REVEALED THAT HE HAD SIGNED ANOTHER EXECUTIVE ORDER BRINGING SEVEN MORE EMERGENCY FEDERAL AGENCIES UNDER BUDGET REQUIREMENTS WHERE EXPENDITURES WERE CONCERNED.

IN THIS CONNECTION IT WAS BROUGHT OUT THAT FROM NOW ON THERE WOULD BE A GRADUAL TAPERING DOWN OF PERSONNEL OF THE VARIOUS AGENCIES AS FAST AS THE EMERGENCY PART OF THEIR WORK SLOWS UP OR STOPS.

THIS IS PARTICULARLY TRUE OF NRA, ONE OF THE AGENCIES THAT TODAY WAS BROUGHT UNDER THE BUDGET AND THE HOME OWNERS LOAN CORPORATION WHICH NOW HAS REACHED THE STATUS OF A MANAGEMENT CORPORATION, HAVING COMPLETED ITS LENDING ACTIVITIES.

APPROVAL OF THE ORDER BROUGHT THE LAST OF THE EMERGENCY GROUPS TO BUDGET CATEGORY. THOSE AFFECTED BY TODAY'S ORDER ARE AAA, FERA, NRA, TVA, RAILROAD CO-ORDINATOR, COMMODITY CREDIT AND PWA.

MR. ROOSEVELT EXPRESSED HIGH SATISFACTION WITH THE WORK ACCOMPLISHED BY THE EMERGENCY GROUPS, SAYING MORE THAN A MILLION HOMES HAVE BEEN SAVED FOR THEIR OWNERS, A MILLION FARMHOMES KEPT FROM FORECLOSURE AND 7,000 BANKS PUT BACK ON THEIR FEET.

9/4--N1112A

Mayor Rossi of San Francisco.

September 4, 1935.
Wednesday.

2A

H.M.Jr: Hello.

Rossi: Hello.

H.M.Jr: Mayor Rossi?

R: Mr. Secretary.

H.M.Jr: This is Henry Morgenthau, Jr.

R: How are you, sir?

H.M.Jr: I'm allright, how are you?

R: Fine.

H.M.Jr: Mayor Rossi, on this business of getting access to the Internal Revenue facts and figures - Hello -

R: Yes, I'm listening.

H.M.Jr: Under the law I can't disclose those,

R: I see.

H.M.Jr: - but, there's an out for you. You have an income tax law in the State of California and the Governor of the State will ask me and requisition from me any income tax figures that he wants; under the law I have to give it to them and I would do so cheerfully.

R: That's in effect though, is it?

H.M.Jr: What's that?

R: That will be in effect about September 15th, I think. That law was passed recently.

H.M.Jr: Now, wait a minute. Just a second, I've got my people here. (This law, he said, only be in effect September 15th where the Governor of California can requisition me for income tax. When would that go into effect, do you know? He said he didn't know whether it's in effect now or not.) Hello -

R: Hello.

H.M.Jr: Commissioner Helvering is sitting here next to me and it's his impression that that's in effect now.

R: Well, it may be; I wouldn't say but what it was.

H.M.Jr: But -

R: If the Governor of the State of California asks for any in-

- 2 -

formation, you'd be willing to give that information.

H.M.Jr: He can ask me for any information that he wants about any income tax matter affecting citizens of California, is that right?

R: Well, now -

H.M.Jr: I'll tell you what I'll do. I'll have our people look it up - just what the procedure is - Hello

R: Yes, I'm listening.

H.M.Jr: - and I'll send you a wire what the procedure is.

R: I think that'll be very fine.

H.M.Jr: But, of course, it's five o'clock here - if we get it off by noon tomorrow, it'll be there at nine o'clock tomorrow morning.

R: You mean the wire.

H.M.Jr: If I send you a wire at noon here tomorrow, you'll have it by nine o'clock tomorrow morning.

R: I'll have it by nine o'clock, Mr. Morgenthau.

H.M.Jr: But, that is the only way under the law that you could get it and we - we'll give up the information, I don't mind telling you, cheerfully.

R: Well, the only thing is Mr. Lewis, one of those that talks, you know, said that ~~you~~ there was graft in the Police Department and that in the entire department.

H.M.Jr: I know. Mr. Lewis just talked too freely, that's all.

R: Well, personally we all make mistakes, Mr. - he and I are very good friends. I'm sorry that he made that statement.

H.M.Jr: Well, I haven't talked to Lewis and I had this financing, I've been up to my ears and I've just been able to sit around the table and talk about it, that's all.

R: I see.

H.M.Jr: And, of course, I should have earlier, but we've had this tremendous big refunding, you know.

R: According to the press, he sent back your report on the entire situation.

H.M.Jr: What's that?

R: I said, according to the press he sent back your report about that matter.

H.M.Jr: Yes, but that report isn't here yet.

R: Oh, it's not there yet.

H.M.Jr: No, I'm just - I just sat down and I just want to let you know that as far as I'm concerned I'm not going to withhold any information if I can give it to you legally.

R: Yes. Well, I'll tell you I'm going to thank you for this suggestion and if you'll send that wire to me I certainly would appreciate it.

H.M.Jr: Now, let me ask you this. Do you or don't you want us to give anything out here to the press about this conversation.

R: What's that?

H.M.Jr: Do you or don't you want me to say anything to the newspapers about my conversation with you?

R: I think you'd better do that.

H.M.Jr: I'd better do it?

R: Yes. I think it would be well to do that because any wires that I receive - they've been after me about every hour since I received your wire if I had heard from you.

H.M.Jr: Yes.

R: So I don't want them to think that yourself or myself are concealing anything.

H.M.Jr: I see.

R: And I think it would be well to give that out.

H.M.Jr: Well, supposing I give it out when I send it to you.

R: Well -

H.M.Jr: Or give you a little time.

R: I should say that you rang me up and are going to send me a wire which I will receive tomorrow morning at nine o'clock.

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

R: Will that be all right?

H.M.Jr: Just a moment. (Is that all right?) Yes, that's all right, then I'm going to send you a wire at noon Washington time tomorrow. You ought to get it at nine, it's three hours difference, isn't it?

R: Yes.

H.M.Jr: We're on Standard Time here.

R: And so are we.

H.M.Jr: Well -

R: At any rate, I'll give that notice out that you rang me up, that I'll get a message from you tomorrow by nine o'clock.

H.M.Jr: Well, let's say by forenoon.

R: Before noon, yes.

H.M.Jr: Yes, before noon.

R: Tomorrow.

H.M.Jr: Yes, tomorrow morning before noon.

R: I see.

H.M.Jr: How's that?

R: That's fine, Mr. Morgenthau.

H.M.Jr: All right. Now, I just want to let you know, I mean, if there's anything there I'm not going to hold it back if I can do it legally and I'm sorry that Lewis shot his mouth off.

R: Well, it's too bad, but it's one of those things that happen.

H.M.Jr: That's right.

R: All right. Thank you very much, Mr. Morgenthau.

H.M.Jr: You're welcome.

R: Thank you.

H.M.Jr: Goodbye.

2 E

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Wednesday, September 4, 1935.
9-3-35.

Press Service
No. 5-72

Secretary of the Treasury Morgenthau today announced that the subscription books for the offering of 1-1/2 percent Treasury Notes of Series C-1939 closed at the close of business Tuesday, September 3, 1935, for the receipt of cash subscriptions. Cash subscriptions placed in the mail before 12 o'clock midnight, Tuesday, September 3, will be considered as having been entered before the close of the subscription books.

The subscription books for this offering of notes, and the subscription books for 2-3/4 percent Treasury Bonds of 1945-47, will remain open until further notice for the receipt of subscriptions for which payment is to be tendered in Fourth-called Fourth Liberty Loan bonds.

Announcement of the amount of cash subscriptions and the basis of allotment will probably be made on Friday, September 6.

ooOoo

2 F

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, September 6, 1935.
9/5/35

Press Service
No. 5 - 74

Secretary of the Treasury Morgenthau today announced the subscription figures and the basis of allotment for the cash offering of 1-1/2 percent Treasury Notes of Series C-1939.

Reports received from the Federal Reserve banks show that cash subscriptions aggregate over \$1,270,000,000. Subscriptions in amounts up to and including \$5,000 were allotted in full, and those in amounts over \$5,000 were allotted 40 percent, but not less than \$5,000 on any one subscription.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve banks.

As previously announced, the subscription books for these notes, and for the 2-3/4 percent Treasury Bonds of 1945-47, will remain open until further notice for the receipt of subscriptions for which payment is to be tendered in Fourth-called Fourth Liberty Loan bonds.

--oOo--

September 6th

Ambassador Sze's Secretary came in to see Mr. Morgenthau to-day and gave him the following message which the Ambassador had received from Mr. Kung:

"Please wish Mr. Secretary a good voyage and express our sincere regret that both Mr. Soong and I will be unable to proceed to Europe at this time".

Mr. Morgenthau thanked him very much and then called Mr. Hull and told him that it was the Ambassador's suggestion a few weeks ago that Mr. Kung and Mr. Soong might come to Spain to meet him and that they have now decided they cannot come.

September 6, 1935.
Friday.

James Roosevelt+

H.M.Jr: Hello.

James
Roosevelt: Hello, Henry.

H.M.Jr: How are you?

R: I'm fine, thank you, sir. How are you?

H.M.Jr: I'm pretty well.

R: Only pretty.

H.M.Jr: Yes.

R: Too much rain?

H.M.Jr: No, a little bit too much work.

R: Oh, dear.

H.M.Jr: Are you going to be in Hyde Park Saturday or Sunday?

R: No, I wasn't going to be.

H.M.Jr: Oh.

R: Do you want me to be?

H.M.Jr: I'd like very much to see you.

R: Well, I can always run up so I can drive over.

H.M.Jr: If you were coming - I mean, I'm going to just be home
Saturday and Sunday -

R: Yes.

H.M.Jr: - and this - it's a business matter.

R: Yes.

H.M.Jr: And - had you any plans for Saturday or Sunday?

R: No, I've got a fellow coming to stay with me over the week-
end, but I can take care of him all right and -

H.M.Jr: Or if you wanted to come down here Monday, any way you want
to do it.

R: Well, maybe that would be a little bit better. Come down to
see - I could go down on the night train Sunday night -

H.M.Jr: Well, I won't get here until Monday afternoon.

R: Oh, you won't?

H.M.Jr: No. I'll be here Monday afternoon.

R: Well, then I can ^{get} through work here Monday and come on down in the afternoon and spend the evening with you and come up on the midnight.

H.M.Jr: All right.

R: Will that be o.k.?

H.M.Jr: That'll be fine.

R: Fine.

H.M.Jr: Do you want to come to the house, then say, about 7:30?

R: That'll be grand if that's convenient for you.

H.M.Jr: It'll be entirely convenient.

R: All right, sir.

H.M.Jr: That'll be Monday night.

R: Monday night.

H.M.Jr: Right.

R: That's grand, Henry.

H.M.Jr: Thank you.

R: Right you are.

September 6th

The following was dictated by Mr. Morgenthau to-day: Since August 1st most of my work has been, first, to get the President to bring the various independent agencies under the budget. I got him originally started on this program by pointing out to him that the overhead on these agencies for this fiscal year was up 80% as compared with last year and that the responsibility was solely his and he could not pass it on to anybody else. I had very little trouble in getting him to sign the first order or in getting him to sign the second or third order. We have just gotten this Wednesday, September 4th, the President to sign the final order on the independent agencies and I feel that this is a real step forward in bringing order out of almost complete chaos amongst the independent agencies.

The next important move was worked out by Bell and myself in which we got the President finally to sign a series of letters which set a date on which dirt must fly or the project will be cancelled. When we brought in these series of letters he took one look at them and began to stuff them into an envelope and I said "are you not going to sign them" and, in a quite annoyed manner, he said "it is just plain common decency to speak to Mr. Ickes and the others affected by this order before signing it". I would have bet anybody 10 to 1 that he would never sign these letters because I knew that if he talked it over with Mr. Ickes he never would get away with it. That evening I think I must have gone through my all time low as I felt that if the President did not sign these series of letters my position as Secretary of the Treasury was untenable.

Next morning, which was Thursday, Dan Bell heard that the President had signed these letters and it was too good to believe and I actually wanted to see the letters and then I was ready to do the Highland Fling with joy. I arranged with Early for the publicity which was to appear the following morning. I also arranged that the letters would not be received by the recipients until Monday and I figured that if Ickes got his letter Monday morning and the same time the publicity appeared, the President could not go back on his word. I am 90% sure that the President signed the letters shortly after I left his office and never told a living soul about them, notwithstanding the fact that he lectured me as to what was good manners.

All through August I was extremely nervous and on edge because I would never know from day to day what the President would do, what deals he would make with Congress in order to get the legislative program through and Congress adjourned. Constantly through my mind went the question, could I continue as Secretary of the Treasury if he did not begin to show some signs of economic sense and interest in curtailing governmental expenditures.

Executive Order

SUBMISSION OF ESTIMATES TO THE BUREAU OF THE BUDGET OF EXPENDITURES FOR ADMINISTRATIVE EXPENSES IN CERTAIN CASES

By virtue of and pursuant to the authority vested in me as President of the United States, it is hereby ordered as follows:

1. The Federal Home Loan Bank Board, the Home Owners' Loan Corporation, the Federal Savings and Loan System, the Federal Savings and Loan Insurance Corporation, the Federal Housing Administration, the Farm Credit Administration, and the Federal Farm Mortgage Corporation, which have available for expenditure funds estimates for expenditure of which are not required under the Budget and Accounting Act of 1921 to be submitted to the Bureau of the Budget, are requested to submit to the Director of the Bureau of the Budget, at such times and in such manner as he shall prescribe, estimates of amounts to be expended for each fiscal year from such funds for administrative expenses. The aforesaid agencies and instrumentalities are requested not to incur, from and after September 15, 1935, any obligation for administrative expenses out of any such funds unless estimates for such expenditures shall have been approved by the Director of the Bureau of the Budget.

2. Amounts to be made available for administrative expenses out of any such funds shall be so apportioned by the Director of the Bureau of the Budget by monthly amounts as to prevent expenditures which may necessitate additional funds for administrative expenses. It is requested that all such apportionments shall be adhered to unless waived or modified by the Director of the Bureau of the Budget upon the happening of some extraordinary emergency, or unusual circumstance, which could not be anticipated at the time of making such apportionment.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,
August 5, 1935.

[No. 7126]

Executive Order

AMENDMENT OF EXECUTIVE ORDER NO. 7126 OF AUGUST 5, 1935

Executive Order No. 7126 of August 5, 1935, entitled "Submission of Estimates to the Bureau of the Budget of Expenditures for Administrative Expenses in Certain Cases", as amended by Executive Order No. 7150 of August 19, 1935, is hereby further amended so as to make its provisions applicable in all respects to the following-named additional agencies and instrumentalities of the United States, except that the provisions of the last sentence of Paragraph 1 of the said order shall be applicable to the additional agencies and instrumentalities named herein from and after October 15, 1935, instead of September 15, 1935:

1. Agricultural Adjustment Administration
2. Commodity Credit Corporation
3. Federal Coordinator of Transportation
4. Federal Emergency Administration of Public Works
5. Federal Emergency Relief Administration
6. National Recovery Administration
7. Tennessee Valley Authority

FRANKLIN D ROOSEVELT

THE WHITE HOUSE,

Sept. 4, 1935.

[No. 7174]

Executive Order

AMENDMENT OF EXECUTIVE ORDER NO. 7126 OF AUGUST 5, 1935

Executive Order No. 7126 of August 5, 1935, entitled "Submission to the Bureau of the Budget of Estimates of Expenditures for Administrative Expenses in Certain Cases", is hereby amended so as to make its provisions applicable in all respects to the following-named additional agencies and instrumentalities of the United States, except that the provisions of the last sentence of Paragraph 1 of the said Order shall be applicable to the additional agencies and instrumentalities named herein from and after October 1, 1935, instead of September 15, 1935:

1. Federal Deposit Insurance Corporation
2. Federal Surplus Relief Administration
3. Export-Import Bank of Washington
4. Second Export-Import Bank of Washington, D. C.
5. Reconstruction Finance Corporation
6. Electric Home and Farm Authority

FRANKLIN D ROOSEVELT

THE WHITE HOUSE,

August 19, 1935.

[No. 7150]

CAUTION:

For release in the afternoon newspapers of Monday,
August twenty-sixth.

Please safeguard against premature release.

STEPHEN EARLE

Assistant Secretary to the President

The President has addressed the following letter to:

The Secretary of Agriculture
The Secretary of Commerce
The Secretary of the Interior
The Attorney General
The Secretary of Labor
The Secretary of the Navy
The Secretary of State
The Secretary of the Treasury
The Secretary of War
President, Civil Service Commission
Director, Emergency Conservation Work
Chairman, United States Employees' Compensation
Commission
Administrator, Resettlement Administration
Administrator, Rural Electrification Administration
Administrator of Veterans' Affairs
Administrator, Puerto Rico Reconstruction
Administration
Administrator, Works Progress Administration

"I am writing to inform you that all applications for allocation of funds from the \$4,980,000,000 appropriation under the Emergency Relief Appropriation Act of 1935, approved April 6, 1935, must be in the hands of the Division of Applications and Information of the National Emergency Council not later than Thursday, September 12, 1935, in such form that they can be presented to the Advisory Committee on Allotments for final action at its meeting of September 17, 1935. No applications for allocation of funds will be received or considered thereafter.

"It is planned that all allocations recommended by the Advisory Committee on Allotments up to and including September 17, 1935, and approved by me will have been acted upon by the Secretary of the Treasury and by the Comptroller General prior to September 24, 1935. It is therefore directed that all governmental agencies, Federal, State, municipal, etc., be prepared on or before October 22, 1935, either to ask for bids for construction work or begin operations by direct labor (force account) on the project. Where projects are to be carried on under contracts, such contracts must be awarded and signed on or before December 15, 1935."

The following letter has been given Secretary Ickes as Administrator of Public Works:

"I am writing to inform you that, with respect to Public Works funds available for carrying out the purposes of the National Industrial Recovery Act, as amended, I desire that all future applications for allocations and all cancellations, rescissions and modifications of previous allocations be submitted to the Advisory Committee on Allotments, to be acted upon in the same manner and to the same extent as that Com-

- 3 -

mittee acts with respect to allocations made under the Emergency Relief Appropriation Act of 1935.

"All applications for allocation of any funds must be in the hands of the Division of Applications and Information of the National Emergency Council not later than Thursday, September 12, 1935, in such form that they can be presented to the Advisory Committee on Allotments for final action at its meeting of September 17, 1935. No applications for allocation of funds will be received or considered thereafter.

"It is planned that all allocations recommended by the Advisory Committee on Allotments up to and including September 17, 1935, and approved by me will have been acted upon by the Secretary of the Treasury and by the Comptroller General prior to September 24, 1935. It is therefore directed that all governmental agencies, Federal, State, municipal, etc., be prepared on or before October 22, 1935, either to ask for bids for construction work or begin operations by direct labor (force account) on the project. Where projects are to be carried on under contracts, such contracts must be awarded and signed on or before December 15, 1935."

In addition to the above letters, the President has addressed another communication to Secretary Ickes, as Chairman of the Advisory Committee on Allotments, and sent a copy of it to Mr. Frank Walker, as Executive Director of the National Emergency Council:

"I am writing to inform you that all applications for allocation of funds from the \$4,880,000,000 appropriation under the Emergency Relief Appropriation Act of 1935, approved April 8, 1935, must be in the hands of the Division of Applications and Information of the National Emergency Council not later than Thursday, September 12, 1935, in such form that they can be presented to the Advisory Committee on Allotments for final action at its meeting of September 17, 1935. No applications for allocation of funds will be received or considered thereafter.

"It is planned that all allocations recommended by the Advisory Committee on Allotments up to and including September 17, 1935, and approved by me will have been acted upon by the Secretary of the Treasury and by the Comptroller General prior to September 24, 1935. It is therefore directed that all governmental agencies, Federal, State, municipal, etc., be prepared on or before October 22, 1935, either to ask for bids for construction work or begin operations by direct labor (force account) on the project. Where projects are to be carried on under contracts, such contracts must be awarded and signed on or before December 15, 1935."

Communications from the President, therefore, have been given to the head of each Government Department or agency that has had an allocation of funds from the \$4,880,000,000 appropriation.

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The straw that almost broke my back was last Saturday while riding with Tugwell the President announced to me that he was going to pay the bonus before he left on his western trip. I told him there was no use discussing it with me at that time because I was just too tired. If he had pressed me for an answer and insisted on going through with it I would have resigned on the spot. The reason that either he or Tugwell gave for paying the bonus now was "better do it now than after his western trip because if he did it after the western trip people would say that he did it because of the poor reception that he had gotten on his trip" which of course is just pure bunk. I told him what I thought in a letter which is attached herewith.

Last week Ickes tried to get the various housing agencies together in order to get rid of Peter Grimm. They were completely unsuccessful and the President told him in no uncertain terms that the Treasury was vitally interested in the lending agencies that had to do with housing, and then and there wrote out a memorandum making Grimm Executive Secretary of the Housing Co-ordinating Committee.

The situation, as I see it, after eight months of Congress is this - that it looks to me as though the old nag "economy" which has been out in the pasture for the last three years has been brought back again and is going to be put into training. Every single important thing that I wanted for the President and the Treasury that has to do with finances, I have been successful with. I realize perfectly that I am over tired and that I am burnt out. My brain is over fatigued. Therefore, my frequent thought of resigning was unquestionably influenced by my being so tired. However, if the President had not changed in his attitude I could not have continued as we would have been headed right straight towards inflation and the people in this country would have had to go through the same misery as other countries in Europe and would have had to resort to the printing press to meet its deficit. Of course the President now has uppermost in his mind his re-election and the question is how many sacrifices he is willing to make to bring that about.

The appointment of Magruder as Collector of Internal Revenue, after a very strong recommendation from me against his appointment added to my worries during the last days of Congress, is one of the worst. As McIntyre, after having a few drinks, told the President that he considered the Magruder appointment ethically the worst he had made but politically the best. I certainly tried in every way to keep the President from going through the Magruder appointment but I could not stop him.

I think the President certainly in the East is about as low in the minds of the people as he was during the last six months that he was Governor. It was the Walker trial which crystalized the good opinion for him. He certainly was most courageous at that time and he needs another Walker trial at this time to bring him back in the minds of those people who now question his integrity. If the President could only come to grips with some strong Democratic crooked machine and demonstrate once more his fearlessness it would help tremendously. I have no doubt that if he is re-elected he will do really great things, but the question now is how great a price is he going to be willing to pay to get re-elected.

1. Continue work on the
of Hanning collection.

2. F. H. Wilson to continue
as Chairman.

3. Gold P. Brown to leave &
make his last to F. H. W.

4. Allot \$10,000 for the
Exec. Sec. & staff of
strings for 1 year.

Early

September 4, 1935

Dear Steve:

I am inclosing herewith a personal and confidential letter which I consider is most important. I would greatly appreciate if you will personally place it in the hands of the President not later than Thursday noon, September 5.

I would appreciate it also if you would point out to the President that I am returning to the Farm Friday night and will be there until the following Monday morning and I would like to see him at his convenience over the week-end. Inasmuch as our talk will be strictly business, I would prefer to come and see him at Hyde Park rather than have a business talk while he is our guest at the clam bake Saturday night at my home.

Yours sincerely,

Hon. Stephen Early,
Secretary to the President.

HM, Jr.:nmc

September 4, 1935

My dear Mr. President:

When you mentioned to me, last Sunday, that you were considering announcing some plan to pay the bonus before you left on your Western trip, I almost literally "passed out."

I have been thinking of nothing else since and I have come to the very definite and positive conclusion that from the standpoint of the welfare of the country and yourself that you should not make any announcement on the payment of the bonus prior to your message to Congress in January.

The reason for my feeling so strongly on this subject is largely based on your magnificent and courageous veto message on the bonus bill. That message in itself seems to me to absolutely preclude any announcement on your part as to a method of paying the bonus now. Furthermore, we are just in the midst of a \$1,750,000,000 Government financing and an announcement on your part in regard to the payment of the bonus either during this financing or immediately afterward might well prove to be disastrous in its effect on the Government bond market, because it certainly would be considered by every holder of a Government bond as a breach of good faith.

Certainly any private corporation which had filed its statement with the Security Exchange Commission and then came out with a financing and immediately after that incurred a large additional debt would be subject to the severest chastisement from the Security Exchange Commission. I fail to

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see any difference between this example and an announcement now that the bonus will be paid.

I most strongly urge you, first as your Secretary of the Treasury and, second, as one of your true and tried friends, to do nothing about the bonus for the balance of this year. My own conviction is that the bonus should not be paid until maturity, and the reasons are covered so admirably in your veto message that it would be impossible for me to add anything further.

However, if you feel that politically it is necessary to do something about the bonus, then it seems that the time and the place for you to make a statement about the payment of the bonus would be in your message to Congress when it meets in January and subsequently explain how you propose to finance the bonus payment in your budget message.

Faithfully and sincerely yours,

Honorable Franklin D. Roosevelt,
Hyde Park, New York.

HM, Jr.:nmc

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, September 10, 1935.
 9-9-35.

Press Service
 No. 5-75

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the cash offering of 1-1/2 per cent Treasury Notes of Series C-1939. The subscription books for the cash offering were closed September 3, 1935.

Subscriptions and allotments were divided among the several Federal Reserve districts as follows:

<u>Federal Reserve District</u>	<u>Total Subscriptions Received</u>	<u>Total Subscriptions Allotted</u>
Boston	\$ 79,385,100	\$ 31,964,850
New York	696,757,250	278,986,750
Philadelphia	35,419,500	14,302,000
Cleveland	51,603,500	20,768,500
Richmond	26,080,900	10,580,400
Atlanta	42,037,350	17,139,500
Chicago	164,002,350	66,145,750
St. Louis	18,639,900	7,547,400
Minneapolis	9,082,000	3,795,000
Kansas City	8,299,000	3,447,200
Dallas	19,828,500	8,219,000
San Francisco	123,430,000	49,508,000
Total	\$1,274,565,350	\$512,434,350

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, September 10, 1935.
9-9-35.

Press Service
No. 5-76

Secretary of the Treasury Morgenthau announced today that subscriptions aggregating \$480,000,000 had been received up to the close of business yesterday in response to the offering on last Tuesday of Treasury bonds and Treasury notes in exchange for Fourth-called Fourth Liberty Loan bonds, called for redemption on October 15, 1935.

Approximately \$180,000,000 of the called bonds have been exchanged for 2-3/4 percent Treasury Bonds of 1945-47, and approximately \$300,000,000 for the 1-1/2 percent Treasury Notes of Series C-1939.

The subscription books for both offerings will remain open until further notice.

ooOoo

monitors made by

Secretary Morgenthau - September 11, 1935.

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HOLD FOR RELEASE

Presses at the Bureau of Engraving and Printing are now turning out nice new \$1 silver certificates to replace those now in use.

The face of the new \$1 bill will continue to carry the picture of George Washington and will show only minor alterations in design.

The back of the bill, for the first time in the nation's history, will show both sides of the Great Seal of the United States.

(exhibit picture)

Here are both sides of the Great Seal. At the top is the familiar eagle and shield design - the obverse of the Seal. It will appear on the right hand side of the back of the new \$1 bill.

At the bottom is the reverse of the Great Seal. It will be on the left hand side, on the back of the new bill.

The Great Seal dates from the afternoon of July 4, 1776, when a committee consisting of Benjamin Franklin, Thomas Jefferson and John Adams was named to choose a design.

Since few people have ever seen the reverse of the Seal it is interesting to note its symbolism. The eye, above the pyramid, represents an all-seeing Deity, and the Latin motto at the top, is translated as "God favored our undertakings."

The pyramid is the symbol of strength and permanence, and it was presented in unfinished condition to point to the work yet to be done.

The Latin motto at the bottom "Novus Ordo Seclorum" is translated as "A new order of the ages." It shows that the founders of our nation felt, 'as we do today, that new means must be taken to meet new conditions. It was their way of phrasing what we of today would call "A new deal."

CLASS OF SERVICE

This is a full-rate Telegram or Cablegram unless its deferred character is indicated by a suitable symbol above or preceding the address.

WESTERN UNION

R. W. WHITE
PRESIDENT

NEWCOMB CARLTON
CHAIRMAN OF THE BOARD

J. C. WILLEVEN
FIRST VICE-PRESIDENT

SYMBOLS

DL = Day Letter
SR = Serial
NM = Night Message
NL = Night Letter
CDE = Code Cable
LC = Deferred Cable
NLT = Cable Night Letter
Ship Radiogram

The filing time shown in the date line on telegrams and day letters is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination.

Received at THE SAVOY PLAZA, N. Y.

NAM53 49=CHICAGO ILL 13 239P

HON HENRY MORGENTHAU JR=

SAVOY PLAZA HOTEL=

SEP 13 PM 3 59

MINUTES IN TRANSIT

PULL-PLATE CABLE LETTER

IT WAS NOT POSSIBLE FOR ME TO CHANGE MY APPOINTMENT HERE
TODAY STOP I WILL TRY AND DEFER ANY DRASTIC MOVE UNTIL YOU
RETURN THAT YOU AND I MIGHT DISCUSS THE MATTER STOP I HOPE
YOU WILL ENJOY A MUCH NEEDED REST WITH BEST WISHES FOR A
SAFE VOYAGE=

LEO T CROWLEY.

WESTERN UNION MESSENGERS ARE AVAILABLE FOR THE DELIVERY OF NOTES AND PACKAGES

MEETING IN SECRETARY'S OFFICE

September 11, 1935.

Present:

Secretary Morgenthau
Mr. McReynolds
Mr. Helvering
Mr. Coolidge
Mr. Gaston
Mr. Graves
Mr. Oppen
Mr. Moyle
Mr. Moran

The above gathered in the Secretary's office to discuss Mr. C. E. Moore, Collector of Internal Revenue at Cleveland, Mr. E. W. Barber, Customs Agent in Charge at Cleveland, and Mr. William G. Harper, Secret Service Operative in Charge at Cleveland.

The attached report in regard to these men was read by Mr. McReynolds.

Chief Moran: (Defended Mr. Harper) Harper is one of our best Secret Service men.

Mr. Morgenthau: He is one of the most stupid individuals I have ever met. If he is one of the best men in the Secret Service - then God help Secret Service. He is either a knave or a fool.

Mr. Morgenthau: Any remarks that I make here in the room against any Division should not be repeated. I know I have your word of honor on that.

Chief Moran: I am sorry that my judgment is so poor as to make the Secretary of the Treasury say what he did about Secret Service.

Mr. Morgenthau then handed each man a sheet of paper and asked him to write what he feels should be done in regard to Harper and Moore, which they did and their recommendations are attached herewith. Most of the men recommended that these individuals should be discharged. Mr. Morgenthau, however, felt that the easiest thing to do was to fire a man but he felt that the evidence produced in regard to Harper and Moore was strong enough to discharge them. He recommended that they should be suspended without pay for

ninety days. He said if you fire a man from the Government you pretty well damn him for life. Inasmuch as these two men filled out their income tax and did not try to conceal anything, he did not feel that they should be fired.

Mr. McReynolds: Mr. McReynolds called Mr. Morgenthau's attention to the fact that he could not suspend these men for ninety days without pay because they were Presidential appointments. Mr. McReynolds then recommended a new proposition, that we ask these men either to resign or return the money which they received from the liquor company.

All the men seemed to think well of this suggestion and Mr. Morgenthau then said that he wanted them to prepare a very careful statement giving all the facts of the case, stating that we have 55,000 employees, that this is the first case of this kind that we have ever had, and that we want to make a public statement and give them all the facts instead of trying to hide the information.

Before Mr. Morgenthau spoke to the newspaper men on Thursday, he called the President and told him of the latest decision in regard to Mr. Moore and Mr. Harper. He also asked the President for his backing, in view of the fact that these men were Presidential appointments. The President gave Mr. Morgenthau his wholehearted backing.

The following day at the Press Conference, Mr. Morgenthau gave the boys, off the record, a little history of the case. He said that he was leaving that day, that Mr. Coolidge would present the proposition to the men of either resigning or returning the money, and that after that he would give them a prepared statement.

I am dictating this on September 27th.

Mr. Moore, of Cleveland, refuses to resign and to return the money.

The following is a copy of a cable which Mr. Coolidge sent to Mr. Morgenthau informing him of the present status of the case:

President left last night. He decided to postpone case of Moore until his return. When I saw him he was definitely back of proposition but had no time to see Senator Bulkley or take

action. I think I should write Moore and Harper stating it was evident they had not complied with your request and that definite action would wait your return. I shall see Senator Bulkley and express your stand. Have you any suggestions.

(signed) Jeff

The Secretary:

I recommend the
removal of Messrs,
Harper, and Brown.

Graves

Harper & Moore
should be suspended
for 90 days without
pay

Am J

Moose & Harper.

I concur in recommendation.

Reason that these men received
considerable sums on account
of their positions and
apparently for no other reason.

TJC

I recommend the dismissal
from the service of:

Moore

Harper

C. H. Oppen

I recommend
separation of
Moore &
Harper, in
addition to all
others

McKinnon



OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

TREASURY DEPARTMENT

WASHINGTON

September 11, 1935

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Memorandum for Secretary Morgenthau:

Recommendations have heretofore been made to you for the separation from the service of Bert C. Brown, Secret Service; C. W. Pollock, Customs; and E. W. Barber, Customs. In these recommendations I agree.

In the cases of William G. Harper, Secret Service, and C. E. Moore, Collector of Internal Revenue, it would seem that a dismissal from the service would result in punishment disproportionate to the offense charged for the following reasons:

1. No offense has been committed against the Federal government.
2. There was no attempt at evasion or concealment of income received.
3. The investigation shows only one transaction in which these men were involved, and in my opinion, there was no intentional wrongdoing.
4. The service record of Mr. Moore was very exceptional during this period. I cannot evaluate Mr. Harper's services as his record is unknown to me.

I recommend that these employees be required to dispose of any and all interest they may hold either directly or indirectly in Famous Brands, Inc. and that they be severely reprimanded for their indiscretion.


Guy T. Helvering,
Commissioner.

TREASURY DEPARTMENT

21

INTER OFFICE COMMUNICATION

DATE Sept 7, 1931

TO The Secretary

FROM Gaston - Ohio-Michigan Liqueur Syndicate

I concur in the recommendation of Mr. Drey that all four of the Treasury employees concerned in the Michigan and Ohio Liqueur Syndicate deals should be separated from the service. Three concerned are: (1) Bert C Brown, Secret Service Operative in Charge, Detroit.

(2) Carl E Moore, Collector of Internal Revenue at Cleveland.

(3) C W Pollock, Assistant Collector of Customs at Cleveland

(4) William G Harper, Secret Service Operative in Charge at Cleveland.

The resignation of Moore should be requested and charges should be preferred against the others.

Hubert D. Gaston

TREASURY DEPARTMENT

22

INTER OFFICE COMMUNICATION

DATE Sept 7, 1931-

TO The Secretary

FROM Gaston.

Re: Becker case - Philadelphia Mint.

The investigation reveals no injustice to Becker but a loose condition with respect to political activity and appointments at the Mint. I concur in the recommendation that ~~Becker~~ ^{Edwin H. Dressel} should be summoned to Washington and should be informed and admonished by the Secretary.

Respectfully submitted:

Robert E. Gaston

KLI-DW

August 29, 1935.

MEMORANDUM FOR THE SECRETARY:

In re: Collector of Internal Revenue C. E. Moore,
 Assistant Collector of Customs C. W. Pollock,
 Secret Service Operative in Charge William G. Harper,
 all of Cleveland, Ohio,
 Secret Service Operative in Charge Bert C. Brown,
 Detroit, Michigan,
 Customs Agent in Charge E. W. Barber,
 Cleveland, Ohio.

There is attached a report of Special Agent C. E. Mack, dated August 27, 1935, giving a complete history of the investigation of charges affecting the above named officials.

For a thorough understanding of the whole situation, it is necessary to read the report submitted by Special Agent Mack, which, in brief, shows the following with respect to the individual officers:

Secret Service Operative in Charge
Bert C. Brown -

This officer was responsible for the organization of Famous Brands, Inc. in August, 1933, out of which he and his wife received income in the year 1933 of \$4,500 and in 1934 of \$19,588.57. He was primarily responsible for the organization of Famous Brands Ohio, Inc., out of which he received an income during 1934 of \$3,034.37. Mr. Brown and his wife failed to file tax returns for 1934 until after the investigation had commenced, at which time they reported the 1934 income. Investigation further showed that he had not filed returns for any years prior to this investigation. He was also instrumental in securing the agency in Michigan for the Falstaff Brewing Company of St. Louis, Missouri, which venture proved unsuccessful financially. Independent inquiry is being

-8-

made at this time to determine his tax liability and what action, if any, should be taken with respect thereto. It is further shown that Mr. Brown borrowed from a professional gambler at Detroit, Michigan, the sum of \$3,500 and that he spent a total of \$4,500 in "entertainment" in an effort to secure the liquor agency, having spent as much as \$700.00 in one week-end on a visit to New York City. He has been financially interested in various ventures, among them being two golf clubs and a Ford agency. In addition, he has been sued thirty-one times and at this time has a number of judgments pending against him.

Secret Service Operative in Charge

William G. Harper -

During March, 1934, Mr. Harper was approached by Mr. Brown and requested to interest suitable persons resident in Ohio in the proposed Ohio agency for the American Distilling Company. Mr. Harper interested Assistant Collector of Customs Pollock and Collector of Internal Revenue Moore in the venture, and as a result a syndicate was formed as an agency for the American Distilling Company. Mr. Harper received an income from this source in the year 1934 of \$8,293.14, for which he made no investment. On December 28, 1934, the syndicate was succeeded by Famous Brands Ohio, Inc., and Mr. Harper purchased his allotted 18 shares of stock in this corporation at a total cost of \$90.00. During the early part of 1935 three dividends on this stock were declared in the sums of \$20.00, \$30.00 and \$40.00, or a total of \$90.00 on each share, \$1620 during that period.

Collector of Internal Revenue

C. E. Moore -

When the Sales Syndicate was formed, in April, 1934, Mr. Moore acquired a 20% interest in the profits without any investment therefor and from that source received his share of \$8,293.14 for the year 1934. In addition, he was paid \$1,503.98 for "services rendered". When the corporation was organized, December 28, 1934, the wife of Collector Moore, Mrs. Elizabeth P. Moore, purchased his apportioned 18 shares of stock at a total cost of \$90.00 and on these shares there were paid the same dividends in the early part of 1935 as were received by Mr. Harper. Mr. Moore has stated that he rendered no service for the income from these organizations, except that for the payment of \$1,503.98 he assisted in an advisory way in advertising for the organization.

Assistant Collector of Customs
C. W. Pollock -

Mr. Pollock acquired his 20% interest in the Sales Organization formed April 18, 1934, and from that source received the share of \$8,293.14 during 1934. He also purchased his allotment of stock December 28, 1934, at a total cost of \$90.00, and received the dividends therefrom as in the cases of Messrs. Harper and Moore. In addition to Mr. Pollock's connections with Famous Brands Ohio, Inc., it was also learned during this investigation that he had been informed of the misappropriation of certain refunds on customs drawbacks by Donald K. Gresham, a customs broker of Cleveland, and had failed to take official action with respect thereto. This matter has heretofore been called to your attention in a memorandum and you have approved a recommendation for the separation from the Service of Mr. Pollock. The evidence contained in the report of Special Agent Mack indicates the reason for the failure of Assistant Collector of Customs Pollock to take official action with respect to this matter was his association with Customs Agent in Charge Barber and Customs Broker Gresham in a matter relating to the Palstaff Distributors, Inc., a beer sales agency.

Customs Agent in Charge
E. W. Barber -

Mr. Barber is Customs Agent in Charge at Cleveland, Ohio, and the information with respect to the misappropriation of customs refunds, etc. was brought to his attention by a subordinate agent in the early part of April, 1934. He failed to take the necessary action required of him as Customs Agent in Charge, and it was not until this investigation was commenced, more than a year later, that the matter came to the attention of the Department, and then it was not reported by Mr. Barber. The case of this agent also has been called to your attention in a previous memorandum and you indicated approval of a recommendation for his separation from the Service. The investigation disclosed that Mr. Barber failed to take official action in this matter for the same reasons that influenced Mr. Pollock to neglect his duty.

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With general reference to the Ohio Sales Agency for the American Distilling Company, it is shown in this investigation that the three supervisory officers of the Treasury who were invited to form the organization were brought into the picture because of their official positions. This is attested to by

the officers of the Michigan agency, who initiated the formation of the Ohio agency. It is shown further that prior to the organization of the sales syndicate by Internal Revenue Collector Moore, Assistant Collector of Customs Pollock and Secret Service Operatives in Charge Harper and Brown, the American Distilling Company had made but one sale to the State of Ohio totaling \$22,419.00, in a period of about five months, whereas, after its organization, for a period of about eight months, the sales totaled \$771,286.59. Attention is further invited to the significant fact that none of the Treasury officials invested money in the Syndicate, and their only investment in the corporation consisted of a purchase of 18 shares of stock at a total cost of \$90.00 each.

Recommendation has heretofore been made for the separation from the Service of Assistant Collector of Customs Pollock and Customs Agent in Charge Barber, and you have approved this recommendation. It is my understanding that Secret Service Operative in Charge Brown is at present under suspension. No action has been taken with respect to Collector of Internal Revenue Moore and Operative in Charge Harper. Recommendation is made at this time for the separation from the Service of Messrs. Brown, Harper and Moore. I am informed that charges required under Civil Service regulations have been submitted to Mr. Brown, Mr. Pollock and Mr. Barber. It is necessary that charges also be submitted to Mr. Harper, who is a Civil Service employee. If the recommendation for the separation of these officers is approved, it is necessary that this be done. In explanation of the action of this office in recommending these separations prior to the receipt of written replies to charges, I wish to state that such recommendations are predicated on explanations and replies, under oath, in interviews had by Special Agent Mack with each of the officers involved.

Chief, Intelligence Unit.

Approved: August __, 1935.

Secretary of the Treasury.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, September 12, 1935.
9-11-35.

Press Service
No. 5-79

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of Treasury Notes of Series C-1939 will close at the close of business Saturday, September 14, 1935. This offering is open only to the holders of Fourth-called Fourth Liberty Loan Bonds, called for redemption on October 15, 1935, the cash subscription books for this issue of notes having closed on September 3, 1935. Exchange subscriptions placed in the mail before 12 o'clock, midnight, Saturday, September 14, will be considered as having been entered before the close of the subscription books.

The subscription books for the 2-3/4 percent Treasury bonds of 1945-47, which are also open only to holders of the Fourth-called Fourth Liberty Loan bonds, will remain open until further notice.

ooOoo

Dictated by H.M. Jr. on Sept. 13th

The new political organization in Louisiana is going to make overtures to the President that if he would give them patronage they would swing Louisiana in support of the President. I told him to say to Irey that unless he got a direct order from me no matter who told him to lay off he was not to do so. The thing that worries me is that before Huey Long's death the President told me that Huey Long approached the Attorney General twice and was trying to make a deal. It seemed to me, at that time, as though I was being sounded out because the President said, in a rather quizzical manner, there is no harm in the Attorney General talking to Huey Long.

I could not dictate this before because Mrs. Klotz was away and it was so confidential but now that McReynolds has spoken to me about it the whole thing comes back to me.

September 13th

29

Governor Harrison came to see Mr. Morgenthau at the Savoy Plaza in New York, the day before he sailed for Spain. He told the Secretary that in a recent discussion that he had with Governor Norman he told him that he felt there was no reason that France should go off gold but it was his opinion that politically they are bound to go off this winter. They have plenty of gold. They could stand deflation. They could make their rate the right rate. In the event that they do, the whole gold bloc will go. The only other country is the United States. In the event that the rest of the world goes off the gold bloc it would be his purpose to buy and sell gold at fixed rates, not for any fixed period. Harrison said, then you are doing a defacto stabilization. He also said that he believed the way we are going to get any kind of stabilization in England is through the process of countries going off gold and Norman doing what he said - to buy and sell gold. Norman is very upset because of what we did to him on silver. H.M.Jr. said "I agree with him. I would be also". Harrison said he thought that England could sell sterling, buy dollars and take gold from us and, in this way, it would help to equalize the gold ratio.

George Harrison also told the Secretary that he had heard that the President was listening more to H.M.Jr. now than ever.

He also told the Secretary that the President asked Owen D. Young to work out a way of paying the bonus. He said he wanted it kept in strict confidence and only to talk to George Harrison about it. H.M.Jr. told George Harrison that the only way to do it was in connection with the budget and we are not going to do a thing about it and George Harrison replied "thank God for that".

(T. D. 47864)

Change in article VII of the German treaty

Most-favored-nation treatment of German products to terminate October 14,
1935 - T. D. 47533 and T. D. 47784 modified

Treasury Department,
Office of the Commissioner of Customs,
Washington, D. C.

To Collectors of Customs and Others Concerned:

The Department has been advised by the Secretary of State that article VII of the German Treaty of Friendship, Commerce and Consular Rights, providing for most-favored-nation treatment of German products imported into the United States will be terminated as at the close of business on October 14, 1935.

In view of the foregoing, coal (except culm and duff), coke manufactured therefrom and coal or coke briquets imported from Germany and entered for consumption or withdrawn from warehouse for consumption on or after October 15, 1935, will be taxable at the rate of 10 cents per hundred pounds under section 601 (c) (5) of the Revenue Act of 1932, as amended, until the end of the current year. T. D. 47533 and the last paragraph of T. D. 47784 are modified accordingly.

Eli Frank, Jr.,
Acting Commissioner of Customs.

Approved September 14, 1935:

T. J. Coolidge,
Acting Secretary of the Treasury.

September 14, 1935

Attached hereto is the printed address of Francis H. Brownell, Chairman of the Board of Directors of the American Smelting and Refining Company. He is considered by many the best informed mind on silver in the world. He has some nice things to say about the Secretary on pages 13 and 14 of his booklet.

THE WORLD SILVER SITUATION

AN ADDRESS

delivered before

THE AMERICAN MINING CONGRESS

at Chicago, September 24, 1935

by

FRANCIS H. BROWNELL

*Chairman of Board of Directors of
American Smelting and Refining Company
New York City*

THE WORLD SILVER SITUATION

By

FRANCIS H. BROWNELL

For more than a year last past, by far the most important factor in the world silver situation has been the silver buying policy of the United States Government. There is every prospect that this will continue to be the case for some time to come. Any discussion of silver today necessarily is essentially a discussion of that policy.

Let me disclaim at the very start any knowledge or information in regard to any silver policy of the United States, past, present or future, that is not available to every student of the subject.

Congressional action particularly affecting the world silver situation may be briefly summarized as:

(1) Effectuating the agreement reached at the London Economic Conference of 1933, under which the United States practically withdraws from the world market the current United States mine production of silver.

(2) The so-called Thomas amendment to the Agricultural Act, approved May 12, 1933, which gave to the President, among other things, the power by proclamation to fix the weight of the gold dollar, and also to fix the weight of the silver dollar at a definite ratio in relation to the gold dollar.

(3) The Silver Purchase Act of 1934, parts of which are as follows:

"Sec. 2. It is hereby declared to be the policy of the United States that the proportion of silver

to gold in the monetary stocks of the United States should be increased, with the ultimate objective of having and maintaining one-fourth of the monetary value of such stocks in silver.

"Sec. 3. Whenever and so long as the proportion of silver in the stocks of gold and silver of the United States is less than one-fourth of the monetary value of such stocks, the Secretary of the Treasury is authorized and directed to purchase silver, at home or abroad, for present or future delivery with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates, at such times, and upon such terms and conditions as he may deem reasonable and most advantageous to the public interest: Provided, that no purchase of silver shall be made hereunder at a price in excess of the monetary value thereof: And provided further, that no purchases of silver situated in the continental United States on May 1, 1934, shall be made hereunder at a price in excess of 50 cents a fine ounce."

Congress not only left to the Secretary of the Treasury entire discretion as to the rapidity, time and price at which silver purchases should be effected, but it also indirectly left to the President considerable power as to the total amount of silver to be bought; for the President can, by changes in the content of either the gold or the silver dollar, radically change the ultimate amount of silver to be purchased. The amount to be purchased also increases or decreases as gold holdings of the United States increase or decrease as a result of international trade or by purchase. There could, therefore, be no determination in advance of even approximately the exact number of ounces of silver that would be purchased under the Act.

What were the problems confronting the Secretary of the Treasury in the performance of his task?

First: What was the fundamental intent of the law itself? It was not, as is frequently asserted, to buy, as fast as possible, the total amount of silver, raising the price to its monetary value—\$1.29 per ounce—in order most rapidly to accomplish the purchase.

If Congress had meant a speedy immediate purchase, it would not have given the Secretary of the Treasury discretion to buy "at such rates," "at such times," and "upon such terms and conditions as he may deem reasonable and most advantageous to the public interest." This language was used by Congress, having in mind the fundamental declaration of policy in the second section of the Act, that "the proportion of silver to gold in the monetary stocks should be increased with the *ultimate* objective of having and maintaining one-fourth of the monetary value of such stocks in silver." The words "ultimate objective" also must be interpreted in the light of contemporary monetary conditions.

At the time of the passage of this Act, as today—seventeen years after the close of the World War—the various monetary systems of the world were, and are, less tied to a metal base, whether gold or silver or both, than at any time for more than 2,000 years. Excepting France, Holland and Switzerland, no nation was or is upon a gold standard, as that term was defined up to some five years ago. The use of silver as a money in subsidiary coinage had been greatly diminished, beginning about 1920, as one country after another followed the example of Great Britain in reducing the silver content of its existing silver coins below former levels. India in 1927 adopted a system not only contemplating using less silver in the future, but also selling a large amount of silver owned by the Indian Government.

With the exception of the three gold standard countries above mentioned, all other important nations were, and are, upon a managed currency basis, using that term in a broad sense. The monetary exchanges between nations were, and are, no longer free and untrammelled, but very generally controlled by Government supervision. International trade has become partially paralyzed and reduced far below its former volume. The prevailing chaos in monetary systems is universally deplored, but the problems underlying its correction seem so many and so great as to be unsolvable for some time. Yet few believe that they can never be solved, and most, if not all, statesmen, economists and business men alike look forward with confidence to the arrival of the day when the principal nations will develop monetary systems better fitted to serve international, as well as internal, trade. Congress entertained this view and, therefore, authorized the Silver Purchase Act to be carried out by the Secretary of the Treasury in a manner best calculated to further such ultimate objective. We commonly refer to this latter condition as "Stabilization" and generally expect it to be one of three possibilities:

- (1) Some type of gold standard;
- (2) Some type of bimetallism, using both gold and silver; or
- (3) Some type of "managed currency," possibly like that of Great Britain and so-called "Sterlingaria" today, but more probably using both gold and silver to some compulsory extent.

The practical effect of the Silver Purchase Act and of the other actions above described is to throw the influence of the United States towards a further use of silver, either ultimate bimetallism in some form or the compulsory use of silver as well as gold if a managed currency is ultimately adopted. Conferring discretion on the Secretary of the Treasury to carry out the Act "on such terms and conditions as he may deem reasonable and most advantageous to the public interest"

indicates that Congress had in mind that the Secretary should so carry out the terms of the Act as to further, rather than to hinder, the ultimate use of silver as well as gold by the world when currencies are restabilized. Congress would not have embarked on the policy of buying so much silver, by far the greater part of which must come from outside the United States, if it had not believed that this would ultimately influence other nations to follow a similar course. It could not have contemplated that the Act should be so enforced as to induce other nations to melt their silver currencies and sell the resultant silver to the United States. This, obviously, would leave the United States the holder of most of the silver now owned by other nations and would hurt, rather than help, from every standpoint.

Second: What were the sources from which the silver, to be purchased under the Act, could be obtained? Obviously, it could be from only four:

The first source was the floating supply of silver in the principal markets of the world. By "floating supply" is meant silver not in fabricated or coinage form, but principally in the hands of speculators in the chief silver markets of the world—New York, London, Bombay and Shanghai. This amount was estimated by the trade to be somewhere around 400 to 500 million ounces, and now has been largely purchased by the United States. Probably not over 200 million available ounces remain unpurchased.

The second source is current mine production. This was a little over 185 million ounces in 1934. It probably will be somewhat higher in the current year, but is not likely to exceed 200 million ounces. About 75 per cent. of silver produced is a by-product of lead, copper and zinc production. The peak production of all time for silver was 262 million ounces in 1929, which year also saw substantially the peak production of copper, lead and zinc as well. An average of 225 million ounces per annum over the next five years is probably all

that will be realized. Silver used in the arts (that is, for other than monetary purposes) will require approximately 75 million ounces per annum, leaving approximately an average of 150 million ounces per annum from current mine production available for monetary purposes. To mine production should be added the 30 million ounces of silver per annum which the Indian Government under the London Economic Agreement can still sell. Assuming, then, the average current mine production at 225 million ounces, deducting 75 million for industry, and adding the 30 million from India, we would have an average of 180 million ounces per annum available for sale, without drawing upon the sources of either fabricated silver or coined silver. The total in five years would be 900 million ounces. To this must be added, say, 200 million ounces of floating silver still upon the world exchanges; so that we would have available something around 1,100,000,000 ounces available for purchase in the five years, without drawing upon the sources of coined silver or fabricated silver. While no accurate information is available, it seems probable that remaining buying capacity under the Silver Purchase Act is not much above this figure, if we assume no further change in the content of either the gold or silver dollar and no increase or decrease in present gold stocks. We may thus roughly figure that, if the Treasury Department pursues its present policy, it will be able to take the surplus output of current mine production for at least five years. There would thus be five years in which restabilization of currencies may occur, with its ultimate decision as to the future of both gold and silver.

The third source of possible supply is silver already coined in the currencies in the various nations of the world. Excluding the United States and China, the amount of this silver is estimated at about one and one-half billion ounces.

The fourth source of possible supply is fabricated silver of all sorts, including the hoards of India and China, which are largely in fabricated shape. No even approximately accurate

estimate of the volume of this silver can be made, but it seems quite probable that it is not less than 5 billion ounces and that around 7 to 8 billion ounces is nearer the truth.

Since the fundamental purpose of Congress is to further the long run utilization of silver as a monetary metal reserve, rather than merely to have the Secretary of the Treasury buy silver as rapidly as possible until the ratio of 1 to 3 is established and then stop regardless of consequences, it is obvious that silver from sources of coined silver and fabricated forms should not be purchased extensively. To melt existing coinage is to decrease the use of silver and to decrease the number of nations interested in the restoration of silver as a monetary metal, and hence to decrease the value of United States holdings. To decrease the amount of silver now in fabricated form serves no good purpose at present. It is better where it is, since it affords a reservoir which can be drawn on by other nations as they increase their use of silver, and can be resorted to by the United States whenever it seems desirable and in the public interest. Moreover, if, by drawing on this class of silver, the United States should exhaust its buying power before a general restabilization of world moneys, the price of silver would at once fall rapidly and the prospects of silver in restabilization would be greatly decreased. A purchasing policy that will afford a steady market at a steady price for world mine production of silver is best also both for the mines and for the countries in which they are situate. Also, the apparent experience of the Government during its recent buying program was that very little silver is available on an advancing market, for the speculators, sensing a continued advance, daily bid just slightly higher than the Government price, and thereby keep a step ahead of the Government buyer, until something approximating the

limit is reached. The probability, therefore, is that the Government would be obliged to pay the limit of \$1.29 to cover its remaining purchases, if it wished to complete them in a short time. If the United States should raise the price to the limit, it would exhaust its buying capacity very rapidly, and probably long before any restabilization of monetary systems. The price of silver would soar like a rocket, explode and fall like a rocket remnant. Congress could have intended no such calamity.

Let us now consider what took place in carrying out the buying under the provisions of the Act. First, the silver holdings in the United States were nationalized, and the silver in the United States purchased for not over 50 cents per ounce, as prescribed by the Act. Contemporaneously, silver on the foreign exchanges was bought as rapidly as offered, at or below that level. United States citizens were by law effectively prohibited from speculating in silver, by means of a 50 per cent. tax on any profits made. But this did not, of course, affect speculation by citizens of other countries. The purchase of the United States stock and inroads upon the floating supply of silver on foreign exchanges, especially that of London, caused foreign speculators to drive up the price with great rapidity. The Treasury followed the rise evidently reluctantly. But toward the level of 60 cents per ounce, repercussions in other nations began to appear. China protested loudly and vigorously. Its silver was leaving it. Whether in the long run China will or will not benefit from a higher price of silver, there seems little doubt that the process of going from approximately 40 cents per ounce to 60 cents per ounce in a few months, and in a few months more to 80 cents per ounce, had an extremely deflationary immediate effect on a silver standard country. Several banks failed. The silver coinage of China began to be shipped to the United States in great

quantities. Vacant capacity of American refineries was filled with newly minted Chinese dollars, to be refined to pure silver and sold to the United States. It is estimated that over 200 million of new Chinese dollars were exported. China was driven to place a ban upon the exportation of silver and compelled to control its exchange artificially.

The next striking effect of the rapid rise in price appeared, curiously enough, in Mexico, the largest silver producing nation in the world, and hence presumably most interested in the long run welfare of silver. Mexico had outstanding only silver coinage. It had in practice, through Government control, effectively stabilized its peso at 3.6 Mexican pesos to the American dollar. It believed this level most advantageous in the Mexican economy. At this exchange level, the melting point of the Mexican peso was approximately 72 cents. When this price was surpassed, the Mexican Government acted with great rapidity. It at once called in all outstanding silver pesos and began printing paper money in lieu thereof, holding the retired silver coinage as backing for the paper. It also authorized new coins of a reduced silver content, but so far has not issued any, except subsidiary 50 centavos, apparently hoping to avoid doing so if the future price of silver does not make it necessary.

Representatives of the Mexican Government flew to Washington. Conferences were had with our Treasury Department. The newspapers announced that both sides were pleased with the result. From then on, the United States ceased to follow up the price of silver, but left the market to itself, buying only as the level fell. Since August 24th, it has not bought except as silver is offered at not over 65½ cents.

The following table, taken from the Annalist of July 5, 1935, shows the silver coinage of various countries and the bullion parity price in United States money, beginning at 59c.

Silver Coinage in Relation to the Rising Price of Silver

Monetary Unit		Silver Coins			
Country	Name	Approximate Current Exchange Value in U. S. \$	Fine Content Per Monetary Unit in Grains	Bullion Parity, Price Per Ounce in U. S. \$	Quantity, Millions of Fine Ounces
(1)	(2)	(3)	(4)	(5)	(6)
Peru.....	Sol	.24	192.9	.59	7.
Mexico.....	Peso	.28	185.2	.72	78.
Colombia.....	Peso	.53	347.2	.73	8.
Ecuador.....	Sucre	.095	55.6	.82	.6
Greece.....	Drachma	.0093	5.40	.83	3.
			4.37	1.02	
Spain.....	Peseta	.136	69.4	.94	144.
			64.4	1.01	
Philippines.....	Peso	.50	246.9	.97	19.
			231.5	1.04	
Nicaragua.....	Cordoba	.71	347.2	.98	2
			308.6	1.10	
Siam.....	Baht	.45	208.3	1.04	19.
			150.0	1.44	
India.....	Rupee	.37	165.0	1.08	970.
Indo-China.....	Piastre	.66	283.3	1.12	21.
			277.8	1.14	
Australia.....	Pound	3.92	1614.5	1.17	14.
Japan.....	Yen	.29	110.0	1.26	107.
(Total 1,390,800,000 oz.)					

COMPUTATION OF BULLION PARITY

The bullion parity in dollars per fine ounce is the product of the exchange rate in dollars per monetary unit (column 3) times 480 (the number of grains in a troy ounce), divided by the fine content, in grains, of the silver coins per monetary unit (column 4). To find the price per ounce, .999 fine, the standard for quotations in the New York market, this result should be multiplied by .999, but this is not necessary if, as here, fractions of a cent are neglected. For example:

Exchange rate of Mexican peso is 28 cents.
 Fine silver content is 185.2 grains per peso.

$$\text{Bullion parity} = \frac{480 \times .28}{185.2} = \$72 \text{ per ounce.}$$

This table shows approximately enough silver in the coinages of the countries named (China and the United States omitted) to fill the remaining buying capacity of the United States, and all these coinages could be melted and sold at a profit at \$1.29 per ounce.

The foregoing table and actual experience of the last year indicate that around 65 cents should be the high level of United States purchasing, and that around 60 cents is a more desirable level at present. It may be asked—Why? And if so, why 60 cents and not 55 cents, or even 50 cents? The reasons are:

(1) 65 cents may be too near the melting point at which some nations in dire need of money may be tempted to melt their coinages, even below the melting point, or bullion parity, substituting paper or some cheap alloy in place of silver, and thus realizing an apparent profit, as well as obtaining United States money for the entire amount.

(2) 65 cents may be also a bit too tempting to holders of fabricated silver, especially those in want, or having little confidence in the future of silver.

(3) China would probably be helped, for the time being, by a price of silver about the average of the past, until it can readjust itself from former abnormally low levels. At such level, it is less likely to join "Sterlingaria".

The average price of silver for the 40 year period 1894 to 1933 (both inclusive), which includes the high prices due to the World War and the very low prices due to the present depression, was 61.5 cents.*

The average price of silver from the year 1894 until the War began to affect the price in 1916 was 59.6 cents.* After the War and the termination of the Pittman Act, for the five years 1925-1929 (both inclusive), the average price was 60.06 cents.* Thus, the history of the past indicates that 60 cents an ounce is substantially the average price of silver when unaffected by war or by extreme depression. Any price below

*Computed from Annual Report of Director of Mint for 1934, page 91.

that level may be said, therefore, to be an abnormally low price.

(4) A price of 60 cents would better favor the fabricating silver interests of the United States. The source of supply for our fabricating plants must be that of foreign origin, since while the London pact remains in effect, the United States price will probably be more than the foreign price. In the fabricating business, the carrying of silver for a long period of time is a necessity. The fabricated market is accustomed to a price of silver around 60 cents, which has been the average, as shown above. To increase above that level seems to tend to diminish the use of sterling silver and to increase the use of substitutes, especially of plated silverware.

(5) A fall in price below 60 cents would be too drastic, now that higher levels have been reached. Stability of price is of the greatest importance to the future of silver.

The long run welfare of silver, the furtherance of its increased use when currencies are restabilized, the maintenance of present silver coinages in countries still using some silver, the desirability of holding fabricated silver in its present form, and the best interests of silver production in foreign countries and hence of the countries themselves—all indicate that, until the monetary chaos now existing has been further clarified, it is desirable for the United States to devote its buying power to maintaining the price of foreign silver at not less than 60 cents per ounce, nor more than about 65 cents, rather than to go higher and thus create further confusion in other countries and other monetary systems, cause melting of coinages and fabricated silver, and thus exhaust its buying capacity before restabilization occurs. A price of 60 to 65 cents per ounce would limit purchases to current mine production in excess of the requirements of industry and to the loose stock still in the hands of foreign speculators. Whenever the price exceeds the level offered by the Treasury, outside demands will shortly satisfy themselves at some slight advance, and the price then drop back to that offered by the United States. If this price

level is maintained, it seems probable that the currencies of the world will be stabilized before the United States exhausts its silver buying power. Restabilization will definitely determine the future of both gold and silver, and if the price of silver remains substantially steady and not subject to wide fluctuations, the further probability of greater utilization of silver by other nations will be decidedly enhanced, for the principal argument against silver is based upon its alleged instability of price. The United States already owns more silver than any other government, and its own interests will be thus subserved. Also, what reason today justifies the United States in paying \$1.29 per ounce when there is good reason to believe it may buy most, if not all, its requirements at half that price and can raise the price at any time speedier buying seems desirable?

In conducting its actual buying, the Treasury Department has acted fully in accordance with the fundamental intent of the law, so as not to impair the chances of a greater use of silver when currencies are restabilized, and so as not to increase the monetary chaos already in existence. It has proceeded cautiously and conservatively, feeling out the results of various types of buying; properly trying to secure as much as possible at low levels; resisting the foreign speculators, who rapidly pushed up the price; and remembering that too high a price would defeat the very objects of the Act itself.

All those connected with the normal silver business, excluding speculative activities, must gratefully appreciate the care, the sympathy and the wisdom with which the Secretary of the Treasury has performed his duty under the Silver Purchase Act. While obviously seeking to carry out the purpose of that Act in loyal obedience to its fundamental intent and purpose, he has carefully sought to avoid inflicting any unnecessary and unintended burden on any legitimate business connected with silver in the United States. He has

been sailing an uncharted sea full of hidden and unknown risks. He has not hesitated to change the course at once when danger appeared. The Secretary of the Treasury and his assistants are entitled to the highest praise for the manner in which the duty imposed under the Silver Purchase Act has been performed.

So far, this paper has been confined to the silver buying policy of the United States in the foreign market. Nothing I have said applies in any way to the purchase of the United States production proper. This amounts to around 25 to 30 million ounces per annum. Under the agreement following the London Economic Conference in 1933, the United States, in effect, withdrew its current mine production from the world market. To do so, it pays a higher price than the world market for United States production, and can pay any price that it sees fit, without affecting the world market. In fixing the price for silver currently mined in the United States, the Government is, and should be, governed by entirely different principles from those applied to the purchase of foreign silver.

In the United States, the present fundamental object is to bring about re-employment and to reduce the enormous expense to which the Government is put to support those who are unable to secure work. The higher price of silver has enabled many a mine to operate which could not otherwise have done so, and so has prevented many a mining community from becoming a Government charge. It has been, directly and indirectly, an important factor in such business activity as the Rocky Mountain States of this country have experienced of late. The Government is at present paying for newly mined United States silver, 77 cents per ounce. It is making a seigniorage profit of about 52 cents per ounce less minting cost, since its money value when coined is \$1.29 per ounce. This profit can be said to be available for general Government purposes, including its unemployment relief. In

the industrial centers of the country, the Government is spending large sums to promote work and to bring about enlarged activity of industries. In agricultural sections, the Government is spending large sums to raise the price of agricultural products. Why should not the Government pay a higher price for silver, which helps lead, copper and zinc mines, as well as silver mines, in order to offer work, in order to support mining communities, in order to prevent all the evils which come from a lessening of our mining activity? Careful consideration of this subject should convince any reasonable man that the present price, and even a higher price, for United States newly mined silver is fully justified.

In conclusion, perhaps a few words as to the long run prospect of silver is in order. Should the Treasury Department retain its present policy in regard to the purchase of foreign silver and its present policy in regard to the purchase of United States silver, we can, unless unexpected conditions arise, reasonably anticipate pretty steady price levels for silver for the next several years. But the long run status of silver will be dependent upon its enlarged use as money when world monetary systems are stabilized. The experience of the last few years has demonstrated that the quantity of gold is insufficient to reestablish it as the *only* monetary metal, not to mention the serious problems connected with the maldistribution of such stores of gold as are already in existence. The present tendency of probability is increasingly towards a greater use of silver for monetary purposes. The long run future of silver is brighter and more promising today than at any time within the last fifteen years.

September 14, 1935

The subject matter of the attached memorandum from Bell was discussed by me with him many times just before I sailed on my vacation. Bell visited the President at Hyde Park along with others mentioned in his memorandum spending practically all day September 14 in conference. Bell's memo is quite comprehensive.

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Henry
[Signature]

September 14, 1935.

MEMORANDUM OF CONFERENCE ON STATUS OF EMERGENCY FUNDS HELD AT THE PRESIDENT'S HOUSE AT HYDE PARK SEPTEMBER 12, 1935, AT 11:30 a. m. TO 5 p. m.

Those present besides the President were Messrs. Ickes, Hopkins, Walker, Tugwell, West, Gill, Hackett, Pressman, Ironside and Bell.

The President opened the conference by making a general statement regarding the situation. He said he first wanted to find out what the status of the old funds is and then he would take up the allocations made out of the Emergency Relief Appropriation Act of 1935 to see whether or not some savings could not be made out of the allocations made therefrom. He stated that when we went to Congress last year, he announced that it was his purpose to take 3,500,000 people from the relief rolls and place them on relief work projects, and he asked \$4,000,000,000 for this purpose through the fiscal year 1936. But our premise was wrong. It now develops that there were probably nearer 4,500,000 people than 3,500,000 to be cared for. This error in the original computation now makes it more difficult, of course, to care for this larger number with the sum of four billion dollars.

The President asked me if I would explain the status of the emergency funds other than those appropriated under the Emergency Relief Appropriation Act of 1935. I presented the following figures:

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	<u>Unobligated bal- ance as of 8/31/35</u>	<u>Unexpended bal- ance 8/31/35</u>
\$3,300,000,000 Public Works Fund	\$118,031,000	\$714,106,000
\$ 899,675,000 Public Works Fund. .	21,279,000	220,073,000
\$ 525,000,000 Drought Relief Fund.	6,558,000	8,412,000
Total, old funds:	\$145,868,000	\$942,591,000

I explained that of the total unobligated balance of \$145,953,000, the sum of \$63,410,000 had been impounded by the President's orders of last December and was a part of the unobligated balances aggregating \$880,000,000 reappropriated by the Emergency Relief Appropriation Act of 1935. The President asked how much of this unobligated balance, amounting to between \$90 and \$90 million dollars, could we get for relief purposes? I stated that I did not know; that each item would have to be carefully checked because many of the projects for which allocations had been made are being carried on by force account (day labor) and therefore were obligated from day to day. To take the money from these projects would probably suspend work and throw a great many people out of employment. I further explained that these figures were hurriedly compiled for this conference and that on a recheck it might be found that some of the impounded funds were not included by the Departments in the balances shown.

On returning to Washington, I had the foregoing figures rechecked and found that a substantial change must be made in the unobligated balances because of certain items having been omitted therefrom under the Interior, Public Works Administration, and Resettlement Administration. The corrected statement is as follows:

	<u>Unobligated balance as of 8/31/35</u>	<u>Unexpended balance as of 8/31/35</u>
\$3,300,000,000 Public Works		
Fund	\$163,304,000	\$714,106,000
\$ 899,676,000 Public Works		
Fund	22,349,000	220,643,000
\$ 525,000,000 Drought Relief		
Fund	6,658,000	8,412,000
Total old funds:	<u>\$192,311,000</u>	<u>\$943,161,000</u>

Of the total unobligated balance of \$192,311,000, the sum of \$38,410,000 represents lumpsum funds. It is possible, therefore, that a larger sum may be available for relief purposes out of this unobligated balance than was thought at the time of the conference at Hyde Park.

The President then asked the question as to whether persons hereafter employed on the projects being carried on under the unexpended balances of \$942,591,000 (now \$943,161,000) could not be taken from the relief rolls. He stated that he thought we ought to give instructions to all organizations that in employing new people they should be taken from the relief rolls, and he would like to have an estimate of how many people can be taken from the relief rolls in the next few months. He appointed a committee to look into this whole matter. The committee consists of Mr. Gill, Col. Hackett, and myself. We are also going to look into the question as to how much of the \$943,000,000 we think can come back into the main appropriation account and will be available for relief purposes under the Emergency Relief Appropriation Act of 1935.

We then shifted to the allocations that have been made under the Emergency Relief Appropriation Act of 1930 and considered the various items to see whether we could not save some three or four hundred million dollars in order to take care of the matters now pending before the President. The first item considered was Good Roads. Every one agreed that the allotment of

\$400,000,000 made for good roads would not be spent and that there might be hangover into 1937 of as much as \$337,000,000. Mr. Gill stated that this was the estimate of the Bureau of Good Roads. The President decided that he would withdraw at least \$150,000,000 of this allocation. Mr. Hopkins is to furnish an estimate of the amount he expects to spend through the Works Progress Administration for rural roads, as an offset against the amount withdrawn. Mr. Gill thought that it would run as much as 3 or 4 hundred million dollars.

The next item discussed was the Civilian Conservation Corps. This organization has already had about \$523,000,000. They have an enrollment of 310,000 men at the present time. The President decided that I should advise Mr. Fechner to get along during the year 1936 with the sum of \$500,000,000 and that he should have an average corps of 450,000 men rather than 600,000 as originally contemplated. This means adding to the requirements the sum of \$75,000,000.

The next discussion was on Reclamation projects. When these projects were discussed some six weeks ago before the Advisory Committee on Allotments, the President decided that the sum to be allocated for this purpose would not exceed \$100,000,000. While I did not have the figures with me, there was some thought among those present that Reclamations had already received some \$119,000,000. The President would like to cancel projects which will equal the amount that the allocations exceed \$100,000,000, and in addition, save \$20,000,000. The only amount that should be allocated to reclamation projects would be just enough to last them during the fiscal year 1936. To carry on these projects beyond June 30, 1936, provision should

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be made in the 1937 budget out of the Public Works fund, similar to the \$300,000,000 fund initiated in last year's budget. The President stated that he expected to include a \$600,000,000 public works fund in the 1937 budget. The President also called attention to the high man-cost per year - \$2,698 - and said that an attempt should be made to reduce this figure.

The next discussion was on yards and docks of the Navy Department. It will be recalled that most of these were small projects scattered throughout the country at the various navy yards. However, the matter is to be looked into to see if it is necessary for the Navy Department to contract for any of the items, in which case if no contract has been let, the amounts are to be recalled and the allocation cancelled.

The next item discussed was housing. There was quite a discussion on this item. Colonel Hackett produced figures to show the status of the projects. He gave the number of sites acquired, the number under option, the number he expects to acquire by January 1, and the amount he expects to spend by that time. It was necessary for him to get additional information from Washington and this matter was again discussed at the afternoon conference. The total recommended for allocation for housing purposes was originally \$249,000,000. The President has approved only \$246,000,000. The President stated that he thought at this time - although it might be changed later when more definite figures were obtained - that he could save \$149,000,000 of the original amount. At the next session of Congress, the Housing Administration should present a bill

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authorizing the construction of the kind of houses that this organization is now constructing, and permit the issuance of bonds against the property, which bonds may be sold and the proceeds thereof covered into the housing fund and used as a revolving fund for a period of four or five years until the housing situation would be entirely relieved.

Quartermaster Corps: These items are in somewhat the same position as the yards and docks of the Navy Department. They are to be checked to see if anything can be saved.

Corps of Engineers: This branch has received allotments for river and harbor and flood control work of \$144,000,000. The President wants this carefully checked and an amount allotted which will be just enough to carry through the fiscal year 1936 and all funds in excess of that amount should be drawn back into the main appropriation account. He estimated that we should save at least \$25,000,000 on this account. Funds to carry on these projects during the fiscal year 1937 should be included in the 1937 Budget.

National Youth Administration: The President originally promised \$50,000,000 to this organization. Mr. Hopkins explained that he was taking the National Youth Administration requirements into consideration in the requirements of the Works Progress Administration. Anyway, the President insisted that the National Youth Administration should have an additional allocation of \$22,000,000 so as to bring it up to the \$50,000,000. This should, however, be deducted from Mr. Hopkins' total requirements.

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Puerto Rican Relief Administration: We are in contact Dr. Gruening and get him to state just the amount he believes he can spend up to July 1, 1936. Any amount over that sum is to be withdrawn and turned back into the main appropriation. The President thought we should get as much as \$15,000,000 from this source. It may be necessary to announce at the time this sum is withdrawn that an equivalent sum will be made available next year out of any funds provided by Congress.

There were other small items from which we thought some funds would be returned -- \$10,000,000 from the Employees' Compensation Commission fund; \$6,000,000 from the various allocations made to the Treasury, particularly for work relief supply fund; \$3,000,000, which should be returned in its entirety upon liquidation of the fund; and possibly \$3,000,000 from the allotments to the Public Health Service and the Secretary's Office amounting to \$9,700,000. It was also thought that we should review all allocations made so far to see whether they were made to cover projects in locations where there is practically no relief load and therefore are not, strictly speaking, relief work projects. These projects can be abandoned and we might save as much as \$10,000,000. It was also thought that the President's recent letters requiring all projects to be constructed by force account should be started by October 22, and all contract projects to be under contract by December 15, should result in the saving of as much as \$10,000,000.

Rural Electrification: There was some doubt as to how much the Rural Electrification Administration would spend by July 1, 1936. The President thought that \$10,000,000 would be ample and he would see Jesse Jones and ask him to seriously consider having the Reconstruction Finance Corporation take up a great many loans of the Rural Electrification Administration.

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Housing: Colonel Hackett had received his information from Washington by telephone; so we resumed the discussion of housing. He stated that he had two contracts in force amounting to \$7,400,000 to be paid for out of old funds. The following is the information he submitted on the work to be performed from the allocations under the Emergency Relief Appropriation Act of 1935:

<u>Number of Contracts</u>	<u>Amount</u>	<u>Number of persons to be employed</u>
Contracts to be entered into before Jan. 1, 1936 35	\$26,500,000	10,600
During January, 1936 21	51,100,000	20,100
During February, 1936 26	103,600,000	41,000
During March, 1936 13	78,000,000	31,200
During April, 1936 1	5,500,000	2,200
----- 96	----- \$264,700,000	----- 105,100
-----	-----	-----

He estimates that by July 1, 1936, he will have spent \$120,000,000 of this fund. The President said that he thought housing ought to receive \$100,000,000 as he did not believe that it could spend more than this sum up to July 1, 1936. He repeated his former suggestion that we get housing legislation appropriating \$100,000,000, with the privilege of taking bonds for the properties and selling them, the proceeds of which would go into a revolving fund to be used for housing purposes over a period of five years.

We then began to summarize the situation.

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The allotments made to date and those in the bill, before the President, etc., amount to approximately \$3,480,000,000, which, deducted from total available funds to April 8, 1935 (the date of the Act), \$4,563,000,000, leaves a balance to start with from this point of about \$1,100,000,000. The following table shows the estimated situation after making certain deductions because of the definite commitments which the President has made, and estimated savings based on the foregoing tentative decisions of the President:

Unallocated balance of the 1935 Relief Appropriation . . \$1,100,000,000

Deduct definite reserves:

Civilian Conservation Corps . . .	\$75,000,000
Administrative expenses	75,000,000
Nat'l Youth Administration	22,000,000
Rural Electrification Adm.	10,000,000

182,000,000

\$ 918,000,000

Add: estimated savings -

Good Roads	180,000,000
Employees' Compensation Comm. . .	10,000,000
Puerto Rican Relief Administra-	
tion	15,000,000
Treasury	5,000,000
Rivers and Harbors	25,000,000
Housing	146,000,000
Reclamation	30,000,000
Savings due to failure to begin	
construction prior to Dec.	
15, 1935	10,000,000
Savings because no relief loan	
in district where project is	
contemplated (cancelled	
allocations)	10,000,000

Total estimated savings. 392,000,000

Total available for allocation \$1,310,000,000

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The discussion then shifted to the unemployment situation. The President stated that we would have to take as our basis the 3-1/2 million people given to Congress as the total to be taken care of out of the \$4,000,000,000. The additional million would simply have to be ignored for this purpose. Mr. Hopkins estimated that by November employment figures would stand as follows:

Civilian Conservation Corps	510,000
Works Progress Administration . . .	700,000
All other agencies	202,000
	<u>1,412,000</u>

To be put to work to meet the requirements contemplated . . .	2,088,000
	<u>3,500,000</u>
Total:	<u>3,500,000</u>

The President said that he believed we should assume 90% of the people on relief will be cared for by work relief. This would mean that 350,000 persons would be on direct relief, which, at an estimated cost of \$40 per month apiece, would amount to \$14,000,000. For the period of eight months to June 30, 1936, it would be \$112,000,000. If, therefore, we have 2,088,000 persons to care for, it leaves 1,738,000 people on an average to be put to work. It is estimated that through the Works Progress Administration program this will cost at the rate of \$65 per month or a total of about \$113,000,000 a month for the months that the Civilian Conservation Corps and other agency employment remains static. The President said he would then map out the following program for the Works Progress Administration from November to June, assuming that the number of people on that program would be reduced beginning with March because the other

agencies would then begin to pick them up. The program is as follows:

November	1,738,000 persons . . .	\$110,000,000
December	1,738,000 " . . .	110,000,000
January	1,738,000 " . . .	110,000,000
February	1,738,000 " . . .	110,000,000
March	1,585,000 " . . .	106,500,000
April	1,477,000 " . . .	96,000,000
May	1,154,000 " . . .	72,500,000
June	1,000,000 " . . .	65,000,000

Total for Works Progress Administration projects \$977,000,000

Add: Direct relief, additional amount:

September	\$10,000,000
October	85,000,000
Nov. to June	112,000,000

\$207,000,000

The President estimated for this purpose. . . 300,000,000

Total: \$977,000,000

At the time that the President considered the allocation of \$977,000,000 to Mr. Hopkins, he overlooked the \$22 million dollars previously set aside for National Youth Administration, which should be considered as part of the Works Progress Administration program. In addition, the President, in considering the 10% relief load which must be carried on direct relief, computed the period of eight months beginning October 1. He also allotted for the month of October the sum of \$85,000,000 which should take care of the 10%. The period should be figured for 7 months, thus saving \$14,000,000. The above figure of \$977,000,000 should therefore be reduced by \$36,000,000 and this sum transferred to the reserve account for further emergencies.

This amount, deducted from the total available, \$1,310,000,000,

leaves \$335,000,000 to be divided between the Resettlement Administration and the Public Works Administration. Dr. Tugwell said that he absolutely needed \$91,000,000 to carry on his present program of rural rehabilitation. The President then granted him in addition for rural relief \$28,000,000 and for housing \$31,000,000, or a total additional amount, over and above what he

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has already received, of \$150,000,000. This, deducted from the \$333,000,000 remaining available out of the estimated total, leaves a balance of \$183,000,000 tentatively set aside for public works under the Public Works Administration.

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NOTE: The attached photostat copies of memoranda were received from the President Monday, September 16. They modify the foregoing to some extent, particularly the proposed allocations to Mr. Tugwell.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, September 17, 1935.
9-16-35.

Press Service
No. 5-82

Acting Secretary of the Treasury Coolidge announced today that subscriptions aggregating \$759,000,000 had been received up to the close of business yesterday in exchange for Fourth-called Fourth Liberty Loan bonds, called for redemption on October 15, 1935.

Approximately \$331,000,000 of the called bonds have been exchanged for 2-3/4 percent Treasury bonds of 1945-47, and approximately \$428,000,000 for the 1-1/2 percent Treasury Notes of Series C-1939.

The subscription books for the Treasury notes closed last Saturday, but the books for the offering of bonds will remain open until further notice.

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MEMORANDUM

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TO Confidential Files
FROM Allan Sproul

September 20, 1935.
Subject: Telephone conversation
with Mr. Cariguel.

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Mr. Cariguel of the Bank of France telephoned at 11 o'clock a.m. today. He said that he wished to tell us that dollars are very much wanted on the Continent and that thus far today \$23 million have been taken in the Paris market. He said that these dollars are wanted because people are getting out of sterling and that it does not follow that the Bank of France will lose gold in anything like this amount because they will recover gold from the British. Naturally, however, such transactions submit the Paris market to great pressure, he said, and there is beginning to be difficulty in getting shipping space and insurance coverage for gold shipments to this country.

Mr. Cariguel said that in his opinion gold really ought to be shipped direct from London to New York and he said, confidentially, that he had made this suggestion to the British this morning but has not yet had a reply.

I asked Mr. Cariguel if he had anything to suggest as to what we might do to help relieve the situation and assured him that we would be ready to entertain any suggestions, as we have been heretofore. He said that he did not think there is anything for us to do for the time being - that the Guaranty Trust Company and Lazard Freres are taking care of the market - but that he would like to have the British ship gold direct to this country and that he thought we would like to be informed of his suggestion to the British. I assured him that this is the case and asked him to call us again whenever there were developments in which he thought we might be interested.

I then asked Mr. Cariguel if he thought they would be able to take care of the market for the rest of the day and he seemed to think so, although he said that depends on what happens in New York this afternoon. I again assured Mr. Cariguel of our appreciation of his call and asked him to keep us informed.

MEMORANDUM

45

September 20, 1935.

TO Confidential files
FROM Allan Sproul

Subject: Telephone conversation
with Mr. Cariguel.

1:45 PM

Mr. Cariguel of the Bank of France telephoned at 1:45 o'clock P.M. our time today. He said that he wished us to know how they had finished the day in Paris; that sales of dollars had totaled \$24½ million and that the British had sold 370 million francs, which is about the counter value of the dollars sold. The Bank of France, therefore, had come out about even on gold, he said, but there had been severe pressure on the franc all day. Naturally, he said he had again called London's attention to this situation but that he had made no progress there.

Mr. Cariguel then said that, of course, until the gold taken for shipment in Paris today reaches New York the dollars which have been sold will have to be provided, but that this can be taken care of with the help of the Guaranty Trust Company. What he is afraid of is that the market may become worse but he thought they would get through tomorrow all right, it being a short day, and he said he would undoubtedly call us again on Monday. Meanwhile, he said, he is asking the British to keep the matter before them. I then said that there appears to be nothing for us to do here but to watch the market and to wait until we hear from him again, and he agreed. He asked that Governor Harrison be kept informed of the situation and I told him this is being done.

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, September 24, 1935.
9-23-35.

Press Service
No. 5-88

Acting Secretary of the Treasury Coolidge announced today that approximately \$367,000,000 of Fourth-called Fourth Liberty Loan bonds, called for redemption on October 15, 1935, have been exchanged for 2-3/4 percent Treasury Bonds of 1945-47.

With approximately \$429,000,000 of the called bonds exchanged for Treasury Notes of Series C-1939, on which the subscription books closed September 14, total exchanges to date aggregate \$796,000,000.

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September 27, 1935

Mr. Coolidge today cabled the Secretary the following message concerning the cases of Harper and Moore:

"President left last night. He decided to postpone case of Moore until his return. When I saw him he was definitely back of your proposition but had no time to see Senator Bulkley or take action. I think I should write Moore and Harper stating it was evident they had not complied with your request and that definite action would wait your return. I shall see Senator Bulkley and express your stand. Have you any suggestions."

September 28, 1935

The Secretary's reply to Coolidge's cable of September 27 was as follows:

"For Coolidge quote very disappointed that you did not take action and responsibility in regard to Moore and O'Brian along lines carefully laid out prior to my departure period Impossible for me to offer any further suggestions from Europe unquote."

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THE BOULDER CANYON PROJECT

I. THE BOULDER CANYON PROJECT

The Boulder Canyon Project Act, approved December 21, 1928, provides, among other things, for (1) the construction, operation and maintenance of a dam and incidental works in the main stream of the Colorado River at Black Canyon or Boulder Canyon, and for (2) the construction of a main canal and appurtenant structures connecting the Laguna Dam, or other suitable diversion dam, with the Imperial and Coachella Valleys in California.

(a) Estimated Costs

The estimated cost of both projects have been determined by the Bureau of Reclamation, Interior Department, to be:

Boulder Dam and Power House- - - -	\$82,675,000.00	
Flood Control- - - - -	<u>25,000,000.00</u>	\$107,675,000.00
Power Plant Equipment- - - - -		<u>18,825,000.00</u>
Boulder Dam complete- - - - -		126,500,000.00
All-American Canal- - - - -		<u>38,500,000.00</u>
		<u>\$165,000,000.00</u>

II. COLORADO RIVER DAM FUND

The Act provides for the establishment of a special fund to be known as the Colorado River Dam Fund and authorizes the Secretary of the Treasury to advance to such fund, from time to time and within the appropriations therefor, such amounts as the Secretary of the Interior may deem necessary for carrying out the provisions of the Act, except that the aggregate amount of such advances shall not exceed the sum of \$165,000,000.00. Of the \$165,000,000.00 authorized to be appropriated, the sum of \$25,000,000 was allocated to Flood Control.

(a) Interest:

The Secretary of the Treasury is required to charge the fund as of June 30 in each year with such amount as may be necessary for the payment of interest at the rate of 4 per cent per annum accrued during the year upon the amounts advanced and remaining unpaid, except that if the fund is insufficient to meet the payment of interest the Secretary of the Treasury may, in his discretion, defer any part of such payment, and the amount deferred shall bear interest at the rate of 4 per cent per annum until paid.

Under an opinion of the Attorney General of the United States, dated December 26, 1929, funds advanced from the General Treasury to the Colorado River Dam fund for construction costs of the All-American Canal are not subject to the interest charge.

(b) Amortization of Principal - (Advances)

Repayment of all moneys advanced to the fund is to be made within 50 years from the date of completion of the works, together with interest thereon at 4 per cent per annum.

(c) Status of Colorado River Dam Fund

On September 30, 1935, the liability of the Colorado River Dam fund to the General Fund of the Treasury amounted to \$91,272,966.56, representing advances in the sum of \$84,864,093.21 and interest thereon in the amount of \$6,408,873.35. Upon recommendation of the Secretary of the Interior and in accordance with authority contained in Section 2 of the Act of March 3, 1933, the Secretary of the Treasury deferred for one year the payment of the total amount of interest due on June 30, 1935, of \$6,408,873.35.

The status of the fund as of September 30, 1935, was as follows:

Advances from General Fund:

Fiscal year 1931	- - - - -	\$1,745,866.46
" " 1932	- - - - -	17,018,608.34
" " 1933	- - - - -	19,709,297.48
" " 1934	- - - - -	19,584,789.68
" " 1935	- - - - -	22,299,521.44
" " 1936 (through Sept. 30, 1935)	- - - - -	<u>4,506,009.81</u>

\$84,864,093.21

Interest:

Fiscal year 1931	- - -	\$25,631.58
" " 1932	- - -	355,029.92
" " 1933	- - -	1,161,488.18
" " 1934	- - -	1,933,449.58
" " 1935	- - -	<u>2,958,905.67</u>

\$6,434,504.93

Less: Amount covered
into Treasury as
miscellaneous
receipts - - - - -

25,631.58

8,408,873.35

Total liability to fund 1/ - - - - - \$91,272,966.56

1/ Exclusive of \$3,176,090.31 advances through September 30, 1935, account of the All-American Canal, which are repayable without interest.

III. BOULDER DAM AND POWER HOUSE(Including Flood Control) - \$107,675,000.00

Before any money was appropriated for the construction of the said dam or power plant, or any construction work done or contracted for, the Secretary of the Interior was required to make provision for revenues by contract, in accordance with the provisions of the Act, adequate in his judgment to insure payment of all expenses of operation and maintenance of said works incurred by the United States and the repayment, within 50 years from the date of completion of said works, of all amounts advanced to the fund for such works, together with interest thereon made reimbursable under the Act. In accordance with these provisions, contracts were executed by the Secretary of the Interior with the following contractors:

City of Los Angeles, California, and others.
Metropolitan Water District, California.
South California Edison Company, California.

During the 50-year period of amortization, which commences upon completion of the works (estimated to be March 1, 1936), it is estimated that provisions now made for the sale of power and water under the above mentioned contracts will return approximately \$366,118,020 of gross revenue for distribution to the following interests as indicated in the attached Schedule "B" prepared by the Interior Department, Bureau of Reclamation, a summary of which is as follows:

Gross Revenues available for distribution (Col. 18) - - - - -	\$366,118,020.00
Less:	
Operation and maintenance (Col. 19) - - - - -	\$7,119,882.00
Depreciation Reserve (Col. 20) - - - - -	<u>8,701,031.00</u>
	15,820,913.00
Total net revenues - - - - -	\$350,297,107.00

To United States Treasury:-

Amortization of principal on dam and power house (Col. 23)

Estimated cost at completion - - - - -	\$82,674,910.00
Interest on above principal (Col. 24) - - - - -	<u>105,471,139.00</u>
	188,146,049.00

Surplus available for further distribution (Col. 25) - - - - - \$162,151,058.00

To United States Treasury - 62 $\frac{1}{2}$ % of surplus - Sec. 2(b) of the Act:

Amortization of principal on flood control (Col. 30)

Estimated cost at completion - - - - -	\$25,000,000.00
Interest on above principal (Col. 29) - - - - -	<u>12,536,629.00</u>
	37,536,629.00

Balance of surplus for distribution, as shown below - - - - - \$124,614,429.00

To State of Arizona - 18 $\frac{2}{3}$ % of surplus,

Sec. 4(b) of the Act ($\frac{1}{2}$ of Col. 26) - - \$30,403,325.00(a)

To State of Nevada - 18 $\frac{2}{3}$ % of surplus,

Sec. 4(b) of the Act ($\frac{1}{2}$ of Col. 26) - - 30,403,325.00(a)

To Colorado River Basin Fund - balance

of surplus, Sec. 5 of the Act (Col. 31) 63,807,779.00(b) \$124,614,429.00

(a) Section 4(b), last paragraph, of the Act provides:

"If during the period of amortization the Secretary of the Interior shall receive revenues in excess of the amount necessary to meet the periodical payments to the United States as provided in the contract, or contracts, executed under this Act, then, immediately after settlement of such periodical payments, he shall pay to the State of Arizona 18 $\frac{3}{4}$ per centum of such excess revenues and to the State of Nevada 18 $\frac{3}{4}$ per centum of such excess revenues."

(b) Section 5, second paragraph, of the Act provides:

"After the repayments to the United States of all money advanced with interest, charges shall be on such basis (as prescribed in first paragraph, Section 5) and the revenues derived therefrom shall be kept in a separate fund to be expended within the Colorado River Basin as may hereafter be prescribed by the Congress."

(a) Power Plant Equipment - \$18,825,000.00

The amortization of power plant equipment and interest is not included in the above figures which deal expressly with the dam, power house and flood control.

The Secretary of the Interior is holding special contracts with the three operating contractors covering the repayment with interest at 4 per centum per annum of power plant equipment within 10 years from the commencement of operations.

See Schedule "A" showing in detail all appropriations from which advances have been made for account of the Boulder Canyon Project, including the dam, power plant and equipment, through September 30, 1935.

IV. ALL-AMERICAN CANAL - \$38,500,000.00

Before any money was appropriated for the construction of the main canal and appurtenant structures, or any construction work done upon the canal or contracted for, the Secretary of the Interior was required to make provision for revenues by contract or otherwise, adequate in his judgment to

insure payment of all expenses of construction, operation, and maintenance of the said canal and appurtenant structures in the manner provided in the reclamation law.

In accordance with the above provisions, contracts were executed by the Secretary of the Interior with the following water districts:

Imperial Water District, California.
Coachella Valley County Water District, California.

The existing contracts call for the repayment of the cost of the canal and appurtenant structures within 40 years after date of completion, such repayments to commence one year from date of official notice from the Secretary of the Interior to the contractors that the canal is completed. The cost of operation after completion to be borne by the contractors.

Work on the canal started in 1934 and it is estimated to take 4 years to complete.

See Schedule "A" showing in detail all appropriations from which advances have been made for account of the canal, through September 30, 1935.

September 30, 1935.

MEMORANDUM on C. E. MOORE

On Thursday, September 19th, Senator Bulkley's office called in regard to making an appointment with me to go over Mr. Moore's case. I stated that I would be glad to see Senator Bulkley but that I could not deviate from your instructions in regard to Mr. Moore.

On Monday, September 23rd, Senator Bulkley came in to see me and said that he understood my position, that I was to carry out your instructions, and that under these circumstances he was to see the President.

On Tuesday, after the Cabinet meeting, I saw the President with Charles West and informed him of your instructions and he stated definitely that he felt the men should give up the money they had made. At that time he had not seen Senator Bulkley, although he had promised to do so.

During Tuesday and Wednesday I was in touch with Charles West, who understood your attitude and felt it was a right and proper one.

On Thursday the President stated to Charles West and West stated to me that he would not have the time to take up this matter before he left on his trip and that he desired the whole thing to be put over until his return.

From Coolidge?

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On Friday I again saw Senator Bulkley. He stated he had no fault to find with your conclusions as to what was right and fair, that he would try to work it out with Moore and that his regret was that he and Moore had not had a further chance to discuss the matter with you and that so much publicity had attended the whole affair.

I saw no action which could properly have been taken by the Treasury under the circumstances and I was in consultation at every step with McReynolds, Gaston and Gibbons. I could not but regret the situation as it developed.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, October 1, 1935.
9-30-35.

Press Service
No. 5-94

Acting Secretary of the Treasury Coolidge announced today that approximately \$397,000,000 of Fourth-called Fourth Liberty Loan bonds, called for redemption on October 15, 1935, have been exchanged for 2-3/4 percent Treasury Bonds of 1945-47,

With approximately \$429,000,000 of the called bonds exchanged for Treasury Notes of Series C-1939, on which the subscription books closed September 14, total exchanges to date aggregate \$826,000,000.

oo0oo

October 3, 1938.

Dear Mr. Morgenthau:

When you see this letter you may think that you will have to spend all the time on your return voyage reading it! Since I found I could reach you before you sailed I thought I would put everything down on paper.

First, the situation in regard to Mr. Moore and Mr. Harper.

Frankly, I do not feel that your orders were carried out, as I know that you definitely said the resignations were to be presented or the money turned back. However, in each case there was an appeal to the White House and you can well imagine the pressure over there before the President left. I did not sit in on any of the meetings here in the Treasury, but I asked Mr. Gaston to make a resume for me of what happened in each one. Senator Buckley was indignant because he had not been consulted. He saw Mr. Coolidge personally on behalf of both men. When letters were received from Mr. Moore and Mr. Harper both were qualified refusals to comply with your demand. Mr. Coolidge talked with the President after Cabinet meeting and reported that the President said the two men should obey orders. However, both Mr. West and Senator Buckley had further interviews on the subject and as a result Mr. Coolidge sent his first cable asking your "suggestions".

You know, I am sure, how I felt about that! As the President was on the verge of leaving the city it was ridiculous on the face of it to cable you. Your instructions were so definite that I do not see why they should have not been followed.

In the matter of Mr. O'Brien: He came to Washington with Congressman Head and a hearing was held in Mr. Gibbons' office on the 25th. Mr. Coolidge had not mentioned the O'Brien matter when he talked to the President about Moore. Mr. Frank and Mr. Gaston were at the hearing in which the Congressman claimed a conspiracy against Mr. O'Brien and further investigations were demanded. Here too, everyone went to the White House, Mr. Farley included, and Mr. Coolidge tried through Mr. McIntyre to get an appointment with the President to discuss and settle the matter. Mr. McIntyre probably did not want to get involved and was

Mr. Morganthau.

October 3, 1938.

so busy about many things, he let the matter slide and so Mr. Coolidge failed to get to the President as he should have done. I think the whole difficulty hinged on his waiting in his office for Mr. McInyre to make the appointment for him instead of going over to the White House and insisting on seeing the President. As a result, the situation in regard to all three men must drag along until you and the President return.

The matter of the conversion has been very much on Mr. Coolidge's mind, as you may gather by his cables. His first one, suggesting that the books be closed as of Saturday and this announcement made immediately, was sent you Tuesday night, October 1st. Wednesday morning the papers indicated that Italy was going to war at once and the market took a bad drop. Meanwhile, Mr. Coolidge was waiting anxiously for a cable from you. It did not come all day Wednesday and he bit all his finger nails down to the quick and phoned me at 5 minute intervals to find out whether I had heard anything. At 4 o'clock in the evening he sent the second cable and your reply came in very early this (Thursday) morning. When you said that you did not see any advantage in closing the books Saturday and would telephone on Monday he had at least a "breathing spell". I suppose he is now growing more finger nails to bite off on Monday.

Silver has been running very quietly, but this last week we purchased seven and one-half million ounces for Gold.

That seems about all the Treasury news of the moment.

I had an awfully cute letter from Bob saying that "just plain lastness" was the reason I had not heard from him before in regard to something I had written him about. He also remarked that he thought the school authorities were "going to make us sweat" because of the postponed opening of Deerfield. Nana tells me that when she spoke to Henry over the telephone he ordered everything from a picture book up, for his room. He was very cheerful, extremely happy and full of plans for fixing the place up. The list was such a long one that it gave her plenty to do collecting what he needed. Jack arrives today at 3:40 and starts school Friday. All the children seem to be in the best possible health and spirits. I have talked many times with Mrs. Barclay and she says that Mrs. Patman has been, and continues to be, very well.

Thank you for your interest in my own mother who did have two very serious heart attacks. One occurred while I was in New York just after you sailed, and I was fortunate in being there and being able to help out. The other was about a week later. I was called to New York and

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Mr. Morgenthau.

October 5, 1935.

took the 4 o'clock train Friday but got back to Washington Sunday. Since then she has been holding her own and we have felt more encouraged about her condition.

I, myself, am feeling fine and getting caught up beautifully with my work. You won't know my desk when you come back and see it all cleared off.

It is grand to think that you are on your way back. I want to wish Mrs. Morgenthau and you a very happy and safe return to all who are anxiously looking forward to your home-coming.

Sincerely,

HSK

Hon. Henry Morgenthau, Jr.,

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, October 8, 1935.
10-7-35

Press Service
No. 5-98

Acting Secretary of the Treasury Coolidge announced today that the subscription books for the current offering of 2-3/4 percent Treasury Bonds of 1945-47, in exchange for Fourth Liberty Loan bonds called for redemption on October 15, 1935, will close at the close of business Friday, October 11, 1935. Subscriptions placed in the mail before 12 o'clock, midnight, Friday, October 11, will be considered as having been entered before the close of the subscription books.

It was further announced that subscriptions for the Treasury bonds now approximate \$431,000,000. Including \$429,000,000 exchanged for the 1-1/2 percent Treasury Notes of Series C-1939, a total of approximately \$860,000,000 of the Fourth-called Fourth Liberty Loan bonds have been exchanged to date.

--oOo--

October 9th - 1935

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I am attaching herewith a report of the meeting that took place in the Secretary's office on September 11th in regard to William G. Harper, Secret Service Operative in Charge at Cleveland, and C. E. Moore, Collector of Internal Revenue at Cleveland also a report of the meeting which took place on September 11th and 12th in regard to William J. O'Brian, Collector of Customs at Buffalo.

On September 26th Mr. Coolidge sent the following cable to the Secretary in regard to O'Brian:

"President after hearing pleas of Farley and Congressman Mead in behalf of O'Brian Buffalo collector phoned to Gibbons and suggested we let O'Brian take six weeks leave without pay pending investigation of charges by Mead and O'Brian of conspiracy against him and illegal acts subordinates Stop Political situation involved and six weeks would bridge over election Stop Papers have printed story O'Brian resignation asked Stop Regret situation but see no alternative Stop Have you suggestion".

and on September 27th he sent the following cable to the Secretary in regard to Harper and Moore:

"President left last night. He decided to postpone case of Moore until his return. When I saw him he was definitely back of your proposition but had no time to see Senator Bulkley or take action. I think I should write Moore and Harper stating it was evident they had not complied with your request and that definite action would wait your return. I shall see Senator Bulkley and express your stand. Have you any suggestions".

to which the Secretary replied as follows:

"For Coolidge quote very disappointed that you did not take action and responsibility in regard to Moore and O'Brian along lines carefully laid out prior to my departure period Impossible for me to offer any further suggestions from Europe unquote.

The following is a memorandum which Mr. Gaston prepared for me giving in detail the negotiations between the President, Mr. Coolidge, Moore, Harper and O'Brian:

"Carl E. Moore and W. G. Harper

Collector Moore and Secret Service Operative Harper, involved in the Ohio liquor sales cases, received letters September 13 giving them until the following Friday, September 20, to decide whether they would surrender all interest in the liquor agency and return all their profits to the Treasury or resign their offices. The Secretary to Senator Bulkley called up in midweek to ask that the whole matter be deferred until the following Monday, when he could get to town. I don't think any assurances were given. The conversation was with Mr. Coolidge's office. On Saturday, September 21, letters were received from both Moore and Harper stating their willingness to get rid of their liquor shares, denying the right of the Secretary to ask them to pay back the money - in other words, a qualified refusal to comply with the Secretary's demand. Bulkley saw Coolidge on Monday and was indignant that there had been publicity about the cases (This refers to original publicity before the cases were reported to the Secretary - there has been no violation of the confidence of the Secretary) and was also aggrieved that the Secretary did not consult him about final disposition. He intended to see the President and may have done so. Mr. Coolidge saw the President after the Cabinet Meeting on Tuesday and reported the President said Moore and Harper must do as ordered by the President. Coolidge saw Charlie West, who was to carry the message to Moore. Both West and Bulkley saw Coolidge again on Thursday and West reported that the President was not going to do anything further until his return.

William J. O'Brian

The letter asking O'Brian's resignation was also sent on the 12th. A day or two later he wired Gibbons saying his reply would be delayed a few days. He came to Washington with Congressman Mead and saw Gibbons on Wednesday, the 25th. Mr. Coolidge had not taken up the O'Brian matter when he talked to the President about Moore. Eli Frank and I were present during Steve's conversation with Mead and O'Brian. Mead claimed a conspiracy against O'Brian in his own office, said the car matter was trivial and the use his son made of the car was balanced by O'Brian's use of his own Buick on government business. He wanted a new investigation. Steve promised him nothing but said it was now up to the White House. Farley saw the President about the O'Brian matter on Wednesday and that night the White House tried to get Steve unsuccessfully. When he returned late he was told to call the White House in the morning. He did and talked to the President, who proposed that O'Brian be permitted to take a leave without pay and that a new investigation be made. He said to Steve: "You know the situation up there,"

evidently referring to the political fight for assembly seats. Farley's notion was that immediate removal of O'Brian would be damaging to the ticket. I told Steve I thought stalling on the matter or compromising with O'Brian would be more damaging. After talking to Coolidge Steve endeavored to arrange for him and me to see McIntyre, but McIntyre said he couldn't possibly take the time and that the President had outlined what he wanted done as above. The President left that night with matters in this shape. To-day a letter came from O'Brian asking a month's leave or as much as necessary to permit a new investigation. The Secretary's cable also arrived. After consulting Coolidge, Steve wired granting O'Brian indefinite leave beginning tomorrow, October 1. At a meeting in Coolidge's office to-day it was decided to have a new investigation of O'Brian's and Mead's charges by one of Ireys men. The newspapers printed the story that O'Brian's resignation was asked. They learned it in Buffalo and I admitted it on Monday, September 23."

MEETING IN SECRETARY'S OFFICE

September 11, 1935.

Moore
*Harper*Present:

Secretary Morgenthau
Mr. McReynolds
Mr. Helvering
Mr. Coolidge
Mr. Gaston
Mr. Graves
Mr. Oppen
Mr. Moyle
Mr. Moran

The above gathered in the Secretary's office to discuss Mr. C. E. Moore, Collector of Internal Revenue at Cleveland, Mr. E. W. Barber, Customs Agent in Charge at Cleveland, and Mr. William G. Harper, Secret Service Operative in Charge at Cleveland.

The attached report in regard to these men was read by Mr. McReynolds.

Chief Moran: (Defended Mr. Harper) Harper is one of our best Secret Service men.

Mr. Morgenthau: He is one of the most stupid individuals I have ever met. If he is one of the best men in the Secret Service - then God help Secret Service. He is either a knave or a fool.

Mr. Morgenthau: Any remarks that I make here in the room against any Division should not be repeated. I know I have your word of honor on that.

Chief Moran: I am sorry that my judgment is so poor as to make the Secretary of the Treasury say what he did about Secret Service.

Mr. Morgenthau then handed each man a sheet of paper and asked him to write what he feels should be done in regard to Harper and Moore, which they did and their recommendations are attached herewith. Most of the men recommended that these individuals should be discharged. Mr. Morgenthau, however, felt that the easiest thing to do was to fire a man but he felt that the evidence produced in regard to Harper and Moore was strong enough to discharge them. He recommended that they should be suspended without pay for

ninety days. He said if you fire a man from the Government you pretty well damn him for life. Inasmuch as these two men filled out their income tax and did not try to conceal anything, he did not feel that they should be fired.

Mr. McReynolds: Mr. McReynolds called Mr. Morgenthau's attention to the fact that he could not suspend these men for ninety days without pay because they were Presidential appointments. Mr. McReynolds then recommended a new proposition, that we ask these men either to resign or return the money which they received from the liquor company.

All the men seemed to think well of this suggestion and Mr. Morgenthau then said that he wanted them to prepare a very careful statement giving all the facts of the case, stating that we have 55,000 employees, that this is the first case of this kind that we have ever had, and that we want to make a public statement and give them all the facts instead of trying to hide the information.

Before Mr. Morgenthau spoke to the newspaper men on Thursday, he called the President and told him of the latest decision in regard to Mr. Moore and Mr. Harper. He also asked the President for his backing, in view of the fact that these men were Presidential appointments. The President gave Mr. Morgenthau his wholehearted backing.

The following day at the Press Conference, Mr. Morgenthau gave the boys, off the record, a little history of the case. He said that he was leaving that day, that Mr. Coolidge would present the proposition to the men of either resigning or returning the money, and that after that he would give them a prepared statement.

I am dictating this on September 27th.

Mr. Moore, of Cleveland, refuses to resign and to return the money.

The following is a copy of a cable which Mr. Coolidge sent to Mr. Morgenthau informing him of the present status of the case:

President left last night. He decided to postpone case of Moore until his return. When I saw him he was definitely back of proposition but had no time to see Senator Bulkley or take

action. I think I should write Moore and Harper stating it was evident they had not complied with your request and that definite action would wait your return. I shall see Senator Bulkley and express your stand. Have you any suggestions.

(signed) Jeff

August 29, 1935.

MEMORANDUM FOR THE SECRETARY:

In re: Collector of Internal Revenue C. E. Moore,
Assistant Collector of Customs C. W. Pollock,
Secret Service Operative in Charge William G. Harper,
all of Cleveland, Ohio,
Secret Service Operative in Charge Bert C. Brown,
Detroit, Michigan,
Customs Agent in Charge E. W. Barber,
Cleveland, Ohio.

There is attached a report of Special Agent C. E. Mack, dated August 27, 1935, giving a complete history of the investigation of charges affecting the above named officials.

For a thorough understanding of the whole situation, it is necessary to read the report submitted by Special Agent Mack, which, in brief, shows the following with respect to the individual officers:

Secret Service Operative in Charge
Bert C. Brown -

This officer was responsible for the organization of Famous Brands, Inc. in August, 1933, out of which he and his wife received income in the year 1933 of \$4,500 and in 1934 of \$19,558.57. He was primarily responsible for the organization of Famous Brands Ohio, Inc., out of which he received an income during 1934 of \$3,034.37. Mr. Brown and his wife failed to file tax returns for 1934 until after the investigation had commenced, at which time they reported the 1934 income. Investigation further showed that he had not filed returns for any years prior to this investigation. He was also instrumental in securing the agency in Michigan for the Falstaff Brewing Company of St. Louis, Missouri, which venture proved unsuccessful financially. Independent inquiry is being made at this time to determine his tax

liability and what action, if any, should be taken with respect thereto. It is further shown that Mr. Brown borrowed from a professional gambler at Detroit, Michigan, the sum of \$3,500 and that he spent a total of \$4,500 in "entertainment" in an effort to secure the liquor agency, having spent as much as \$700.00 in one week-end on a visit to New York City. He has been financially interested in various ventures, among them being two golf clubs and a Ford agency. In addition, he has been sued thirty-one times and at this time has a number of judgments pending against him.

Secret Service Operative in Charge
William G. Harper -

During March, 1934, Mr. Harper was approached by Mr. Brown and requested to interest suitable persons resident in Ohio in the proposed Ohio agency for the American Distilling Company. Mr. Harper interested Assistant Collector of Customs Pollock and Collector of Internal Revenue Moore in the venture, and as a result a syndicate was formed as an agency for the American Distilling Company. Mr. Harper received an income from this source in the year 1934 of \$8,293.14, for which he made no investment. On December 28, 1934, the syndicate was succeeded by Famous Brands Ohio, Inc., and Mr. Harper purchased his allotted 18 shares of stock in this corporation at a total cost of \$90.00. During the early part of 1935 three dividends on this stock were declared in the sums of \$20.00, \$30.00 and \$40.00, or a total of \$90.00 on each share, \$1620 during that period.

Collector of Internal Revenue
C. E. Moore -

When the Sales Syndicate was formed, in April, 1934, Mr. Moore acquired a 20% interest in the profits without any investment therefor and from that source received his share of \$8,293.14 for the year 1934. In addition, he was paid \$1,503.98 for "services rendered". When the corporation was organized, December 28, 1934, the wife of Collector Moore, Mrs. Elizabeth P. Moore, purchased his apportioned 18 shares of stock at a total cost of \$90.00 and on these shares there were paid the same dividends in the early part of 1935 as were received by Mr. Harper. Mr. Moore has stated that he rendered no service for the income from these organizations, except that for the payment of \$1,503.98 he assisted in an advisory way in advertising for the organization.

Assistant Collector of Customs
C. W. Pollock -

Mr. Pollock acquired his 20% interest in the Sales Organization formed April 18, 1934, and from that source received the share of \$8,293.14 during 1934. He also purchased his allotment of stock December 28, 1934, at a total cost of \$90.00 and received the dividends therefrom as in the cases of Messrs. Harper and Moore. In addition to Mr. Pollock's connections with Famous Brands Ohio, Inc., it was also learned during this investigation that he had been informed of the misappropriation of certain refunds on customs drawbacks by Donald K. Gresham, a customs broker of Cleveland, and had failed to take official action with respect thereto. This matter has heretofore been called to your attention in a memorandum and you have approved a recommendation for the separation from the Service of Mr. Pollock. The evidence contained in the report of Special Agent Mack indicates the reason for the failure of Assistant Collector of Customs Pollock to take official action with respect to this matter was his association with Customs Agent in Charge Barber and Customs Broker Gresham in a matter relating to the Falstaff Distributors, Inc., a beer sales agency.

Customs Agent in Charge
E. W. Barber -

Mr. Barber is Customs Agent in Charge at Cleveland, Ohio, and the information with respect to the misappropriation of customs refunds, etc. was brought to his attention by a subordinate agent in the early part of April, 1934. He failed to take the necessary action required of him as Customs Agent in Charge, and it was not until this investigation was commenced, more than a year later, that the matter came to the attention of the Department, and then it was not reported by Mr. Barber. The case of this agent also has been called to your attention in a previous memorandum and you indicated approval of a recommendation for his separation from the Service. The investigation disclosed that Mr. Barber failed to take official action in this matter for the same reasons that influenced Mr. Pollock to neglect his duty.

- - - - -

With general reference to the Ohio Sales Agency for the American Distilling Company, it is shown in this investigation that the three supervisory officers of the Treasury who were invited to form the organization were brought into the picture because of their official positions. This is attested to by

the officers of the Michigan agency, who initiated the formation of the Ohio agency. It is shown further that prior to the organization of the sales syndicate by Internal Revenue Collector Moore, Assistant Collector of Customs Pollock and Secret Service Operatives in Charge Harper and Brown, the American Distilling Company had made but one sale to the State of Ohio totaling \$22,419.00, in a period of about five months, whereas, after its organization, for period of about eight months, the sales totaled \$771,286.59. Attention is further invited to the significant fact that none of the Treasury officials invested money in the Syndicate, and their only investment in the corporation consisted of a purchase of 18 shares of stock at a total cost of \$90.00 each.

Recommendation has heretofore been made for the separation from the Service of Assistant Collector of Customs Pollock and Customs Agent in Charge Barber, and you have approved this recommendation. It is my understanding that Secret Service Operative in Charge Brown is at present under suspension. No action has been taken with respect to Collector of Internal Revenue Moore and Operative in Charge Harper. Recommendation is made at this time for the separation from the Service of Messrs. Brown, Harper and Moore. I am informed that charges required under Civil Service regulations have been submitted to Mr. Brown, Mr. Pollock and Mr. Barber. It is necessary that charges also be submitted to Mr. Harper, who is a Civil Service employee. If the recommendation for the separation of these officers is approved, it is necessary that this be done. In explanation of the action of this office in recommending these separations prior to the receipt of written replies to charges, I wish to state that such recommendations are predicated on explanations and replies, under oath, in interviews had by Special Agent Mack with each of the officers involved.

Chief, Intelligence Unit,

Approved: August __, 1935.

Secretary of the Treasury.

MEETING IN SECRETARY MORGENTHAU'S OFFICE

SEPTEMBER 11, 1935

Present:

Secretary Morgenthau
Mr. Coolidge
Judge Moyle
Mr. Gaston
Mr. McReynolds
Mr. Opper
Mr. Frank
Mr. Lewis
Mr. Dow
Mr. William J. O'Brien, Collector of
Customs, Buffalo, New York.

Mr. Morgenthau: Mr. O'Brien, these are the charges which have been made against you. I will read them. (See Exhibit "1".) You have had a chance to see these?

Mr. O'Brien: No; this is the first I have seen of it -- the compilation. I answered all the questions that were asked and, of course, questions have a vague meaning.

Mr. Morgenthau: There is nothing vague about this: "On numerous occasions the Collector's son had the Collector's privately owned automobile filled with Government gasoline and oil which was charged on the records to the official car assigned to the Collector. This again involved the signing of false reports." That meaning is not vague.

Mr. O'Brien: I did not authorize him to go there and get gas. The records of the books down there show that they did put gas in my Packard car, but without my knowledge.

Mr. Morgenthau: But you signed the report.

Mr. O'Brian: The report in this way, those reports are put on my desk for me to sign and, of course, there is no way that I can identify one report from another except by make of car.

Mr. Morgenthau: But you don't say your son did not fill your car with Government gasoline?

Mr. O'Brian: I don't say that he did not. I asked him about it and he said he would go down there with the car and when he went down there, probably to take a boat ride, they would say, "Do you want some gas?" and the inspector put the gas in and that was without my knowledge and, naturally, a boy is a boy.

Mr. Morgenthau: But the circumstances of filling the car, does that correspond, Mr. Lewis, with the facts?

Mr. Lewis: The Collector admitted that he knew the boy was down there and got gas.

Mr. O'Brian: I knew it because they told me it was on the books.

Mr. Morgenthau: Did he know it before this investigation?

Mr. Lewis: I went in to the Collector before he knew there was any investigation being made. I went the first day I was there and I don't think the Collector had had any chance to talk with anyone.

Mr. Morgenthau: Did he admit it that time?

Mr. Lewis: He did. The Collector for eleven pages told me one story and then he started telling me another and when he started telling me what I believe to be the truth, he admitted it.

Mr. Morgenthau: Can you lay your hands on what he said?

Mr. Lewis: I can.

Mr. Morgenthau: Commissioner, have you had a chance to go through this report?

Mr. Moyle: I have gone carefully over the report and

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the record bears out what Mr. Lewis says. There seems to be no evidence of his ordering gas delivered to his son, but the record shows that he admitted that he knew that his son did obtain gas. (S tenog's note: see page 5 of this transcript.)

Mr. Morgenthau: That's the record?

Mr. Moyle: Yes, sir.

Mr. Morgenthau: Then, while Mr. Lewis is looking that up, what does the record show in regard to his letting his son use an assigned car?

Mr. Moyle: Three of them at different times.

Mr. Morgenthau: That he used?

Mr. Moyle: Yes; for his own private purpose.

Mr. Morgenthau: What is your explanation of that, Mr. O'Brian?

Mr. O'Brian: I had a car at my house in case I wanted to use it at any time in a hurry. Of course, I have my own private automobile which I could use, but I didn't want to use it because I did not want to charge the gas up to my own private car. I did not want to cheat that way; there was no cheating upon my part in any of these operations.

Mr. Morgenthau: What was your explanation of the circumstances? You have a car standing at your door. Your son jumps in and uses it.

Mr. O'Brian: If he asked me could he use it, I would tell him yes.

Mr. Morgenthau: That he could use the Government car?

Mr. O'Brian: Yes.

Mr. Morgenthau: For what purpose?

Mr. O'Brian: To run errands for me and other things that I wanted him to do. In no wise did I attempt to cheat on anything. Now, I knew these records were being kept at the Base and I knew that they were making

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them very flagrant for some reason; I don't know why. And the only thing I could figure out was that it was to discredit my administration. Now, there are a good many things that I knew and I let them go on in hope that an investigation would develop that there was things going on at the Base which were very much against the rules, but was being kept from me.

Mr. Morgenthau: Did you advise Washington of your suspicion?

Mr. O'Brian: No; I did not.

Mr. Morgenthau: Did you advise anybody?

Mr. O'Brian: I did not think it was the proper time.

Mr. Morgenthau: Did you take any steps to get information?

Mr. O'Brian: I did. I got plenty of information. I have it now.

Mr. Morgenthau: What have you done with it?

Mr. O'Brian: As I said, it was not time for me to act.

Mr. Morgenthau: If it isn't time now, when will it be?

Mr. O'Brian: It has developed now that the action has been taken without my putting in the report.

Mr. Morgenthau: How long have you been Collector?

Mr. O'Brian: Since May.

Mr. Morgenthau: Since May?

Mr. O'Brian: May 26, 1934. Since I have been up there I have put that district, so far as violations of the Customs laws is concerned, where it properly belongs. I have information on alcohol stills and I cooperated with the Alcohol unit and we have put aside a lot of these things that are going on. I also have some information about high-grade gold. I know right now

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that there is a man up in northern Canada with \$8,000 to buy gold and I know there is another mob that is contemplating coming from the North with \$15,000 to buy high-grade gold. The hesitation over there now is that they were buying them at the mines for \$14.00 an ounce and now they have raised the price to \$23.00 so now they are holding off to see if they can get a price higher than \$30.00

Mr. Morgenthau: That's neither here nor there. What does it say in the report, Mr. Lewis?

Mr. Lewis: (Referred to page 14 of his report of investigation.)

"Then about Easter, you asked for another car, did you not?" Answer: "Yes. That other car was old and no good and I said, 'Have you got another car?'" Question: "You saw Flynn on that occasion?"

Mr. Morgenthau: Who is Flynn?

Mr. Lewis: He is the master mechanic. Question: "What was your conversation with Flynn on that occasion?" Answer: "Well, on the same lines. 'Johnny, have you got another car, this car is no good,' and he said, 'There is a car here,' and I said, 'Maybe we could fix it up and be able to run it?' so he said, 'Alright'."

Mr. Morgenthau: That's the Government car?

Mr. Lewis: That's the last car.

Mr. Morgenthau: What about the part of the story where his son went down to fill the car with gas, in his own Packard?

Mr. Lewis: As a matter of fact, he denies that.

Mr. Morgenthau: How many times do the records show that his Packard was filled up with gas?

Mr. Lewis: Probably half a dozen times.

Mr. Morgenthau: It wasn't just once?

Mr. Lewis: No. As a matter of fact, this is just what

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Mr. Morgenthau: At least half a dozen times?

Mr. Lewis: At least a half a dozen times; that's my best recollection. I can go through and get it definitely.

Mr. Morgenthau: Does it show what use he made of the Government car?

Mr. Lewis: The Government car, the Collector said he used it on occasion to go to school with and errands for him and said he turned it over to his son for use and then we have testimony of the officers from whom he obtained the car.

Mr. Morgenthau: And what do they say?

Mr. Lewis: They said he wanted the car partly for his use and partly for Bill's, his son.

Mr. Morgenthau: How long did Bill have the Government car at his disposal?

Mr. Lewis: From June 9, 1934 to the present date. The car has not been turned back yet. And on the 24th, or 23rd, the boy brought it down to the Base for further repairs and, the Collector, I believe -- it's not in the record -- I believe with your consent, he went down and got it on the 30th?

Mr. O'Brian: I don't know whether it was put in for repairs.

Mr. Morgenthau: What do you think about it, Commissioner Moyle?

Mr. Moyle: As to the whole transaction?

Mr. Morgenthau: Yes, sir.

Mr. Moyle: Of course, I think it is very reprehensible. It seems to have been done very innocently.

Mr. O'Brian: It was not done with any purpose to cheat nor anything like that.

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Mr. Morgenthau: But your own car filled up with gas?

Mr. O'Brian: I did not authorize it and if the boys put it in down there it was their fault and not mine. Another thing, I want to point out, I often used my own private automobile on official business and never charged anything for it.

Mr. Morgenthau: That does not help in this situation.

Mr. O'Brian: Well, all right. I did what I thought was right and I can assure you that if I am given an opportunity that I will not betray your confidence.

Mr. Morgenthau: Do you mind waiting outside?

Mr. Moyle: The record clearly shows that he had notice from me in answer to his own question that he should not do what he did, particularly with the boat.

Mr. Morgenthau: What do you think we should do with him?

Mr. Moyle: Well, it's a pretty serious matter and I think that there is no excuse for what was done. As to whether you should ask for his resignation or whether he should be severely reprimanded is the question.

Mr. Morgenthau: Can you give me now a definite statement? Or, will you go back to your office and get me a statement by four o'clock of what you recommend?

Mr. Moyle: Yes. I really had not contemplated I would be asked for one.

Mr. Morgenthau: He's your subordinate.

Mr. Moyle: That is very true. I have not found the office there in as good condition as I think it should be. There has been not only improper administration, but in this administration, some laxity that should be corrected.

Mr. Morgenthau: What I suggest, Commissioner, is that you come back at four o'clock and bring these same people and bring O'Brian and bring me a recommendation and I would like Mr. Lewis' and Mr. Frank's recommendations as well.

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MEETING IN SECRETARY MORGENTHAU'S OFFICE

SEPTEMBER 12, 1935

Present:

Secretary Morgenthau

Mr. Coolidge

Judge Moyle

Mr. Gaston

Mr. McReynolds

Mr. Opper

Mr. Frank

Mr. Lewis

Mr. Dow

Mr. William J. O'Brian, Collector of Customs,
Buffalo, New York.

Mr. O'Brian: (Read a prepared statement relative to the investigation of the conduct of the Collector, as follows.)

Rel to my personal Investigation

Allegation that my son Bill was to have use of a Patrol Boat anytime is hereby denied.

Rel to Gasoline furnished my private automobile it was never furnished in my presence or with my authorization.

All other charges admitted.

Rel to Investigation of the Border Patrol.

The investigation developed that during my administration only one item of auto accessories in the amount of \$2.82. Of this I had no knowledge.

Exhibit "M" -- Asst. Collector H.W. Smith in his testimony deplored the fact that there a lack of discipline at the Patrol Base and that he had nothing to do with its operation this assertion is in Error. I never give any instructions to the Border Patrol or any other field officer only through him. Mr. Smith Evidently

resents the fact that I am interested in the work and the personnel he also seems to feel length service permits him to have superior wisdom and knowledge. He cant see the present administration at all. I have asked him for his loyalty and Co-operation and he has failed to correspond.

I have never countermanded any of his orders furthermore he and Chief Stephenson are in Complete accord as to administration of the Border Patrol.

In part of Mr. Smith's testimony relates to special assignments of Patrol Insp. Feets (?), Hooe and Dyer these men have been so employed before I entered the service. Hooe and Dyer are generally to assist Spec Agent Thropp.

The services of Frank J. Walsh were requested by Mr. E. J. McHugh, Secret Service Agent to assist in running down gold smuggling by the authority of the Treasury Department.

Mr. Smith should know that his wife calls up the patrol base for a car to take her on shopping trips and she demands an officer in uniform.

Special Agent Fleischman also knows that Mr Smith daughter came to the Patrol Base and had gas put in her private automobile. Mr. Fleischman asked the officer who gassed the who the lady was and he was advised it was Miss Smith the Asst Collectors daughter

This investigation should not be closed until I have been given an opportunity gather more data and I know where I can get it which is very important and closely identified with the administration of the patrol base.

I recently inaugurated two out posts in connection with our patrol one at Dunkirk, N.Y. on Lake Erie and one at Olcott, New York, on Lake Ontario. It was suggested by Mr. Smith and Mr. Stephenson and I approved it. This is proof that he has something to do with the administration of the patrol.

The Customs Receipts for Importations are very

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flourishing. Receipts for August were \$95,000.00 the highest in the history of the district.

Commendation of the Service for courtesy extended is widespread and universal. I would respectfully refer to a number of gentlemen who would be interested.

Mr. Frank R. Baird, Bufo & Fort Erie Bridge
 Mr. Edwin Lang Miller, " " "
 Mr. Oliver Cabana, Jr., Chairman Board Liberty Bank
 Mr. Chas. Diebold, Pres. Western Savings Bank
 Mr. E. E. Coatsworth, lawyer
 Mr. Carl Shroman, -
 Mr. Louis Goldring -
 Mr. James Cummings, Buffalo Am Chemical
 Mr. Lewis Harriman, Pres M & T Bank
 Mr. B. J. Youngbluth, Pres. International RR
 Mr. Henry W. Killeen, Lawyer
 Mr. E. T. Dougler, Eastern Grain Corp'n
 Mr. John J. Boland, Bold & Cornelius
 Mr. Howard Bissell, Banker

I regret that I handled Govt property indiscreetly but this has been corrected and I will profit by experience."

Mr. Morgenthau: Do you want to leave your statement with me?

Mr. O'Brian: Yes; sure.

Mr. Morgenthau: Do you mind if I discuss this with these gentlemen now?

Mr. O'Brian: O. K.

Mr. Morgenthau: What about the charges he makes against other people.

Mr. Moxley: It means another investigation of another matter.

Mr. Lewis: They are under way and I imagine today that you will receive a letter where I questioned Mr. Smith

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regarding part of these allegations.

Mr. Morgenthau: Does Customs have traveling inspectors that go out of Washington and drop in to see how things are going?

Mr. Moyle: The agents. That's one of their chief duties. They go over their districts and ...

Mr. Morgenthau: If he gets gasoline at the Base and the Assistant Collector fills his car with gasoline at the Base -- what do you call your men? Special Agents?

Mr. Dow: Customs Agents.

Mr. Morgenthau: What do they do?

Mr. Lewis: When they find out, they report it.

Mr. Morgenthau: Did they report this Collector was taking gas?

Mr. Lewis: This Mr. Fleishman, of whom he complains, is the one who originated the investigation. He is Customs Agent working under me at Buffalo.

Mr. Moyle: Mr. Lewis' headquarters is Montreal, from Buffalo to Maine.

Mr. Morgenthau: But this was reported by one of your men?

Mr. Lewis: Mr. Fleishman reported this condition and I immediately reported it here.

Mr. Morgenthau: As far as I am concerned, I will give him a chance to resign or he is fired. I spoke to the President last night and he said he would back me up.

Mr. Moyle: I am very glad he has been given this opportunity. You can see he is not equal to the responsibility.

Mr. Morgenthau: Is he the man who was formerly with the New York Central?

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Mr. Frank: The same one. We have had plenty of trouble.

Mr. Moyle: This answer he makes -- I told him in my opinion the most serious thing was demoralization of the service under him.

Mr. McReynolds: I will release the letter. You have already signed it.

Mr. Morgenthau: Thank you, gentlemen.

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October 21, 1935

The news reel photographers asked Herbert Gaston to get me to consent to pose for them upon my return on the NORMANDIE. Anticipating that I might do so, Herbert asked them what questions they would like me to answer for the sound films. Below are the questions and my answers as I posed before the cameras:

Ques. Would you comment on the European financial situation?

Ans. No, but I was impressed by the cheerful view European economists take of the American business outlook. I think it might be a good idea for some of our financial writers to go over there and learn what Europe thinks of our situation.

Ques. Has this anything to do with the present movement of foreign gold to America?

Ans. Yes. I think there is no doubt of it. Much of the gold movement is apparently of funds coming here for investment. It is not coming out of the Central Banks, but is hoarded gold. It reflects the confidence of European investors in our financial and business situation.

Ques. Then America looks pretty good as you come back from a vacation, Mr. Secretary?

Ans. Yes, it always has and particularly this time, my first complete break from business in seven years.

PRESS CONFERENCE - SECRETARY MORGENTHAU

S.S. NORMANDIE, October 21, 1935

Secretary Morgenthau: Had a good rest and a nice trip. Because of the President's proclamation, everybody thought it unwise to come back on an Italian liner. We were in Portugal. As I told the men in Washington, it was strictly a pleasure trip; entirely unofficial. Ambassador Straus got home the day I left. I did see Laval and was tremendously impressed with the fight he is making to keep peace in Europe. I was also delighted that he was re-elected in two districts.

Q. Do you think peace is being kept?

A. I don't know. Certainly, Laval is making a great fight to keep it from getting worse. We have done so much business with France that each one of us wanted to know what the other fellow looked like. We have had so much to do with one another.

Q. Did you talk about currency stabilization?

A. They are interested in finance and so am I. We discussed all sorts of things over the luncheon.

Q. Anything specific?

A. Stabilization is much more important abroad than it is here. I indicated last May, when I went on the radio, that we were ready when they were ready. It is not nearly as important to us as it is to them.

Q. Is it more remote now?

A. I don't think it is any closer. There was no reason to go to Paris or London, except to catch a steamer. I was glad to know the new 2½'s are selling so well; also that the last of the refunding of the Libertys is through now. It is just two years that we started refunding Libertys. There was about \$8,000,000,000.

Q. Any reason for not taking an American boat?

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- A. By coming on this boat I was able to have a week longer vacation. We have been paying \$60,000 a week to the United States Line for bringing over our silver.
- Q. Is there going to be a marked increase in income taxes?
- A. I do not know. I have not been in touch with anything except the new issue.
- Q. Do you want to comment on the war outlook?
- A. No, I do not want to comment. I think our financial writers ought to go abroad and see what the economists think of the financial conditions in America. They are very much bullish and the funds they are sending over for investment is the best example. We feel that the Treasury cannot make any long distance forecast until things settle down. We will stay that way; that is, on a twenty-four hour basis. The dollar has been the most stable currency in the world. The quantity of gold coming over here is something that I don't see why we should worry about. As long as the United States stays on a cash basis, we have to expect gold this way plus the gold that is coming here for investment. We are not drawing on the Central Banks for gold. Gold is coming out of hoarding. It is simply coming here for investment. It is just an indication that the people outside of the United States think the best place to put their money is in the United States.

October 21, 1935

Mr. Morgenthau had Mr. Coolidge and Mr. Bryan in his office today to discuss the progress of the advertising concerning United States Savings Bonds.

The Secretary told Mr. Bryan he should have all baby bond circulars delivered by November 1 and that the order for 1 million $3\frac{1}{2}$ x $5\frac{1}{2}$ pamphlets should also be distributed by that date.

Mr. Bryan presented to the Secretary a very elaborate historical record of publicity to date, including samples of posters, circulars and pamphlets, radio speeches by Mrs. Roosevelt, Congresswomen and Miss Roche and copies of letters to Kiwanis Clubs, Rotary Clubs, etc. It was very well done and the Secretary complimented Mr. Bryan on it. He suggested that a smaller compilation, easy to handle, be prepared to be kept on his table for ready reference.

The Secretary instructed that a short story be written presenting the Treasury Department's successful refunding of over \$8,000,000,000 Liberty Loan Bonds. He wants this put in attractive booklet form and included in descriptive information concerning United States Savings Bonds. He instructed that this literature make its appearance by November 1, and that it be mailed to appropriate lists, such as to the 700,000 registered owners of Government obligations other than United States Savings Bonds; to the approximately 200,000 individuals who have purchased over 800,000 United States Savings Bonds, and to the approximately 700,000 owners of Postal Savings accounts or certificates.

Interesting statistical data on publicity in connection with the sale of United States Savings bonds, up to October 19, is attached.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 22, 1935.

TO Mr. Coolidge
FROM Mr. Bryan

We now have re-orders for the attached booklets,
which indicate an additional supply as follows:

Form 2002-R Booklet (3½" x 5")	- 1,200,000
" 2001-R Booklet (5 x 7)	- 625,000

The above booklets would require approximately
300,000 additional 5¼ x 7¼ envelopes for carrier delivery,
1,825,000 order forms and the same number of order form
envelopes.

These will cost as listed:

1,200,000 Form 2002-R Booklet (3½" x 5") @ reprint price \$6.28	per M.	\$7,536.00
625,000 " 2001-R " (5" x 7") " " " \$6.89	per M.	4,306.25
300,000 Envelopes (5¼" x 7¼") " " " \$1.55	per M.	465.00
1,825,000 Order forms @ reprint price of \$.82 per M.		1,496.50
1,825,000 Order form envelopes @ reprint price of \$.75 per M.		1,368.75
Total		\$15,172.50

The above cost does not include collating,
cartons, shipping, etc.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 21, 1935.

TO The Secretary

FROM Mr. Coolidge

MEMORANDUM IN REGARD TO AFFAIRS OF THE TREASURY IN SECRETARY'S ABSENCEGOLD MOVEMENTS

There has been a heavy movement of gold toward this country since September 1st, total shipments amounting to over \$400,000,000. The unusual part of this movement is that it does not seem to have originated from any foreign central bank but has come, to an extent of perhaps \$150,000,000 from the English Equalization Fund, and possibly \$200,000,000 from private gold formerly hoarded in London. In other words, it seems to be a movement of private sterling balances and private hoarded gold to the dollar. There is some gossip in New York that a certain amount of this has been invested in American stocks. In view of the war news I do not feel that this movement is anything to give us particular concern and is less than might have been expected.

The President showed some concern about the amount of gold that was coming in to the country and suggested vaguely our refusing to buy at \$35.00. I stated I thought this would be unfortunate as currencies would be thrown into disorganization and as the gold did not do us harm it was up to other nations to embargo rather than for us to refuse to buy. He agreed to this principle, but the subject might come up again.

Our foreign trade imports and exports are getting more and more in balance and I believe that at the present time, from the point of view of trade balances, including both visible and invisible imports and exports, that this country would need to ship gold rather than draw it here. In other words, the entire movement is one of capital.

SILVER

Since September 14th we have purchased 50,000,000 ounces of silver, the purchasing being heavier in recent days. The Chinese made delivery of 2,000,000 of the 4,000,000 ounces they had contracted for and I agreed to a postponement of two months on the balance. These purchases are really very large considering the annual output and are due to the fact that silver is still moving from the Far East to London. Chinese exchanges have been rather weak with Shanghai 20% below its silver value and Hong Kong being at times profitable to ship silver. There has been no news of particular importance from China but the impression seems to be gaining that China will not attempt to return to a silver basis at present prices

but is considering the introduction of new backing for currency.

The Cuban Government took another 7,500,000 ounces of silver included in the above figures, for coinage purposes and, of course, cashed in by printing paper for twice the value of the silver.

We furnished certain information to Senator Pittman's committee. Mr. Lochhead has been told that the meeting was dominated by Senator Pittman and that the Treasury's position was not criticised.

FINANCING

The conversion, as you know, was kept open for an unusually long time and when closed produced an 80% subscription amounting to \$998,000,000. From my point of view the pleasing part of this conversion was the fact that \$569,000,000 of the conversions were in the bonds.

Since the 1st of October we have issued an additional \$50,000,000 Bills each week in order to raise cash besides turning over the outstanding maturities of \$50,000,000. The new Bills have been dated March 16th, a time when tax payments come in, to provide cash for repayment.

I see no immediate occasion to have other financing but would like to convert our December notes into bonds, should the price of the new 2-7/4s and the old 2-7/8s permit it. The day to day bond prices have been under the influence of war news from abroad. Nevertheless, I feel that the market has consistently improved during the last two weeks and this is particularly true of the longer notes which are now not far from their high, the 1-1/2% three-year note we offered September 15th being par 24/32s and the 1-1/2% four-year Farm Mortgage guaranteed note which we sold on bids in August being par 8/32s. The bonds are, on the whole, about a point above their lows.

Our cash balance is running somewhat below estimates.

I have spent a great deal of time on the Savings Bonds. The entire advertising program has been finally disposed of and Mr. Bryan has a full report on our activities should you desire to go over this matter. I visited New York with Sloan and left him to pay other visits there for two or three days. I was agreeably surprised by the willingness and desire of the bankers to help sell these bonds, although in one or two cases there was criticism of our advertisements which I believe are unjustified. It is too soon to measure the results of the advertising but I think we have been getting lately an additional \$100,000 a day and that this will increase until, perhaps, January.

LENDING AGENCIES

Peter Grimm has been hard at work travelling from city to city holding meetings with various lending concerns and bankers. I think that these trips have done a great deal of good.

FHA loaning seems to be going ahead well. I approved an addition to the building occupied by the HOLC after consultation with Admiral Peoples and Grimm, all of us being in favor of it. The work is being done entirely under the auspices of the Procurement Division.

I have been in touch with Jesse Jones in regard to the activities of the RFC, two phases of which I want to mention. He has had a rather bad row in regard to the financing of the New York Central with both the railroad and the New York bankers. I am sorry about it and shall do my best to make peace. I think Jesse was rather hard on the management and the banks. On the other hand, they were rather rude to him.

There is an organization which gets its money from RFC, the Electric Home and Farm Authority, which is in business with the Rural Electrification Administration, and in which I believe the President took some interest. I believe on economic grounds that it should be put out of business. A man named Cooke is the head of it and I think Tom Corcoran takes considerable interest. Jones agreed with me in its being of no use, particularly as the FHA can insure proper loans if the banks desire to make them. After a conference with the President, the matter was left with Jones to decide what they should do and what FHA should do, and Jones decided that FHA should discontinue its business as regards loans on electrical appliances after January 1st. This matter will have to be given consideration in the future.

We have been gradually cleaning up the preferred stock situation in banks, but it is almost impossible to end it definitely and the remnants will probably drag along for some time to come.

There is another group which wants to make loans on forests, subject to certain terms and conditions. (This also I believe the President is interested in.) I had a conference with them and, much to my surprise, I was very favorably impressed by what was put up to me. I told them that I thought it would be unwise to have a new corporation with new guaranteed bonds; that the amount of money they suggested was not great, I think between \$20,000,000 and \$40,000,000 to start with, and that if they were going to get ahead with their plans that they should not ask for any new issues of bonds or additional money, but should use the money already available for the Farm Credit Administration and should merely be a small division of that organization, - all of this subject to Bill Myers' approval. Myers' first reaction was definitely against it, but he will look into it.

Mr. Delano's Committee on Coordinating Lending, I am sorry to say, has come to life again. Mr. Fahey got the President to give them \$10,000 and they are hiring a Secretary and getting a lot of committees appointed. I don't think any good will come of it and that it will merely be a nuisance, possibly interfering to some extent with Peter Grimm.

CREDITS TO ITALY

The President's proclamation in regard to neutrality and the embargo of shipments of war materials to Italy and Ethiopia was accompanied by a private request to me to check up daily on credits extended to Italy. I am having a daily report made by the Federal Reserve Bank, but there is no indication of any extension of credit.

PERSONNEL

I am really sorry that the affairs of Moore and O'Brien were not settled by me. However, after the President's personal intervention in the matter I do not feel that I could have taken any action other than as I did. I have a folder and a memorandum in regard to Moore and have asked Steve Gibbons to prepare one in regard to O'Brien.

Mr. Durbin, the Register of the Treasury, has been accused of improper activities in regard to Democratic politics. I turned the papers over to Helvering and told him to investigate it.

Mrs. Bannister is not happy in her job as Assistant Treasurer and I am trying to make peace in that organization.

EXPENDITURES

Expenditures seem to be going ahead at full rate and while I have no direct information, I suspect the Work Relief program is getting into a worse snarl constantly.

VARIOUS MATTERS

Judge Hoyt has been on the job as head of the FAA. I think it is important that you should have a good talk with him in regard to his duties and responsibilities. He has a feeling that he is an independent office reporting direct to the President, and Mr. Choate has practically said so publicly. I have seen him two or three times and had lunch with him and pointed out that he was under the Treasury and I was sure you would be interested in his work as you had shown great interest in the whole subject of alcohol control. I think he is a fine man and do not foresee trouble. I do think it would be well to have a clear understanding of his duties.

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The President asked me to have the tax estimates ready on his return and at the same time said that he had told various people the next year's budget would be very much nearer to balancing than the last two years.

I have had one or two talks with George Harrison in which he brought up the need of looking toward the future in regard to controlling rates for money. I think he and I feel that it might be well to take immediate action to increase reserves, not sufficiently to make any real rate for short-term money but sufficiently to lap up a certain amount of idle reserves. Eccles, however, I do not think will wish us to take any action until the new Board meets and feels that it is too soon.

The potato tax is, of course, in a serious mess. The Treasury is cooperating with AAA and attempting to devise a program that will be within the law and the least troublesome.

I had a talk with Wayne Taylor and Stuart, at different times, in regard to the Export-Import Bank. Mr. Peek is away on a vacation and I guess will never be active again in the Bank. Taylor is a good man and I think is running it on sound principles. Stuart has a very lengthy report in regard to foreign trade activities of foreign countries and he tells me he interested the State Department and Commerce Department in the theory of forming a new unit representing the foreign trade activities of State, Commerce, Agriculture and Treasury Departments, which would consolidate the business now being done by these four Departments. I do not see any great good or harm in the theory and believe, provided a very good man could be found, the present situation might be improved.

I spent some time on regulations gotten out by O'Connor, as the law requires him to do, in regard to bank investments. It is not an easy job to draw them up. After approving them in principle, as far as I was concerned, I suggested that he get the approval of the Reserve Board, which was agreeable to him.

Mr. Haas, I believe, had an interesting trip in Sweden. The one thing that interested him, and which I rather suspected, was that the far-famed monetary control by the Swedes was nothing more nor less than pegging their currency to the pound Sterling, and as far as their central bank was concerned, the machinery for control was deplorably absent.

McReynolds and Upham both came back from short trips around the country and both report very pleasing news as far as the Treasury was concerned, - McReynolds from the point of view of the Treasury's men being efficient, proud of the Treasury and doing good work; and Upham from the point of view of the public who spoke highly of the Treasury.

On the whole the business of the Treasury has been very quiet, as is natural when you and so many heads of divisions have been away on vacations. I had one Staff Meeting at which I asked the various heads to write out a very brief report for you to have on your return. I have had several Group Meetings and have notes on these, should you desire to see them.

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ESTIMATE OF CASH POSITION

October-December, 1935

(In millions of dollars)

	October	November	December	Totals
Balances at beginning of period ...	1,066	786	671	1,066
Receipts	225	220	415	860
U. S. Savings Bonds	10	10	10	30
Sales of Treasury obligations	250	200	500 ✓	950
Total receipts	1,551	1,216	1,596	2,906
General expenditures	165	165	160	490
Interest on public debt	95	10	105	210
Emergency expenditures	320	310	300	930
Special transactions	10	10	10	30
Debt retirement	175	50	35	260
Total expenditures	765	545	610	1,920
Balances at end of periods	786	671	986	986

October 22, 1935.

Guth

October 22, 1935

Coolidge came in and gave me the attached memoranda. The only action taken was that Coolidge and I agreed today to sell \$15,000,000 more of the 3% 46-48's for Postal Savings and bring the 2% notes up to \$100,000,000. There is about 2 percent profit. The reason for this is that we feel we ought to have on hand \$100,000,000 which we can use in case the bond market should again become weak.

TREASURY DEPARTMENT

94

INTER OFFICE COMMUNICATION

DATE October 21, 1935.

TO The Secretary

FROM Mr. Coolidge

I am putting down in the attached memoranda, certain thoughts I have in regard to problems which I see as likely or possible to arise in the near future. The subjects are as follows:

FINANCING;

BUDGET;

BONUS;

SILVER AND GOLD;

NEW LEGISLATION AND CONTROL IN REGARD TO THE VARIOUS
LOANING AGENCIES;

MR. C. E. MOORE, CLEVELAND;

CUBAN CURRENCY;

QUESTION OF NEW BANKING LAWS; METHODS OF COOPERATION WITH
RESERVE BOARD, AND POSSIBLE CHANGES IN RESERVE REQUIRE-
MENTS.

95
✓
October 21, 1935.

FINANCING:

The bond market has improved considerably since your departure and the note market is really very strong. While the details of financing will vary from time to time, I am still of the opinion that we should sell bonds whenever we are confident of making such sales on terms as favorable as our last two issues, - the ^{no. 1} 2-7/8s and 2-3/4s. This might well mean additional sales of these two issues. The method of sale I consider of secondary importance, whether by conversion of outstanding notes, by offering sizeable blocks at a fixed price, or by bidding. Presumably, it will not be possible to sell sufficient bonds to raise the funds necessary and the remainder of the money should be raised by notes, and my present thought is that we should not give rates above 1-1/2% but should go as long as possible on this rate. At the present time it might be possible to sell a five-year note at 1-1/2%. I would not care to do financing in the immediate future unless the bond market got in such shape that we could offer the December notes for a conversion into the 2-3/4s and 2-7/8s bonds. I would like to consider this possibility just as soon as the bond market was in shape.

The Federal Land Banks have about \$70,000,000 notes due January 1st, which call for December 15th. I think it would be well for them some time before the call date to offer \$100,000,000 new 3s, giving the conversion privilege to the old holders who desire to take it and raising some additional cash. The present 3s are quoted at from 99 to 100. We felt that we should dispose of all the Land Bank bonds during this year which are held by the various investment agencies. I would regret doing so under present conditions and would prefer to wait in order not to impede their financing. We have

- 2 -

already disposed of a considerable amount while buying none, and I can see no grounds for criticism if we wait another six or eight months before disposing of the remainder.

Farm Credit should also sell about \$50,000,000 of their guaranteed 2-3/4s sometime before January 1st, and it might be advisable to have these distributed through their banking group.

At the present time we are raising \$50,000,000 a week on Bills due March 16th, when our tax money comes in. I feel, however, that this is temporary financing to keep up our cash position and that they should be paid off with the proceeds of the notes or bonds.



October 21, 1935.

BUDGET:

I think there is very little question but that there has been an increase in public demand for greater economy in Government, though I am afraid this does not extend to the question of paying the bonus. Some effort to direct this demand for economy against the bonus might well be worth while. Yearly expenditures have been as follows:

1934	\$6,745,000,000
1935	6,802,000,000
1936	7,201,000,000 (estimated)
1937	?

The outlook for business, as estimated by us, would indicate normally good business in 1937. Despite improvement in business, Government expenditures have been mounting. I feel that there is danger of instability to our monetary system, which would be most difficult to correct without a good budget. It seems to me most important to keep appropriations in the coming Congress at a level of between four and five billion dollars, and I should hope it would be nearer to four than five. To accomplish this it might be well to consider the possibility of reducing expenditure of the four billion fund in line with improving business conditions so that there would be sufficient left to carry the public building desired by the Government through 1937. I should hope that the building done in 1937 could be done without reference to relief needs, recognizing the indirect benefits of this from putting people to work, and that relief could be left entirely to the states. It would seem probable that the states are not as yet in condition to finance the whole burden of relief by

- 2 -

themselves and that possibly a special appropriation of one billion dollars might be made from the Federal Treasury to be distributed amongst the states to enable them to perform their duty in regard to relief. This might be distributed in the same ratio as population and any additional funds needed raised by the states. Action along these lines would give a budget very closely in balance from the point of view of an appropriation, but not in balance from the point of view of expenditures, as whatever was spent from the four billion fund would be in excess of receipts. The figures would be somewhat as follows:

Estimated receipts	\$4,400,000,000
Estimated Federal expenditures	
(not counting sinking fund).....	3,400,000,000
Money given to states for relief.....	1,000,000,000
Expenditures from \$4,000,000,000 fund...	?

I am putting this up to you in this form because of a remark the President made before he went away, that he was on his way to turn over the relief to states and that he hoped to save a considerable portion of the four billion for expenditure next year. Of course, the Federal Government could oversee the expenditure of the money they give the states in any form they desire. The great change would be that whereas the Federal Government has now assumed the responsibility for relief under this plan the states would assume this.

October 21, 1935.

BONUS:

I regret to state that it seems almost unanimously the opinion of the people I talk with that a bonus will be paid this year. There is no need to discuss the merits of this as the President in his message gave the complete story. From the monetary point of view, cash payment of the full amount would be a staggering blow and I do not care to even contemplate this possibility. What I want to suggest is a compromise method by which the veterans can, if they desire, cash in for the full ^{present} value of their claim, while at the same time, those who do not need cash will retain the security that is given them and not be a cash burden on the Treasury.

The suggestion is that each veteran be given a bond of the type of our United States Savings Bonds, payable in 1945, when the debt is due, and cashable by the Treasury at appropriate rates up to that time. (This suggestion was made by the President one day when I think you and I were both present.) If this were done it would not increase the obligation which the United States now has toward the veterans. It would require a certain amount of cash payments to those who desired to cash in but not, I believe, of an amount which would be too great a burden. The veterans could obtain 76% of what was due in 1945 at the present time and an increasing amount in future years whenever they desired cash. In effect, it would merely make liquid at a proper price what the veterans now have, which seems to me eminently fair to the veterans and to the Treasury.

7K

October 21, 1935. 100

SILVER AND GOLD:

The opinion seems to be that the Treasury will not be hard pressed to purchase silver at higher prices than the present. Nevertheless, the present price and uncertain conditions make it seem probable that China will in due course adopt some other currency standard. I assume it will probably not be politically possible to have a stabilization agreement with China that would keep China on a silver basis, as I fear that this would mean a price in the neighborhood of 50¢. However, I see very little hope for silver as a monetary base in the future unless we are able to stabilize at a price which will permit China to remain on silver.

The President spoke to me about means to stop the gold flow into this country. I would regret very much any action taken not to buy gold at \$35.00. (I say \$35.00 because this seems the lowest price that would be politically possible and it is the lowest price under our present laws.) I have given some consideration to other possibilities and feel that if any action is taken it should be along the lines of putting an additional charge on incoming gold while retaining our \$35.00 price. At the present time we have a charge of one-quarter of 1% for handling. This could probably be considerably increased and I believe that a heavier charge would decrease over a time movements of gold back and forth. However, I would prefer any such action be taken by the countries which do not desire to lose gold in the way of an export charge rather than by us in the way of an import charge.

TR

October 21, 1936.

NEW LEGISLATION AND CONTROL IN REGARD TO
THE VARIOUS LOANING AGENCIES:

At one time you thought you might go to the President and ask for Treasury control of the lending policies of the various Governmental agencies. While I do not know that official control is necessary or desirable, I think it would be very wise if the President would refer all questions on loaning agencies to you for study before he took action himself.

In your absence the President resurrected, at the request of Mr. Fahey, Mr. Delano's co-ordinating committee, and he also got Jesse Jones to make a deal with the Electric Home and Farm Authority, both of which subjects I feel could well have been given study by the Treasury.

There should undoubtedly be some new legislation in regard to these loaning agencies, although I believe very little, and I have not gone into this subject with the various people as I would like to have a general policy drawn up first. My mind is working along the following lines:

Home Loaning Agencies

HOLC to be put in state of liquidation.

After April 1st no further Federal deposits to be made in Federal Savings and Loan institutions.

A limit of approximately one billion dollars as the total amount of deposits to be insured under the mutual insurance scheme.

Continuance of the Home Loan Banking System and insurance, subject to the above limitations.

Discontinuance on July 1st of Title I of FHA. Discontinuance of loans under Title II on existing construction. Continuance of Title II for loans on new building. Discontinuance of Title III.

Continuance of Farm Credit Administration under present conditions with possibly some right to make forest loans to a limited amount.

Other Credit Agencies

Liquidation of PWA.

Liquidation of RFC, except for its railroad business and commodity lending. (I believe RFC could be most useful in lending on railroad reorganizations.)

- 2 -

Liquidation of Electric Home and Farm Authority.

Liquidation of present business of Export-Import Bank. A continuance of this bank for the purpose of giving advice to exporters and for making loans to foreign countries in connection with trade agreements to furnish sums to pay our exporters, with the approval of the State and Treasury Departments.

JK

September 30, 1935.

MR. C. E. MOORE, CLEVELAND, OHIO:

On Thursday, September 19th, Senator Bulkeley's office called in regard to making an appointment with me to go over Mr. Moore's case. I stated that I would be glad to see Senator Bulkeley but that I could not deviate from your instructions in regard to Mr. Moore.

On Monday, September 23rd, Senator Bulkeley came in to see me and said that he understood my position, that I was to carry out your instructions, and that under these circumstances he was to see the President. On Tuesday, September 24th, after the Cabinet Meeting, I saw the President with Charles West and informed him of your instructions and he stated definitely that he felt the men should give up the money they had made. At that time he had not seen Senator Bulkeley, although he had promised to do so.

During Tuesday and Wednesday I was in touch with Charles West, who understood your attitude and felt it was a right and proper one.

On Thursday the President stated to Charles West and West stated to me that he would not have the time to take up this matter before he left on his trip and that he desired the whole thing to be put over until his return.

On Friday I again saw Senator Bulkeley. He stated he had no fault to find with your conclusions as to what was right and fair, that he would try to work it out with Moore and that his regret was that he and Moore had not had a further chance to discuss the matter with you and that so much publicity had attended the whole affair.

I saw no action which could properly have been taken by the Treasury under the circumstances and I was in consultation at every step with McReynolds, Gaston and Gibbons. I could not but regret the situation as it developed.

Mc

October 21, 1935.

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CUBAN CURRENCY:

The State Department forwarded to me a very careful work done by Mr. Schuylst, covering a complete reorganization of Cuban financing, giving them their own central bank and their own currency. I have stated emphatically that I did not care to approve any system of currency run by the Cubans, as I felt that the time would inevitably come when it would be misused.

At the present time Cuba has American currency in general use and is printing its own currency backed by silver of one-half the value of the currency. Should it continue to print this silver currency there is no question but that the American currency will be driven out and depreciation follow. At the present time not enough of the silver currency has been printed to have this take place.

I feel that the State Department should use its good offices to attempt to stop further printing of currency in excess of the value back of it, but should take no action nor give any approval of a Cuban central bank run by Cubans.

792

October 21, 1935.

QUESTION OF NEW BANKING LAWS; METHODS OF
COOPERATION WITH RESERVE BOARD, AND
POSSIBLE CHANGES IN RESERVE REQUIREMENTS:

As you know, we both feel that our banking system needs further overhauling, partly administrative and partly legal. The duties of the individual reserve banks, the Reserve Board, the Treasury, and the FDIC, need to be further coordinated and responsibilities clarified. I do not think that legislation should be asked for this year, but I feel that it might be well to form an informal committee, with representatives from the interested organizations, to discuss the various phases and make recommendations a year from now.

There is also the question of cooperation under existing laws in regard to the control of money, changes in reserves, etc. This falls primarily on the Reserve Board but is of great interest to the Treasury. Harrison and I would both like to shove the Reserve Board along a bit and make them think of this matter.

72

October 22, 1935

Mr. Bell today presented to the Secretary his first summary of budget estimates for the fiscal years 1936 and 1937. It is attached hereto.

Oct 22, 1935.

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SUMMARY OF BUDGET ESTIMATES FOR FISCAL YEARS 1936 & 1937

(In millions)

	Fiscal year 1936	Fiscal year 1937
Receipts:		
Internal revenue (excluding AAA)	\$3,322	\$3,935
Processing taxes (AAA)	536	536
Customs	353	346
Miscellaneous	259	250
Total	4,470	5,067
Expenditures:		
Regular departments and agencies	2,301	2,800
Interest on public debt	745	813
Benefit payments (AAA)	590	500
Recovery and relief	3,565	1,000
Total	7,201	5,113
Deficit exclusive of debt retirement	2,731	46
Debt retirement	551	580
Deficit including debt retirement	\$3,282	\$626

120 200 7 10 Bull

October 22, 1935

I want Admiral Peoples to have a survey made for the purpose of determining what United States Government-owned real estate can be sold. Gill has a report on Government-owned property in selected cities.

I want to see if we can sell to the public securities against Boulder Dam and retire, dollar for dollar, our own securities. We may find, if we do this, that there is enough real estate to pay the bonus.

October 22, 1935

The Secretary is back today in the office after his trip to Spain and Portugal. He held his usual group meeting at nine thirty o'clock.

At this meeting he asked Upham to look into the matter of liquidation of receiverships. It was his understanding that \$1,500,000,000 assets were involved.

Miss Roche reported that there were one million people at work and about two and one-half million still to be put to work.

Mr. Morgenthau asked Mr. Bell to get for him, by Monday of next week, information concerning the cost of Boulder Dam and certain other pertinent details, such as the financing of the project; how much of the expenditure will eventually be repaid to the Treasury.

Mr. Gibbons told the Secretary that Senator Barclay had asked him to have Mrs. Ross come to Kentucky to help in the campaign. Mr. Morgenthau reminded Mr. Gibbons that the President, at Cabinet, had laid down the rule that one may be allowed to campaign within his own State, but could not go into another State to assist. Mr. Morgenthau added that he was to see Mrs. Roosevelt that evening and would ask her if the rule had been modified.



not sent

THE SECRETARY OF THE TREASURY
WASHINGTON

October 23, 1935.

MEMORANDUM FOR THE PRESIDENT:

File

In re: Carl E. Moore,
Collector of Internal Revenue,
Cleveland, Ohio.

Bert C. Brown, Operative in Charge of the Secret Service at Detroit, was responsible for the organization of Famous Brands, Inc. in Michigan in August, 1933, to sell liquor of the American Distilling Company to the State of Michigan. In March, 1934, he requested Mr. Moore to take part in forming a similar organization in Ohio and to suggest the names of suitable persons to associate with him in such a selling agency. As a result of this contact an Ohio sales syndicate was formed, in which Mr. Moore was one of the four participants. He received from this enterprise a one-fifth share, as did the other three Cleveland residents, the remaining one-fifth going to Brown and his Michigan associates. In the year 1934 Mr. Moore received an income from this syndicate of \$8,293.14 without having made any cash investment. In addition, he was paid \$1,503.98 for "services rendered". About January 1, 1935, the business was incorporated and 18 out of 100 shares of stock were issued to Moore. Mrs. Elizabeth P. Moore, the wife of the Collector, purchased his apportioned 18 shares at a total cost of \$90.00, and on these shares there was paid to Mrs. Moore during the early part of 1935 a total of \$1,620. I have given Mr. Moore a hearing on this matter, and at that time he stated that he had rendered no service for the income from these organizations other than assisting in an advisory way in advertising for the organization, for which he received the sum of \$1,503.98.

In view of the responsibility of the Treasury Department for the collection of revenue from the trade in alcoholic liquors, it was my conclusion that the participation of field officers in such transactions was prejudicial to their standing as officers of the Treasury Department and to the impartial and efficient performance of their duties. Accordingly, under date of September 12th, I wrote to Mr. Moore advising him it was my conclusion that he should sever his connection with the Treasury Department, unless he and all members of his immediate family should immediately give up all association, including their financial interests, in the companies concerned, and unless he should forthwith make satisfactory arrangements to pay into the federal treasury the full amount of all sums received from such companies, less the taxes paid thereon. In a communication dated September 19th Mr. Moore stated he would urge his wife to dispose of her stock, but that he saw no justifiable reason for paying into the Treasury any profits made in this venture.

I am advised by Mr. Coolidge that you informed him through Mr. West that you did not have time to go into this matter before leaving on your trip and that you desired the whole thing to be put over until your return.

[Signature]
Secretary



THE SECRETARY OF THE TREASURY
WASHINGTON

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October 23, 1935.

MEMORANDUM FOR THE PRESIDENT:

In re: William G. Harper,
Secret Service Operative,
Cleveland, Ohio.

Bert C. Brown, Operative in Charge of the Secret Service at Detroit, was responsible for the organization of Famous Brands, Inc. in Michigan in August, 1933, to sell liquor of the American Distilling Company to the State of Michigan. In March, 1934, he requested Mr. Harper to take part in forming a similar organization in Ohio and to suggest the names of suitable persons to associate with him in such a selling agency. As a result of this contact an Ohio sales syndicate was formed, in which Mr. Harper was one of the four participants. He received from this enterprise a one-fifth share, as did the other three Cleveland residents, the remaining one-fifth going to Brown and his Michigan associates. In the year 1934 Mr. Harper received an income from this syndicate of \$6,293.14 without having made any cash investment. About January 1, 1935, the business was incorporated and 18 out of 100 shares of stock were issued to Harper. This stock was purchased by him at a total cost of \$90.00. For the brief period in 1935 preceding the investigation of this matter Mr. Harper received \$1620 in dividends from this investment. I personally interviewed him on this matter and he admitted the above facts; he claimed that he had performed no services in return for these monies.

In view of the responsibility of the Treasury Department for the collection of revenue from the trade in alcoholic liquors, it was my conclusion that the participation of field officers in such transactions was prejudicial to their standing as officers of the Treasury Department and to the impartial and efficient performance of their duties. Accordingly, under date of September 12th, I wrote to Mr. Harper advising him it was my conclusion that he should sever his connection with the Treasury Department, unless he and all members of his immediate family should immediately give up all association, including their financial interests, in the companies concerned, and unless he should forthwith make satisfactory arrangements to pay into the federal treasury the full amount of all sums received from such companies, less the taxes paid thereon. In a communication dated September 19th Mr. Harper stated he was willing to comply with the request to dispose of the stock, but that he saw no justifiable reason for paying into the Treasury any profits he had made in this venture.

I am advised by Mr. Coolidge that you informed him through Mr. West that you did not have time to go into this matter before leaving on your trip and that you desired the whole thing to be put over until your return.

W. G. C.
Secretary



THE SECRETARY OF THE TREASURY
WASHINGTON

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October 23, 1935.

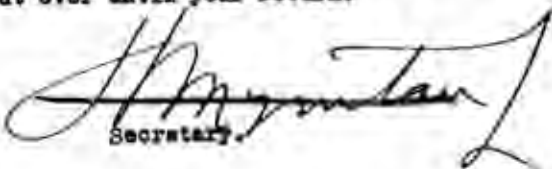
MEMORANDUM FOR THE PRESIDENT:

In re: Clifford W. Pollock,
Assistant Collector of Customs,
Cleveland, Ohio.

Bert C. Brown, Operative in Charge of the Secret Service at Detroit, was responsible for the organization of Famous Brands, Inc. in Michigan in August, 1933, to sell liquor of the American Distilling Company to the State of Michigan. In March, 1934, he requested Secret Service Operative in Charge Harper of Cleveland to take part in forming a similar organization in Ohio and to suggest the names of suitable persons to associate with him in such a selling agency. As a result of this contact an Ohio sales syndicate was formed, in which Mr. Pollock was one of the four participants. He received from this enterprise a one-fifth share, as did the other three Cleveland residents, the remaining one-fifth going to Brown and his Michigan associates. In the year 1934 Mr. Pollock received an income from this syndicate of \$8,293.14 without having made any cash investment. About January 1, 1935, the business was incorporated and 18 out of 100 shares of stock were issued to Pollock. This stock was purchased by him at a total cost of \$90.00. For the brief period in 1935 preceding the investigation of this matter Mr. Pollock received \$1620 in dividends from this investment. I personally interviewed him on this matter and he admitted the above facts; he claimed that he had performed no services in return for these monies.

In view of the responsibility of the Treasury Department for the collection of revenue from the trade in alcoholic liquors, it was my conclusion that the participation of field officers in such transactions was prejudicial to their standing as officers of the Treasury Department and to the impartial and efficient performance of their duties. However, inasmuch as an investigation was then in progress involving Mr. Pollock on matters not relating to this subject, it was felt that it might be necessary to take more drastic action in his case and I did not, therefore, call on him to refund the monies which he had received from this venture. This investigation has been concluded, and I now feel that the same action should be taken in his case as in the cases of Collector Moore and Operative in Charge Harper.

I am advised by Mr. Coolidge that you informed him through Mr. West that you did not have time to go into this matter before leaving on your trip and that you desired the whole thing to be put over until your return.


Secretary

October 23, 1935.

113

Memorandum of Conference with Judge Hoyt
in the Office of the Secretary,
Wednesday Morning, October 23, at 10:15.

Present: The Secretary.
Judge Hoyt.
Mr. McReynolds.
Mr. Gaston.
Mr. Graves.

In response to questions by the Secretary, Judge Hoyt stated that the business of the Administration was proceeding satisfactorily and harmoniously with the Treasury Department.

He stated that regulations with relation to permits had been issued with the approval of the Acting Secretary; that regulations with respect to advertising and labeling had been prepared in cooperation with representatives of the Secretary, and that, as required by law, public hearings on these regulations had been set for October 30 and 31.

He called attention to the fact that the Administration was required to have its permit system in operation by November 23 (60 days after the date of the Administrator's appointment), with the exception of wholesale liquor dealers' permits, which had to be in force March 1, 1936. He called attention also to the requirement of the Act that certificates of label approval would have to be issued by the Administration covering the entire field of distilled spirits, wine, and malt beverages not later than March 1, 1936.

Answering a question by the Secretary, Judge Hoyt said that he was getting satisfactory cooperation from the Treasury Department in every respect with the exception of certain difficulties in connection with the procurement of supplies, equipment, newspapers, and other minor items. The Secretary told Judge Hoyt that if he would bring these matters to the personal attention of Mr. Graves they would be attended to promptly.

There was considerable discussion between the Secretary and Judge Hoyt with relation to the precise status of the Administration as a Division of the Treasury Department, and the authority of the Administrator to act independently of the Treasury Department in certain matters. Judge Hoyt suggested that the Act imposed certain responsibilities upon him personally; for example, the initial preparation of regulations, the holding of hearings, the appointment of personnel, etc. The Secretary indicated that it would be for the

benefit both of the Administration and of the Department if any technicalities in the law pointing to a quasi-independent status for the Administration could be waived, so that the Administration could conduct its business in substantially the same manner and with the same relationship to the Office of the Secretary as other subdivisions of the Department. Judge Hoyt indicated that he had no intention of standing upon any such technicalities, and that it would be his desire to conform to the Secretary's suggestions on this point.

There was some discussion also of the question whether the Administration should take an aggressive stand with respect to the enforcement of the provisions of the Federal Alcohol Control Act relating to unfair trade practices, such as "tied houses", consignment sales, exclusive outlets, interlocking directorates, improper advertising, etc. The Secretary tentatively advanced the view that in matters of this kind it was probably best to pursue an aggressive course. Judge Hoyt's conversation indicated that he felt that the purposes of the law would be met by the investigation of such complaints of unfair trade practices as might reach the Administration, and said that, broadly speaking, his view was that the most of the investigative work required by the Administration might well be done by the regular investigative organizations of the Treasury Department.

Judge Hoyt indicated that he thought that the responsibility for the enforcement of the Twenty-First Amendment devolved upon the Administration. The Secretary expressed the opposite view, saying that as a matter of policy an agreement had been reached between himself and the Attorney General that the Treasury Department would perform this function through the Bureau of Internal Revenue. He inquired the status of the bill which had been submitted to the last session of Congress by the Treasury Department "To Enforce the Twenty-First Amendment." Mr. Graves advised that this bill did not pass at the last session, but was still pending in Congress. (This bill is now on the House Calendar; and technically the responsibility for the enforcement of the Twenty-First Amendment still belongs to the Department of Justice.)

The Secretary indicated to Judge Hoyt that he would always be ready to assist him in the performance of his duties, and would be glad to consider personally any of the important problems of the Administration which Judge Hoyt might care to lay before him. He called attention particularly in this connection to the likelihood that political pressure might at times be brought to bear upon the Administration, and informed Judge Hoyt that he was at all times ready to relieve the Administration of pressure of that character.

In the course of the conversation, the Secretary advised Judge Hoyt that Mr. Graves was his representative on all questions dealing with the liquor business, and that he should feel free to call on Mr. Graves for any assistance which he might desire.

October 23, 1935

Secretary and Mrs. Morgenthau today entertained at luncheon in the Treasury building, having as their guests the newspaper men who regularly cover the Treasury and a few others in the Treasury who have contact with them. The list follows:

Mrs. Klotz
Mr. Gaston
Mr. Fussell
Mr. Atkins
Mr. Upham

Metcalf.....	Wall Street Journal
Bernard Kilgore.....	Wall Street Journal
Shaeffer.....	Associated Press
Gardner.....	Associated Press
Gridley.....	United Press
Mayl.....	International News Service
Cotten.....	Central News
Dickson.....	Universal
Kintner.....	N.Y. Herald Tribune
Mr. Duffield.....	N.Y. Times and Chicago Tribune
Mr. Hart.....	N. Y. Journal of Commerce

October 23, 1935

The United Press news ticker today carries the following dispatch from Chicago:

"Jacob R. Finkelstein, former campaign manager for ex-Senator James E. Watson of Indiana, today was indicted by a Federal grand jury on charges of income tax law violations.

Secretary Morgenthau instructed Guy Helvering to go ahead at once and push for indictment of Watson on the same charges.

October 23d

I was surprised to find out that Peter Grimm has not worked out any administrative program for housing. He tells me that he employed Mr. Kahn for three days but I said, "Kahn is going away" and he replied, "yes, but he has left his material behind him". I asked him how soon he could have a program ready for me and he said, "in a few days". I told him to have it ready and bring it in at 10 o'clock Monday morning. In the meantime, he is sending me a report on his observations on the trips which he has made during my absence. It just shows that you have to push even the best of them.

I am disappointed that Grimm has done nothing on Federal Housing. He has devoted himself entirely to promotional work. He tells me that Eccles and Eccles' representative, John Daiger, and Winn Reifler are opposed to FHA financing new housing. This just does not make sense to me and I am going to look into it at once. Inasmuch as it looks as though Grimm will not do anything but promotional work it is out of the question of my using him for the budget. I suppose the problem of getting housing really started next spring is big enough for anybody so I am going to let him devote himself to that.

October 23, 1935.

EXCESS RESERVES

The situation in this country created by our enormous gold supply forming excess reserves of huge amounts in the banks is, I believe, unprecedented. The figures I am about to give are not accurate and do not pretend to be, but they are of the same magnitude that exists and I think simplify the problem better than by using exact figures.

The legal reserve requirements of member banks amount to twenty five hundred million dollars, the excess reserves of member banks amount to twenty five hundred million dollars, whereas the Government securities owned by the Federal Reserve Banks also amount to twenty five hundred million dollars. Other things being equal, excess reserves will rise and fall with the receipt and shipment of gold and silver. The banks as a whole cannot use their present excess reserves except through an enormous expansion in currency outstanding and deposits. Only a comparatively small amount of excess reserves is sufficient to keep money rates extremely low and around present levels. No control can be exercised by the Reserve Banks or the Open Market Committee in regard to short money rates as long as there are excess reserves as excess reserves mean idle money which, in turn, means very low money rates.

It is obvious under present conditions that the sale of Government securities will not absorb the excess reserves and that the Federal Reserve Banks have already lost control of money rates through this method.

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Should the legal reserve requirements be raised by any definite amount the excess reserves will be reduced by this amount, and should this amount be sufficient, say a billion and a half dollars, the Reserve Banks would then be in a position to control the money market through the sale of Governments and rediscount operations.

The suggestion made this afternoon was that these legal reserve requirements should be raised a moderate amount, thus not affecting the rate for money but putting the Reserve System somewhat nearer the position it needs to be in to control money rates. In other words, the banks would have less idle money but they would still have considerable idle money. The objection might be raised that some banks would not have excess reserves and therefore would have to make a sale of Governments or other assets, or that certain parts of the country might be in this position. At the present time I believe this is an inconsequential danger as the banks are loaded with short Governments and loaded with excess reserves and if a very few needed money they could easily obtain it from the others having a superfluity, through the sale of short Governments.

I think that control of the money market is so out of the hands of the Reserve System at the present time that under any circumstances gradual steps should be taken, one at a time, and I also think that it is most important to take the first steps before there is apparent need for control or before too much money has piled into one part of the country and other parts have invested their excess reserves. From a

practical point of view an increase in legal reserve requirements at the present time would affect no one's pocketbook as no one would need to buy or sell Governments in any quantities. The banks would have just as much money but not so much extra for use. It should be taken as a sign that while the Reserve Board is taking no effective action, nevertheless it is getting in the position where it is able to do so at some future date.

Other means of decreasing excess reserves is the sale of Governments by the Reserve Banks. This means that the banks themselves would have to take definite action as they would have to invest their funds in the Governments sold by the Reserve Banks and would be less inclined to buy additional bonds from the Treasury. It would also be evident that this means alone could not obtain the objective that, presumably, would some day be necessary, that of having no excess reserves. Another fact is that past history would indicate that this method was used only when it was desired to put on brakes.

I feel strongly that the first step that should be taken is the raising of the legal reserve requirements. Whether this is the best time to do it, or whether we should wait for a few months longer, is open to argument. Personally, I would be glad to see it done now.

YJR

Confidential

Oct. 23, 1935.

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6

The Committee reviewed the preliminary memorandum submitted by the Chairman and discussed at length business and credit conditions and the banking position in relation to them. It was the unanimous opinion of the Committee that the primary objective of the System at the present time is still the furtherance of recovery. While much progress has been made, it cannot be said that business activity on the whole is yet normal, or that the effects of the depression are yet overcome. Statistics of business activity and credit activity, both short and long term, do not now show any undue expansion. In these circumstances, the Committee was unanimously of the opinion that there is nothing in the business or credit picture which at this time necessitates the adoption of any policy designed to retard credit expansion.

But the Committee cannot fail to recognize that the rapid growth of bank deposits and bank reserves in the past year and a half is building up a credit base which may be very difficult to control if undue credit expansion should become evident.

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The continued large imports of gold and silver serve to increase the magnitude of that problem. Even now actual reserves of member banks are more than double their requirements, and there is no evidence of a let-up in their growth. That being so, the Committee is of the opinion that steps should be taken by the reserve system as promptly as may be possible to absorb at least some of these excess reserves, not with a view to checking some further expansion of credit, but rather to put the system in a better position to act effectively in the event that credit expansion should go too far.

Two methods of absorbing excess reserves have been discussed by the Committee: (a) the sale of Government securities by the Federal Reserve System, and (b) the raising of reserve requirements.

While the Committee feels that method (a), if employed,

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would have the dual effect of absorbing excess reserves and improving the position of the reserve banks, nevertheless, there are two risks in this method. First, that it may be an unnecessary shock to the bond market, inspiring sales of securities by banks all over the country; second, that however it may be explained publicly, it may be construed by the public as a major reversal of credit policy since this weapon has never been employed except as a means of restraint, which is not desired at this time. A majority of the Committee is opposed to the sale of Government securities at this time, believing that the admitted advantages of absorbing some of the present volume of excess reserves do not now justify the risks to recovery involved in this method of dealing with the subject.

There are also risks incident to method (b), - raising reserve requirements. This method of control is new and untried

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and may possibly prove at this time to be an undue and restraining influence on the necessary extension of bank credit. The Committee feels, therefore, that before this method of dealing with the problem of excess reserves is employed, it would be wise for the Board of Governors of the Federal Reserve System to make a thorough study, through the twelve Federal Reserve Banks, of the amount and location of excess reserves by districts and by classes of banks, in order thus to determine whether, or to what extent if at all, an increase in reserve requirements might interfere with the extension of loans and investments of member banks.

In view of the monetary powers now possessed by the Treasury, the Committee is impressed with the importance of advising with the Treasury relative to any steps that may be

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taken by the Reserve System in order as far as possible to insure reasonable coordination of action.

Furthermore, the Committee recognizes the possible dangers of the public misunderstanding of any action which may be taken in this matter, and would favor a careful public statement before action is taken.

In making these suggestions to the Board of Governors regarding reserve requirements, the Committee recognizes that it is going somewhat beyond its own immediate jurisdiction, but it has found it impossible to consider open market operations independently from the whole credit situation and other Federal Reserve policies.

October 24, 1935.

Mr. Haas and Mr. Upham had lunch with Secretary Morgenthau.

Discussion centered around the excess reserves of member banks and current consideration of the possibility of increasing required reserves to absorb a portion of the excess.

Reference was made to the existing situation where required reserves are approximately \$2,600,000,000 and excess reserves \$2,900,000,000, or a total of \$5,500,000,000.

There was discussion of the effect of gold inflow on excess reserves, how excess reserves originate and by what process they can be depleted.

The Secretary was advised by both Mr. Haas and Mr. Upham that there was, in their opinion, no immediate necessity for action to increase the required reserves. It was pointed out that there has been as yet no dangerous inflation of bank credit or increase in market prices. It was the general feeling that the price level had not yet gone as high as it should. Banks are still being encouraged to make use of their excess reserves in commercial loans and in mortgage loans. A substantial increase in required reserves would constitute a considerable shock to the market and would be interpreted as notice of a sharp reversal of Government policy. It might be interpreted abroad as notice that we intend to keep and put into our permanent reserve all of the gold that has come to us. The action should not be taken as an isolated incident but only as a step in the pre-determined policy. There should be careful consideration given as to whether a first step might not be for the Federal banks to sell Govern-

ments or permit some of their short-term maturities to run off.

It was pointed out that an increase in reserve requirements would be disturbing to certain individual banks who have only just been put into solvent condition and they might be thrust below water by a substantial reserve increase.

It was indicated that there has been no bank inflation yet but whatever inflation there has been may well be described as Government inflation and that action by the Federal Reserve System at this time to increase reserves might be interpreted as a slap at the Administration.

Mr. Morgenthau indicated that there was current discussion of the problem by the Open Market Committee of Reserve Bank Governors meeting in Washington at the time and he referred to their statement to the Federal Reserve Board on the subject.

Mr. Morgenthau indicated that Jacob Viner is coming to Washington on Monday, October 28th, to discuss the matter and he asked for the names of other economists whose opinion might be worth while.

Mr. Haas was to furnish him with a list of such economists and undertook to prepare certain charts and tables giving the statistical facts and figures.

Mr. Upham was asked to consult with Dr. Hardy at the Brookings Institution to secure his views.

October 24, 1935.

Secretary Morgenthau, Under Secretary Coolidge, Comptroller of the Currency O'Connor and Mr. Upham met in the office of the Secretary of the Treasury at 11 A.M. to discuss the possibility of speeding up the program of closing out national bank receiverships and distributing to depositors the proceeds received from assets disposed of.

Mr. O'Connor explained that while there are some 1433 active receiverships under his supervision, the estimated net amount which will eventually be paid to depositors out of the assets remaining in the trusts is around \$350,000,000.

The Secretary stated his interest as being the distribution of dividends to depositors and the repayment to the Reconstruction Finance Corporation of the \$100,000,000 loaned to receivers, making that amount re-available to the Government.

The Comptroller explained that rapid progress had been made in disposing of the assets in the receivership trusts and said that the current rate of closing out receiverships is around 20 a month. Mr. Morgenthau asked if there was any possibility of speeding that up to 50 per month, to which Mr. O'Connor replied that that figure was a little high but he thought he might reach the mark of 40 per month.

Mr. Morgenthau emphasized the importance of getting as far along on the program as possible within the next 6 or 7 months. He added that his interest was partly political in nature and voiced the opinion that the President would be re-elected within the next 6 months, if at all.

Mr. O'Connor stated that there are no Government bonds held by him among receivership assets; that there are a small amount of guaranteed bonds which he has been holding until they reached par, it being his policy not to dispose of them below par. He explained that since March, 1933, he has distributed out of receivership assets some \$679,000,000. He exhibited the attached table of active national bank receiverships as of June 30, 1935 which shows the number to be 1489, with remaining uncollected assets of book value of \$1,181,000,000. out of which total estimated recoveries or depositors equities are shown as \$309,000,000.

Mr. O'Connor pointed out that he has only 50 receiverships which pre-date 1930. Moreover, he explained that 119 of the receiverships are for the sole purpose of collecting the stock assessment against directors and that they have no other assets.

Mr. O'Connor explained that the RFC has made commitments to bank receivers for some \$8,000,000 in loans but that he has not drawn down these amounts because he has been waiting until Chairman Jones of the RFC returns to discuss with him the matter of reduction in the rate.

Mr. O'Connor said that there is criticism from Congress and other sources when receivers pay to the RFC for a loan a much greater rate of interest than the RFC pays to the Treasury for its funds.

Mr. Morgenthau agreed to discuss the matter of interest rates with Mr. Jones upon his return to Washington.

Mr. Morgenthau stated that he would like very much to get \$500,000,000 back from the RFC through the sale of the preferred stock which it holds in banks to the public.

Mr. O'Connor was of the opinion that Mr. Jones was not particularly eager to dispose of the preferred stock which it holds.

Mr. Morgenthau asked that we get a list of RFC preferred stock holdings and that the Comptroller indicate those banks with respect to which it would be safe to dispose of preferred stock whether absorbed elsewhere or not.

Mr. Morgenthau referred to the method of selling real estate in bank receiverships by auction which has been used by the Comptroller to some extent and asked if that practice might not be extended.

Mr. O'Connor agreed that it might and said that he had planned to take such action. For one thing, he said, there are not enough people trained in conducting such sales by the auction method, most of that having been done so far under the direction of one individual. In the second place, he continued, he is trying to arrange with that individual to accept a lesser compensation for his services.

Mr. Morgenthau referred to the sale of municipal bonds by the PWA and indicated his hope that they could be so conducted as to result in a return flow of funds to the Treasury rather than making the amounts automatically reavailable for credit agency expenditure. He referred to the possibility of establishing a Boulder Dam authority and for similar authorities which might finance themselves by recourse to the public and reduce the burden of the Federal budget.

The Secretary said that he would like to check with the Comptroller once a month on the closed bank situation.

Prepared by: MM
H/19/35

ACTIVE SAVINGS BANK MEMBERSHIP AS OF JUNE 30, 1935. WITH LOAN
AND TRUSTS AT MEMPHIS, TACKETT WITH VANDERBILT AND
STEWARTSON WAS PORTFOLIO IN THE BANK.

October 24, 1935.

At 3:30 today, the Secretary discussed with Chief Moran and Mr. McReynolds the investigation of the Secret Service organization, recently started by Frank Wilson at the Secretary's direction. In view of the feeling expressed by Chief Moran that the investigation of his service by Treasury agents not connected with the Secret Service was personally embarrassing to him and demoralizing to his employees, the Secretary agreed to turn over this investigation to someone to be designated by the Chief from his own staff, with the Secretary's approval. It was agreed that Frank Wilson would be called to Washington immediately, and that he would discuss the investigation so far conducted with Chief Moran and turn over to him any material already gathered, and that Wilson would then withdraw. Mr. McReynolds pointed out that certain discrepancies in the income tax returns of Chief Operative Callahan in Chicago constituted the basis for an entirely separate inquiry by the Internal Revenue Bureau, which would necessarily be pursued by them. The Secretary suggested that Joe Murphy, the Assistant Chief of the Secret Service Division, be designated to take over the investigation upon Mr. Wilson's withdrawal, but left open the question of his selection for further discussion with Mr. McReynolds. Mr. McReynolds got in touch with Frank Wilson and arranged for him to report to Washington next Monday, the 28th of October.

October 24, 1935.

Dear Harry:

I have been talking with Ned Bruce about his art project for decoration of public buildings. He says he has no difficulty whatever in getting the kind of artists required to maintain the standard of product the Government needs on this job at the security wage rates, but that he is unable to find the proper talent among artists actually on relief rolls.

I consider it a matter of considerable importance to carry out this project on a very high standard, and in order to make this possible it seems necessary to permit the employment of artists who are not actually on relief rolls. In pursuance of this idea, I have prepared for your signature, and transmit herewith, an order making such exemptions. I hope you will see your way clear to sign this order and return it to me.

Thanks!

Very sincerely yours,

(Signed) Henry.

Secretary.

MC R:r.

Hon. Harry L. Hopkins,
Administrator, Federal Emergency
Relief Administration,
Washington, D. C.

ADMINISTRATIVE ORDER
Of The
WORKS PROGRESS ADMINISTRATION

PERMITTING THE EMPLOYMENT OF PERSONS ON THE DECORATION
OF FEDERAL BUILDINGS PROJECT UNDER THE TREASURY DEPART-
MENT WITHOUT REGARD TO RELIEF ROLLS.

Pursuant to and by virtue of the authority vested in me by
Regulation No. 1 (prescribed by Executive Order No. 7046 of May
20, 1935, and amendments thereto), I hereby issue the following
Administrative Order:

The provision of Part III (c) of said Regulation No. 1,
requiring that at least 90% of all workers employed upon a project
shall be taken from the public relief rolls, is hereby waived with
respect to the employment of artists, etc., on the project for
decoration of Federal Buildings under the Treasury Department
(Official Project No. 12-141).

Administrator

October 24, 1935

October 25, 1935

At the group meeting held this morning, the Secretary instructed George Haas to have a report prepared for him showing the number of Government employees in all Executive Department and Independent Agencies, by months, since the first of January, 1935, to date. This report is to be prepared so that it will indicate the trend of employment and particularly whether the number of employees is being increased or decreased. Mr. Morgenthau wants this information by Wednesday, October 30.

Mr. Robert presented the attached tabulated statement showing stocks of gold in the various mints and assay offices. The Secretary asked Mr. Robert how much gold it is planned to move from San Francisco to the new Government depository at Fort Knox, Kentucky. Mr. Robert promised to get this information.

Mr. McReynolds again brought up the question of the use on Works Relief projects of asphalt manufactured from foreign crude oils and presented a memorandum giving the status of the matter and developments since August 27, which was the date on which the Secretary approved certain exceptions to the Domestic Origin Act which would permit the use of such asphalt on certain projects. There was no discussion, the Secretary deciding to stand on his original decision.

TREASURY DEPARTMENT

Washington

October 23, 1935.

GOLD IN THE TREASURY OCTOBER 15, 1935

Held in Treasury Offices:

Cash Division.....	\$ 6,687.84
Mint, Denver, October 11th.....	3,355,836,426.68
Mint, New Orleans, October 11th.....	4,958,474.34
Mint, Philadelphia, October 14th.....	1,260,755,002.54
Mint, San Francisco, October 8th.....	298,472,726.75
Assay Office, New York, October 15th.....	4,467,057,986.03
Assay Office, Seattle, October 10th.....	6,027,730.30

Held by Federal Reserve Banks in custody for the
Treasurer of the United States:

Secretary's Order of December 28, 1933.....	1,675,742.58
Gold Reserve Act of 1934.....	147,506,255.21

Total.....\$ 9,542,297,032.27

SILVER

Philadelphia.....	\$ 50,493,407.00
San Francisco.....	83,232,816.00
Denver.....	3,335,863.00
New York.....	481,883,501.00
New Orleans.....	23,079.00
Seattle.....	11,856.00
Total.....	\$ 618,980,522.00

(Signed)

M. M. O'Reilly



IN REPLY ADDRESS
BRANCH OF SUPPLY
AND REFER TO FILE NO.

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

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October 24, 1935

MEMORANDUM FOR THE SECRETARY

Under date of 27 August, 1935, the Secretary approved an exception to the Domestic Origin Act permitting the use on Works Relief Projects of asphalt manufactured from foreign crude oils. This approval was necessary at the time it was given in order that work might be started on paving projects in New York City, proposals for the material in connection with which had been issued by the State Procurement Officer, New York, and in response to which proposals all bids received were for asphalt refined from foreign crudes. As was indicated in the exception, foreign crudes are processed in this country in American plants employing American labor, paid for with American capital.

Recently objections to this exception have been received from those interested primarily in the use of California crudes. These objections are undoubtedly due to the construction by the American Bitumuls Company, a subsidiary of the Standard Oil Company of California, of two refining plants on the East Coast. Those complaining request the cancellation of authority granted to use asphalt processed from foreign crudes. To grant these requests would have the effect of putting an embargo on all foreign crudes, would necessitate the use, on the East Coast particularly, of California crudes, and practically eliminate competitive bidding. It would, in effect, be creating a monopoly for the Standard Oil Company of California without any assurance that prices of domestic asphalt on the East Coast would not be entirely disproportionate to the value of the materials purchased.

The question of the use of foreign crudes is one which has been before Congress on several occasions. Bills and resolutions have been introduced for the purpose of virtually establishing an embargo on foreign crudes. Exhaustive hearings have been held, but none of these resolutions or bills has ever been re-

ported out of Committee.

The Domestic Origin Act gives clear authority to any Governmental Agency or independent establishment to determine upon its application and to rule upon special articles. Exceptions to the Act have been made in favor of foreign crudes by the Agriculture Department in the case of the Bureau of Public Roads, by the War Department in the case of the Corps of Engineers, and by the Commissioners of the District of Columbia. If any objections have been made to these rulings such action is unknown to the Procurement Division. It appears from the best information available that those interested in the use of California crudes in the east have singled out the exception recently made by the Secretary with the thought that if this exception is rescinded, the precedent established will be excellent grounds on which to proceed against the other Departments indicated above.

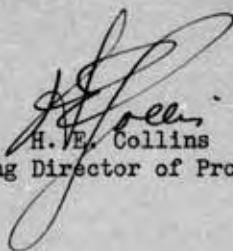
If the exception authorized by the Secretary were rescinded, the result would be one which certain oil interests in this country have not been able to accomplish through legislative channels.

Such action could benefit only a relatively small group in this country, and would affect imports that are exceedingly small in comparison with total American petroleum production. It would, in effect, be the subsidizing of a few to the obvious detriment of other oil industries and the consuming public at large, and would affect intimately and detrimentally the life-blood of trade in certain Central and Latin American countries from which petroleum is exported to this country. The result would be a virtual embargo fostered by the Treasury Department and might be construed as a harsh measure and justly regarded as an unfriendly act in world commerce. The possible gain to an insignificant minority of this country is out of all proportion to the injury that, unquestionably, would be inflicted upon our Latin American neighbors.

The crude oil imported into the United States is produced by American companies employing in foreign oil fields white American labor and American-made material. It is shipped in American tankers, employing American officers and crews. The allegation that imported oil is produced by cheap foreign labor is without foundation in fact. It requires skilled labor to produce oil and Americans are admittedly the only skilled oil men in the world.

Peon labor is employed principally in clearing jungle, building roads, and meeting the many adverse conditions of life and work in the tropics, which are not usually found in the United States, and where found are met by negro and Mexican labor.

This memorandum has been prepared to clarify a situation about which, purposely or otherwise, there is an evident misapprehension in certain quarters, and to recommend that no change be made in the policy indicated in the exception granted by the Secretary under date of 27 August, 1935.



H. E. Collins
Acting Director of Procurement

October 25th

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At Cabinet to-day the President made some remark to Homer Cummings inquiring on what boat he crossed and Cummings answered that he went over and came back on the George Washington. The President sort of turned and smiled rather slyly at me and said "you see Henry the Attorney General went over on an American flagship". I did not answer him but wrote him the following note.

THE WHITE HOUSE
WASHINGTON

I paid my own
expenses abroad and
therefore could choose
the ~~fastest~~ ship home
and get back a few
days ahead of you.

So glad you are so rich &
week spend - more spend.

October 25th

Gibbons and Chalker came in to see me. I cleared minor appointments in aviation.

Chalker submitted a five year program in aviation and I told him I could not sign it because I could not approve individual items in the Treasury and he would have to fight his way through the Treasury Budget Committee.

Gibbons asked me what I meant by my telegram to hold off appointments. I told him that I had heard that Von Paulsen bought a house in Washington and, if that was so, I did not want him to be hurt financially. Chalker said he thought I was wrong, that if Von Paulsen bought a house anywhere it would be in Miami. Chalker said Von Paulsen told him that he does not want to stay in Washington. I told him to check up and speak to me about it next week.

I also told him to inquire as to what kind of an aviator Christopher was, because I understood he was very reckless and if that was so I did not think he was the type of person to fly me - also that Burke could not use him as second in command because he was a poor executive officer.

Helvering and Russell were here, as I felt that they were too slow on checking up on the income taxes. Russell said they could not speed up. I told him it was ridiculous - that he could. They are going to make a study and come back and see me. They are at least one year behind.

Crowley came to see me to tell me that he wanted to resign at my pleasure. He wanted to give me plenty of time to find a successor but did not want me to say anything about it to the President until he had a chance to have a long talk with him.

I saw the President. Told him what I was doing about studying the question of whether or not the reserve requirements of the bank should be raised. Let him read the story in the Tribune about my statement yesterday which he read with great interest.

Told him about Senator Nye requesting Elliott Roosevelt's 1934 income tax and that Elliott had failed to report \$5,000 which he evidently received from Fokker. The President said, "what should we do about it" and I said, "frankly, I do not know" and he said, "let us send for Elliott anyway". I agreed to hold up matters until then. The President was awfully nice about it.

NEW YORK HERALD TRIBUNE

10/25

Reserve Heads Fail to Suggest Banking Action

Inflation Danger Through Excess Funds Debated Without Recommendation

From the Herald Tribune Bureau

WASHINGTON, Oct. 24.—Concluding a three-day discussion of the credit situation, making one of the longest meetings on record, representatives of the twelve Federal Reserve banks today completed a meeting covering their dual activities as the open-market committee and as the governors' conference of the Federal Reserve system without making recommendations to the Federal Reserve Board. Announcement of the failure to suggest any action was made by Federal Reserve Board officials.

However, the representatives, including the heads of eleven of the banks and a deputy governor for the other bank, are said to have thoroughly discussed methods of controlling the mounting excess reserves of banks now approaching \$3,000,000,000. The question at issue, it was said, was whether control of the excess reserves should be through selling of government bonds or raising reserve requirements, both of which would have the effect of decreasing the excess reserves and thus reducing inflationary possibilities.

Both Plans Supported

According to reports there was definite opinion within the group both for selling government obligations and for asking the Federal Reserve Board to raise reserve requirements, a power given the board under the new banking law. The discussion, however, hinged, it was said, on a future control of excess reserves rather than a present condition. Since Charles R. Gay, president of the New York Stock Exchange, recently called attention to inflationary dangers in present easy money conditions the spotlight has been turned on the over-riding reservoir of credit.

Merriner B. Eccles, governor of the Federal Reserve Board, whom the President will name as head of the reorganized board in February, is represented as of the opinion that no increase in reserve requirements is necessary at the present time. This conclusion is belated based on the premise that bank credit is not being used sufficiently to create any dangers. It is further represented that the Federal Reserve Board, which has the authority of credit control, concurs that no restrictive activity is now necessary.

The prolonged discussion of the
(Continued on page twenty-nine)

Reserve Heads Fail to Suggest Banking Action

(Continued from page twenty-seven)

heads of the Federal Reserve Banks brought out, however, it is said, the dilemma of a future decision as to how excess reserves may be decreased. Selling of government obligations through open market activity, which has been suspended for two years, it was explained, might create an erroneous impression and might result in fears among commercial banks, holding large amounts of the issues. On the other hand, increase in reserve requirements also found dissenters.

Credit Debated

While the meeting evidently reached no formal conclusion, since Federal Reserve Board officials were emphatic that the bank governors were not "concerned" by the present situation and had not presented any conclusions,

the credit situation, as illustrated by the length of the meeting, was thoroughly thrashed out from the angles of two methods of control.

T. Jefferson Coolidge, Under-Secretary of the Treasury, represented Henry Morgenthau Jr., Secretary of the Treasury, at the discussions today. The Treasury naturally would be interested in any plans to sell government securities, as well as any restrictive action on the credit situation.

Among other topics considered by the Federal Reserve Bank representatives, was the increased industrial and business loans by banks. The governors, Federal Reserve Board officials reported, were optimistic on gains in bank loans. Also under discussion was the revised regulations under the new banking act, still tentatively before the Federal Reserve Board. No major objections to the rules were raised by the bankers, it was said.

The bank governors will meet again before the end of the year, under the requirements of the law. This will probably be their last meeting before the appointment of the new open market committee, created under banking legislation passed in the last session of Congress.

He seemed awfully glad to see me and wanted to know whether I was rested. I told him that I thought the most important thing that I could do in the next month was the budget - and he agreed.

I told him that I wanted to bring in Peter Grimm to see him and he said O.K.

McIntyre brought up the question of a letter from Stewart McDonald about the Electric Home and Farm Authority. McIntyre did not have the story quite right and the President suggested that we take this matter up on Monday. He asked me who should be present and I suggested that Peter Grimm be there as well as myself.

Charlie West waylaid me and walked back to the Treasury with me. He was very apologetic about having interfered in the case of Collector Moore. He said that he absolutely agreed with me that Moore should either return the money or resign but asked that I let him handle Senator Bulkley. I said that I would be delighted to do so and suggested that he be the anaesthesia and I the surgeon. He said he felt that Bulkley was read to go along. I told him that the President agreed with the position I had taken originally and I felt very positive that Moore must resign or return the money. West suggested if I gave him a few days he would either have Bulkley come here or he (West) would go to Ohio and try and straighten the matter out. I feel that West is sincere and this certainly will be a good test.

In passing he said that A. R. Clas, the head of housing in PWA is terrible and is constantly giving the President misleading information. This is most interesting and significant.

I asked him if he would like to meet Grimm and he said he would and that Grimm had made an excellent impression when he visited in Ohio.

October 25, 1935

Mr. Coolidge and Mr. Oliphant met with the Secretary today to discuss the possibility of having Governor Harrison represent the Treasury at the BIS. "I think it is fair to say that the Federal Reserve Board, as a matter of policy, is very much opposed to Harrison going," said Mr. Coolidge. He also said that Wyatt, the Board's General Counsel, saw difficulties from the legal end of it, but that if Governor Harrison were instructed to attend the meetings of the BIS, he, Wyatt, would endeavor to find means of meeting the legal barriers. Mr. Coolidge also said that Harrison did not consider there were any legal drawbacks and that he had been assured by Senator Glass that it was proper for him to serve.

At this point, Mr. Oliphant voiced his opinion to the effect that there are serious legal difficulties and that somebody will have to override the Federal Reserve if the Treasury decided to have Governor Harrison represent them, but the Secretary said it was not worth it.

According to Mr. Coolidge, Governor Harrison has expressed his willingness to go in an unofficial capacity as observer of the proceedings, which would be satisfactory to the Secretary because in that way the Treasury could gather all the information it needed. But Mr. Morgenthau is opposed to having a private banker or individual represent the Treasury at the BIS. Cochran told Mr. Morgenthau that if a private individual were selected and Mr. Morgenthau did not approve his selection, the man would not get the appointment. Gov. Tripp gave Cochran this information.

The Secretary told Mr. Coolidge and Mr. Oliphant that he had arranged with the State Department to permit Cochran to travel freely and wherever occasion or circumstances warranted, all over Europe, for the purpose of securing information which would be of value to the Treasury and that the State Department is in thorough accord and will give the necessary instructions to Cochran to carry out this mission.

October 28, 1935

MEMORANDUM FOR: Mr. Coolidge
Mr. Oliphant
Mr. Bell

I want the following legislation prepared:

- (1) A bill to abolish the provision that the U. S. Department of Agriculture shall receive 25 percent of Customs receipts.
- (2) A bill making it impossible for AAA to have blank check on the Treasury.
- (3) A bill definitely to define the authority of the Budget Bureau over all independent agencies. At present the authority is limited to control of administrative expenses only.
- (4) A bill cancelling the right of HOLC to issue guaranteed bonds.

H. Morgenthau, Jr.

October 28th

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I called the President and told him that everything was very quiet; that we have to move a little more silver out of London this week because the insurance brokers have more than doubled the insurance premium on silver held by us in London, on account of the fact that they know that we have no other place where we can put it. We still have well over 115 million ounces over in London. From now on, we will move as usual 10 million ounces on the United States Lines to New York each week and will endeavor to make two additional shipments of five million ounces each week on other American steamers to the Philadelphia Mint. We are investigating the facilities of American steamers landing at Baltimore and may take advantage of shipments on these lines if it is found desirable and practical.

I walked down with Henry Wallace this morning and he said confidentially he would be pleased if the processing tax was declared unconstitutional as he would rather have us raise the money through some form of taxes. He said they would need about 300 million a year.

At 9:15 Wallace called me and said that he was thinking over what I told him about the Federal Reserve contemplating raising their reserve requirements. He said that Carl Snyder, who is now at Chapel Hill, N. C., has worked out a theory that reserve requirements should not be increased until the increase in fiscal production has gotten out of line. He says this has not yet taken place but that this theory of Snyder's is worth looking into and I told him I would send for Snyder and ask him to explain it to me because I do not quite understand it.

At the 9:30 staff I asked Viner whether he thought Snyder's theory was worth looking into and whether I ought to see him and Viner said no.

Mrs. Roosevelt told me that the President is going to make Frank Walker Postmaster General and she is opposed to it because she thinks he is sweet but too weak - and that a strong person is needed for this position. My idea is this: When you consider the work that Peter Grimm is doing for me in the field it is really work that should be done by Frank Walker. Therefore, I am going to suggest to the President at lunch that he make Peter Grimm assistant to Frank Walker, leaving him with the same status that he has in the Treasury and, when Frank Walker resigns to become Postmaster General, make Peter Grimm Secretary of the Executive Council. As Assistant to Frank Walker he has all the powers necessary to co-ordinate housing and I consider it a very smart move and this will put me just one jump ahead of the people who are trying to block me.

H.M.Jr. told Gaston to take this morning's mail on Baby Bonds and analyze what proportion of buyers are men and what proportion are women and also to have this analysis made of each magazine in which we advertise.

H.M.Jr. told Chip Robert that we will have to have space for storing a billion ounces of silver and told him to ask the War Department how they felt about a building either in Philadelphia or Albany. Mr. Morgenthau said that he wanted the same kind of protection as we have at Fort Knox.

Mr. Bell presented the attached report on PWA securities purchased and sold by Reconstruction Finance Corporation on October 28th. On November 15th we are to ask Bell for the same information.

BURGHES

NEW YORK

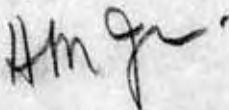
October 28, 1935.

Confirming telephone conversation, you are authorized to sell at market from holdings by your bank for account Federal Deposit Insurance Corporation the following Treasury notes in face amount specified:

\$2,000,000 2-1/2% maturing 12/15/35
8,625,000 3-1/4% maturing 8/1/36
5,065,000 2-3/4% maturing 12/15/36
7,400,000 2-7/8% maturing 4/15/36

Credit proceeds in Treasurer's account Symbol No. 92-700. You are also authorized to purchase at market approximately twenty million dollars aggregate face amount of ~~2-7/8%~~ 2-7/8% Treasury bonds. Follow usual procedure.

MORSETHAU



P. W. A. SECURITIES PURCHASED AND SOLD BY
RECONSTRUCTION FINANCE CORPORATION.

R. F. C.

Purchased from P. W. A. (face amount \$217,844,700)	\$ 218,939,188.09
Sold by R. F. C. (including amounts collected from obligor). (Face amount \$115,331,300)	116,425,788.09
Balance held by R. F. C. to be sold	<u>\$ 102,513,400.00</u>

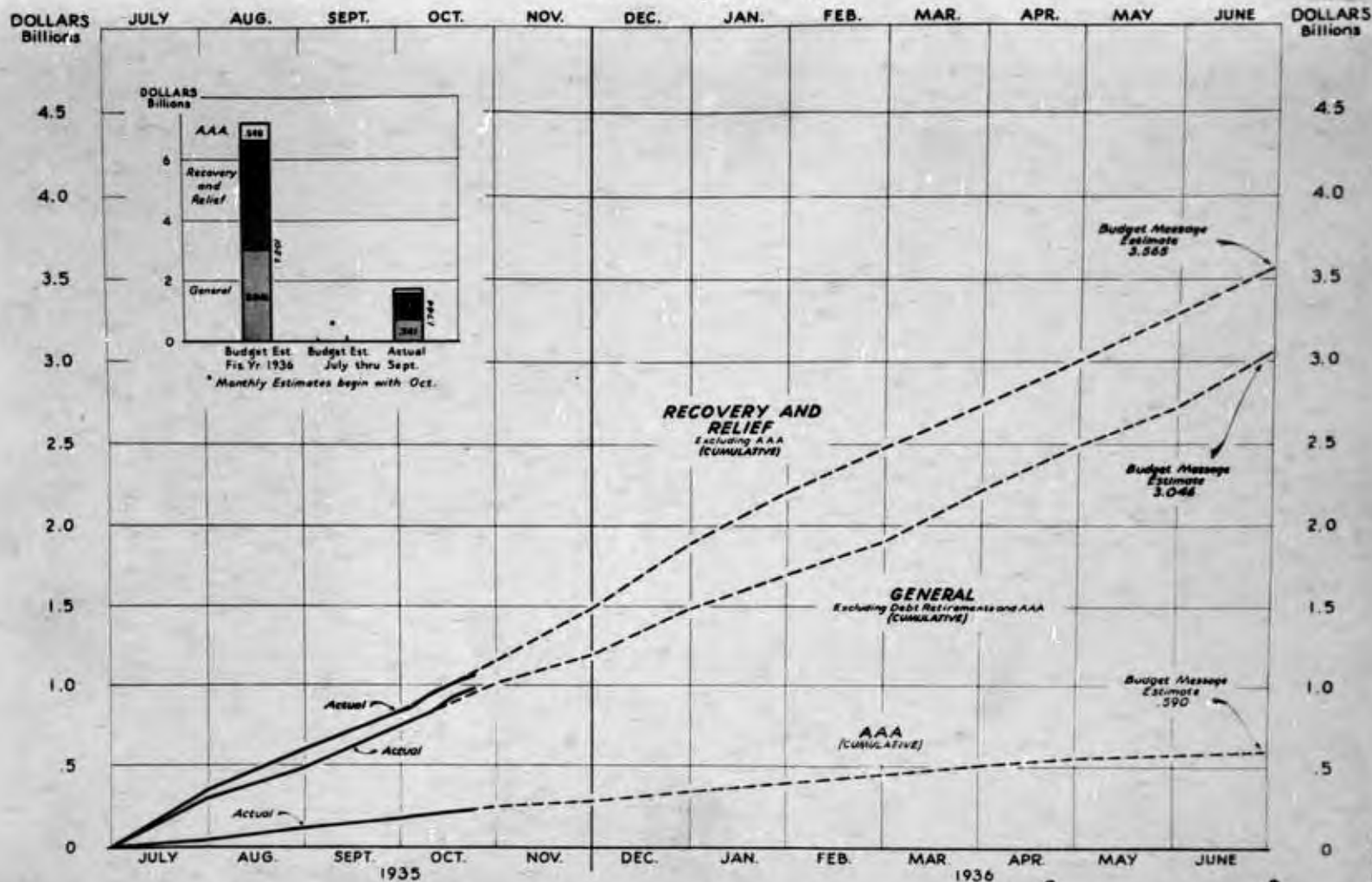
P. W. A.

Securities now held by P. W. A. which may be sold to R. F. C.	\$ 157,000,000.00
Amount loaned by P. W. A. from proceeds of sales to R. F. C.	\$ 213,000,000.00

Oct 28, 1935.

FEDERAL EXPENDITURES

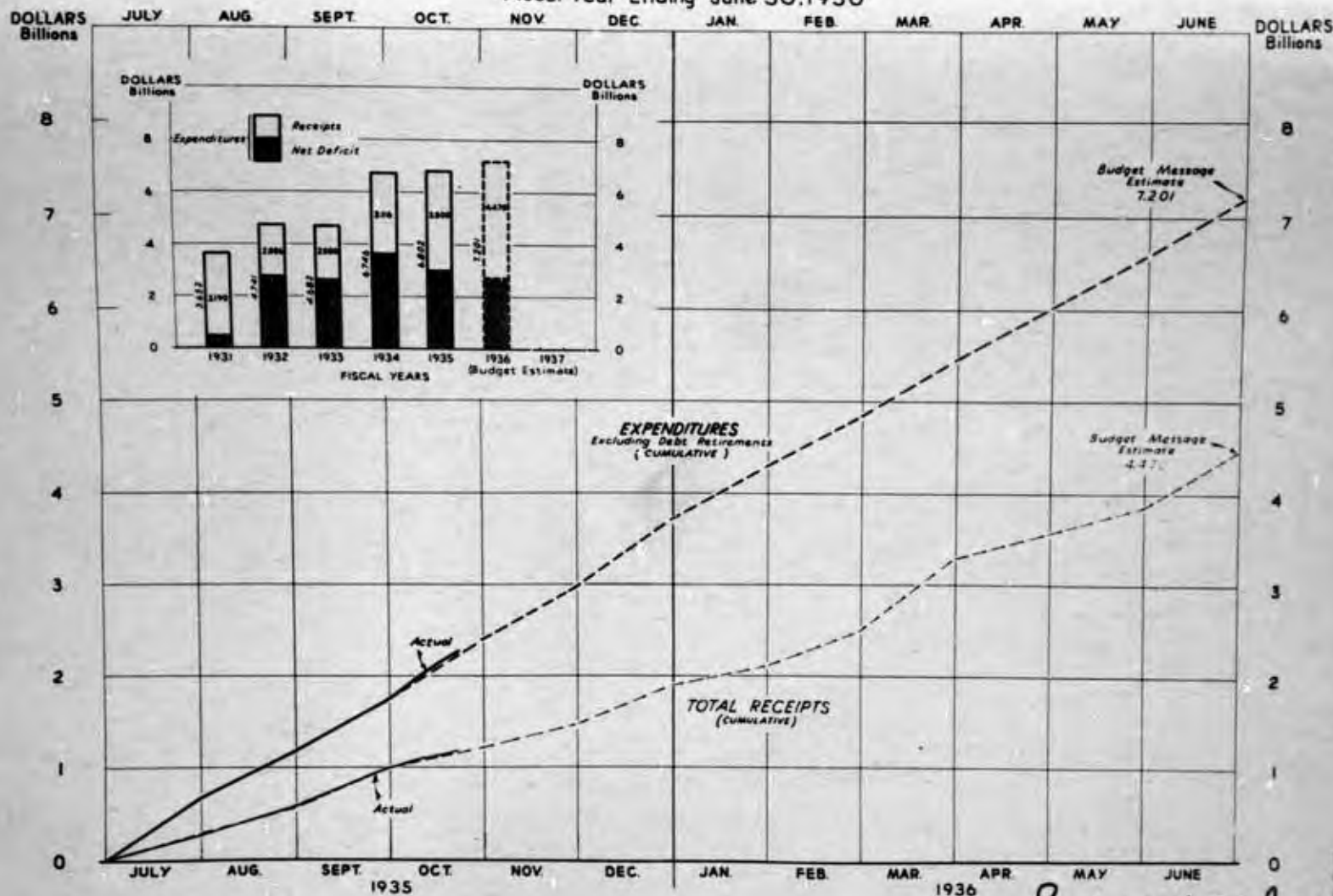
Fiscal Year Ending June 30, 1936



Prepared as of
Oct. 28, 1935. B-40

TOTAL FEDERAL RECEIPTS AND EXPENDITURES

Fiscal Year Ending June 30, 1936



October 28th

At the 9:30 staff to-day, Mr. Gaston spoke about the statistics of income that were issued in book form and it was his suggestion that in the future it was better to give out the information in a series of releases. H.M.Jr. approved.

Mr. Ireys telephoned to let Mr. Morgenthau know that they were summing up on the Shushan case and that the jury ought to render a decision to-day. He said he was quite worried because the defense was putting up a very weak defense and it was Mr. Ireys's opinion that the jury has been tampered with.

Mr. Grimm reported that it has been requested by the Central Housing Committee that the Treasury assign a member of its staff to serve on its sub-committee on Research and Statistics and one to serve on Law and Legislation and another to serve on Appraisal and Purchase. The Secretary asked that Mr. Grimm send him a written recommendation in regard to the above request.

The Secretary said that he wanted every agency that has relief money to send in a report every Wednesday showing exactly what they are doing.



TREASURY DEPARTMENT

WASHINGTON

October 23, 1935

MEMORANDUM TO

THE SECRETARY OF THE TREASURY

It has been requested by the Central Housing Committee, F. A. Delano, Chairman, that the Treasury Department assign a member of its staff to serve on its sub-committee on Research and Statistics, one to serve on its sub-committee on Law and Legislation and another to serve on its sub-committee on Appraisal and Purchase.

If it meets with your approval, I suggest that Mr. Wesley Lindow be assigned to serve on the first named committee, Mr. Harold Riegelman on the second named committee and a man to be named by Admiral Peoples from the Procurement Division to serve on the third named committee.

Peter G. ...

O.K. [Signature]

very good
October 28, 1935.

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A group met in the office of the Secretary of the Treasury at 10:00 A.M. to consider a press conference statement on expenditure estimates in the budget.

Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,
D.W. Bell, Acting Director of the Budget,
Herbert E. Gaston, Assistant to the Secretary,
George C. Haas, Bureau of Research and Statistics,
Dr. Jacob Viner,
C.B. Upham.

The Secretary read the attached statement which had been prepared but was of the opinion that it would be better to make an oral statement and much briefer.

The expenditures of the regular departments were discussed first and it was pointed out that the budget estimate on January 2nd for regular departments was \$2,380,000,000. The revised budget estimate of September 30 was \$2,191,000,000. The actual expenditures for the first three months were \$613,000,000. After deducting from the \$613,000,000 three fourths of \$70,000,000 (\$52,000,000), the \$70,000,000 being an increase in the investments for account of the Adjusted Service Certificate Fund and the various retirement funds and properly spread out over four quarters instead of one because non-recurring. The resulting figure of \$561,000,000 was multiplied by four giving an estimate of \$2,244,000,000 for the year.

Mr. Morgenthau stated that this was an admittedly inaccurate figure in that it is impossible to get a figure of too great significance by multiplying the expenditure for one quarter by four.

Dr. Viner asked how the first quarter expenditures run in a normal year and Mr. Bell expressed the opinion that in the regular departments normally the summer months showed heavy expenditures, which means that the first and fourth quarters are a little high.

It was suggested that this ought to be checked to make certain of its accuracy.

Mr. Morgenthau said that he thought he might state that his best guess with respect to the regular departments is that their expenditures will keep within the President's revised estimate of September 30. He added that he would tell the newspapermen that it is impossible to determine the matter certainly but that there seems to be nothing in the expenditures of the first quarter to make a revision of the estimates.

Turning to the emergency expenditures the explanation was made that the budget estimate of January 2nd was \$4,622,000,000, the revised estimate of September 30th was \$4,255,000,000. The actual expenditures for the first three months of the present fiscal year were \$881,000,000. Multiplying \$881,000,000 by four gives \$3,524,000,000 as the estimate of emergency expenditures for the year based on actual expenditures for the first three months.

Adding regular department totals to emergency totals gave \$7,002,000,000 as the January 2nd budget estimate and \$6,446,000,000 as the September 30th estimate and \$5,768,000,000 as the estimate secured by multiplying the first three months actual expenditures by four. This would make the actual expenditures for the year \$678,000,000 less than the September 30th revised budget estimate.

Mr. Morgenthau suggested that next month and hereafter as

monthly totals are available that statements be prepared for him to give to the press in anticipation of the stories that they will write when figures are available to them.

At 4:15 the group reassembled in the Secretary's office just preceding the press conference and it was shown that the quarters of heavy expenditures are the second and the fourth and the fact was made the basis for a statement by the Secretary that, because cyclical ups and downs in expenditures throughout the year it is impossible to secure a yearly total of too great significance by multiplying the expenditure of one quarter by four.

At last week's press conference I was asked to comment on the expenditures of the Federal Government to date in the fiscal year 1936 in the same manner as I commented on the revenues. In other words, are the actual expenditures thus far made within the estimates. You know, of course, that the revenue estimates are made in the Treasury, whereas the expenditure estimates for budgetary purposes are made in the various departments and agencies. The total expenditure estimates in the past two or three years, particularly the emergency expenditure estimates, have been overstated. The Budget Bureau has revised some of these estimates in order to bring them more in line with the Treasury financing estimates. For financing purposes, the Treasury also receives expenditure estimates from some of the departments and agencies, but in making estimates of its future cash position for borrowing purposes it materially reduces some of the estimates presented. The recent Budget Summation included estimates of expenditures submitted by the various departments and agencies but revised by the Budget Bureau so as to conform more closely to the financing estimates of the Treasury.

Total expenditures for the regular departments and establishments for the first quarter of the fiscal year 1936 amounted to \$950,000,000 as compared with \$667,000,000 for the same period last year. This represents a difference of \$283,000,000. Included in this difference, however, is an increase of \$70,000,000 in the investments for account of the Adjusted Service Certificate Fund and the various retirement funds, and \$36,000,000 as an increase on account of public debt re-

2.

tirements. Deducting these amounts, aggregating \$156,000,000, leaves an increase in the expenditures of the regular departments amounting to \$127,000,000 during the first quarter, which is largely accounted for by an increase of \$43,000,000 in Agricultural Adjustment Administration expenditures, \$26,000,000 on account of interest; \$20,000,000 in the Army; \$12,000,000 in the Navy, and \$24,000,000 in others.

The emergency expenditures for the quarter amounted to \$881,000,000, as compared with \$838,000,000 for the same period last year. The individual items making up these totals show a wide variation over the two periods. For instance, the Commodity Credit Corporation showed an expenditure for the first quarter of the fiscal year 1936 of \$146,000,000, whereas for the same period last year it showed a net credit of \$91,000,000. Likewise, the Reconstruction Finance Corporation showed an expenditure this year of \$41,000,000 and a net credit last year of \$119,000,000. It will be noted that the estimates contained in the Budget Summation contemplate that these two corporations will operate on receipts during the fiscal year 1936. It may be expected, therefore, if these estimates are correct, that their receipts for the remainder of the year will be larger than expenditures. Moreover, the expenditures of the Reconstruction Finance Corporation include the cost of securities which it has purchased from the Public Works Administration. As these securities are sold, the proceeds go to reduce Reconstruction Finance Corporation expenditures. Loans and grants to States, etc., and loans to railroads showed a credit of \$63,000,000 on account of securities sold for the first quarter of this year and an expenditure of \$20,000,000 for the same period last year.

These variations are pointed out to show the difficulty in estimating total expenditures of the Federal Government at the present time. Total expenditures of the Government for the first quarter in 1936 amounted to \$1,830,000,000 as compared with \$1,495,000,000 for the same period last year. As pointed out before, total expenditures for the first quarter include increases on account of certain investment items, which are non-recurring in the remainder of the year. If you multiply total expenditures for the first quarter after making adjustments for non-recurring items and public debt retirements, by four, you get a total of \$7,300,000,000 as compared with the estimated total expenditure contained in the Budget Summation of \$7,752,000,000. In other words, total expenditures for the remaining nine months will have to increase by more than \$450,000,000 over the first quarter to reach the Budget Summation estimate. Then, too, it may be expected that expenditures on account of construction will show a substantial decrease during the coming winter months, whereas they will show a substantial increase beginning with April and continuing until the end of the year. Taking everything into consideration, I believe that the expenditures so far made just about conform to the estimates shown in the Budget Summation and that our actual deficit for the fiscal year 1936 will not be much out of line with the estimated deficit indicated in that summation.



*By grimm. Presented to F.D.R. 159
go into diary. This statement should
of our meeting with F.D.R. plus grimm's account*

TREASURY DEPARTMENT
WASHINGTON

October 28, 1935

Dear Mr. Secretary:

The enclosed memorandum covers:

1. Our performance in housing construction.
2. Our needs.
3. The program
4. The functions of a National Commission on Housing.

Sincerely yours,

Peter Grimm

The Honorable,

The Secretary of the Treasury.

PG:hh

October 28, 1935

1. OUR PERFORMANCE IN HOUSING CONSTRUCTION.

The degree of our failure in the low-rent housing field is revealed by comparison with England. There, since the inception of a Planned Program, 1,230,172 dwelling units have been built with Government aid. Here, with some twenty to thirty Federal bureaus directly and indirectly active in the field of housing, we are still funbling for a plan. The United States has a population three times that of England. Our needs for housing are, therefore, at least three times as great as England's.

2. OUR NEEDS.

A conservative estimate of our requirements for new housing during the next ten years is 7,700,000 dwelling units. Of this number 3,700,000 are for people who can pay an adequate rent. The remainder, 4,000,000, must be built with some form of Government aid to bring the rents within the means of the low-income group.

- (a) For that portion of our citizenry which can pay an adequate rent, (that is, sufficient to pay interest on the mortgage, taxes and an acceptable return on the equity) there already exist adequate governmental agencies.

- (b) For that portion of our citizenry which is just below the point of being able to pay an adequate rent FHA, in combination with the agency now or hereafter charged with the administration of Government housing subsidies, offers a solution.
- (c) That portion of our citizenry which cannot approximate an adequate rent presents the most difficult phase of the housing problem.

3. THE PROGRAM.

We are without any program assuring a solution of the problem of subsidized housing. Numerous proposals have been advanced designed to create low-cost housing in quantity for those who cannot pay enough rent to support them. These include:

- (a) Capital grant.
- (b) Federal subsidy to make up the difference between the adequate rent and what the renter can pay.
- (c) Interest subsidy.
- (d) Loan of Government credit.

However, the confusion in the public mind and the conflicts, between the real estate and welfare groups, for example, would subject any program advanced at this time to severe and embarrassing criticism.

- 3 -

If a central authority is to pursue a realistic policy geared to meet actual needs, a foundation must be laid which will insure fairly unanimous support by the liberal elements in all camps.

It is, therefore, recommended that the President announce that the construction of low-rent housing is no longer motivated merely by the desire to employ the largest number in the shortest time, but must now be recognized as a social duty devolving upon the Government.

To the end that the Government may have the benefit of the constructive views of all who have given thought to this subject, the President should create a Commission on Housing to conduct hearings and promptly to recommend a National Housing Program.

4. THE FUNCTIONS OF A NATIONAL COMMISSION ON HOUSING.

The Commission should consist of not more than nine members, men and women of the highest standing, whose views will be not only disinterested in fact, but will be accepted by the public as such.

The witnesses appearing before the Commission should be housing officials, students of housing, real estate and construction men, and all who have a competent knowledge of the subject or any of its aspects.

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The Commission will take testimony from the witnesses upon the conflicting housing theories submitting to the President finally a program upon its consideration of the testimony and data submitted.

The inquiry will relate to future program, not to the past.

The Commission can be organized immediately and it could be directed by the President to complete its studies by December 1st and make its report not later than December 15th.

The publicity attending its activities, the focusing of public attention on low-cost housing and the founding of a program upon a public expression of informed and competent opinion should create a firm foundation for Presidential policy and any legislation considered necessary to implement that policy.

Peter Zinner

On Wednesday, October 30th, at 1:50 o'clock at the White House, the President conferred with the Secretary of the Treasury, Frank C. Walker and Peter Grimm.

The appointment of Mr. Grimm as Assistant Director of the National Emergency Council was first discussed, the President stating that in that capacity Mr. Grimm was to be primarily concerned with housing and mortgage finance. The President read the news release that had been prepared. He strengthened the statement by emphasizing the reference in the release to an impending housing shortage by including reasons for the shortage, namely, the inability of people to pay rent and consequent doubling up, with the consequence that families had, in many places, been occupying half the space they formerly required.

The President stated that the new appointment of Mr. Grimm would be a subject of his press conference this afternoon when he would release the prepared announcement.

Mr. Walker commenting on his discussions with Mr. Grimm about his added duties, said he had found Mr. Grimm was deeply concerned about low-rent housing. He inquired whether Mr. Grimm was not to include HOLC, FWA, FHA, and all other agencies in the housing and mortgage finance field. The President thereupon directed Mr. Grimm to review the entire field and all of the agencies active there, making report to him, the President, from time to time.

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Mr. Grimm is to study rural housing conditions and without limiting his activities in the larger field should stress ways and means of satisfying housing needs in rural communities.

Mr. Morgenthau then said that the subject of housing had been much discussed by him with Mr. Walker and Mr. Grimm and that he thought the President would be interested in a brief paper Mr. Grimm had prepared on the subject which had made a favorable impression on him. The President indicated he wished to hear the paper. Mr. Grimm first explained that he was worried over the situation because of lack of performance and that the whole subject of low-cost housing was in a state of controversy. He read the document emphasizing certain points from time to time. The paper developed the suggestion that public opinion on low-rent housing be focussed upon a practical program through the hearings of the Commission on Housing to be formed. Upon their findings could be based a national policy likely to have the popular support necessary to a successful Housing Program.

At the conclusion of the reading, the President expressed satisfaction and agreement, but that certain objections suggested themselves. "You may be able to talk me out of them, but here they are as they occur to me." The President appeared chiefly concerned lest Congress might interpret the Commission as an attempt of the Executive to force a program upon it. He had learned, he said, from his experience with the Social Security Bill that it would be better to take no such overt step, but to permit the session of Congress to continue until about March, and then present to Congress a ringing message on low-rent housing.

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Mr. Grimm suggested that housing was a subject already being so heatedly debated throughout the country that Congress might not wait for such a message, nor be in a mood to give it the consideration a Presidential message deserved, but by that time perhaps as many as a dozen bills will have been presented to Congress. The President answered that if that proved to be the case, he would ask the legislators interested in such bills to scrap them and clear the way for a sound policy.

Mr. Grimm observed what he had hoped was that the proposed Commission would create a Presidential testament on housing, which Congress would use as its Bible. The President seemed entirely sympathetic with the point of view of the paper and agreed that a sound statement on housing and a call for an effective national program had great political importance.

He added that he was having a headache over the slum clearance situation and was afraid the headache would become even worse. He said he was afraid Mr. Clas (Director of PWA Housing Section) had not done a good job and that both lack of performance and excessive costs were going to plague him. Referring to these excessive costs it was agreed that the unnecessary gadgets and accessories bought largely accounted for it and that the dwellings being constructed were more elaborate than either the plans called for or the requirements of the dwellers demanded. He recalled a meeting with Mr. Clas and others, some time ago, when the PWA program was being fixed, when Mr. Clas reported a list of some 200 sites which, he assured the President, had been bought and were held by the Government. It now appears that a great many of these sites were not

completely in hand, which made the completion of the program impossible.

He said he anticipated that Mr. Ickes would shortly appeal to him to cause an outside inquiry to be made of the operations of PWA Housing Section. Mr. Walker, at this point, expressed the view that such an inquiry might well be conducted through the NEC and that Mr. Grimm as Assistant Director might conduct it. The President replied that that was just what it needed. "Someone, he declared, has to go in there to see what is wrong."

Secretary Morgenthau said that the shortness of time did not permit further discussion. He suggested that the President permit Mr. Walker, Mr. Grimm and himself to take the paper and give further consideration to the program and the proper time for the creation of the Housing Commission. He said that its effect upon the policy of the Treasury and its political consequences needed more consideration. He pointed out that if the matter were permitted to go over till March the desired objectives might be largely if not wholly lost.

October 28, 1935.

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A group met in the evening at the home of the Secretary for discussion of the matter of action by the Federal Reserve System to check present or future inflation.

Those present were:

Henry Morgenthau, Jr.

Jacob Viner,

Walter Stewart,

S. Parker Gilbert,

George C. Haas,

C.B. Upham.

Following dinner Mr. Morgenthau explained to the group that the Federal Reserve Board had under consideration an increase in the reserves required of member banks. He added that he was not officially informed of the situation and had not been asked for his opinion but that he understood the chances were that he might be. It was for that reason, he said, that he was interested in getting the views of those whom he had called in.

Mr. Haas displayed some charts showing the data pertinent to the inquiry and revealing among other things that the total reserves of member banks are in the neighborhood of \$5,500,000,000, of which more than half or about \$2,900,000,000 is classified as excess reserves.

Mr. Upham paraphrased a confidential memorandum of October 23rd which is understood to have been presented by the Open Market Committee to the Federal Reserve Board. In this memorandum the Committee stated that they had discussed the sale of Government securities by the

Federal Reserve System and the raising of reserve requirements as possible methods of absorbing excess reserves. The Committee was opposed to the sale of Government securities at this time and thought that before reserve requirements were raised a study of the location of excess reserves by districts and by classes of banks should be made. The Committee thought it important that consultation be had with the Treasury also before action is taken. The Committee also thought that a carefully prepared statement should be made to the public before action is taken.

Mr. Stewart led off in the discussion by making the observation that blanket action in raising reserve requirements would certainly prove inequitable so far as individual banks are concerned. On the other hand, he said, of course there never was a time and never would be a time when actions taken to check inflation would not prove uncomfortable in some quarters, but the question which immediately came to him, he said, was "why do it?". It is never possible, in his opinion, to be as effective in influencing public action through fear as through confidence. The stimulation of confidence is what is needed at the present time.

From the standpoint of the Treasury, Mr. Stewart commented, it should be remembered that it has contributed to the excess which exists. As the banking system looks back it is likely to say that the Treasury has fed the fire of whatever inflation has occurred. He thought perhaps it might be advisable, as a first step, for the Treasury to reduce its contribution to potential inflation.

Mr. Viner referred to the gold inflow as creating negative

reserves in the form of short term liabilities due to foreigners. The short term balances which result, he said, balance the increasing gold stock. He did not have exact figures available but was of the opinion that the short term liabilities of this character which had grown up during the year 1935 were well up toward the mark of \$1,000,000,000. He said that there are a number of things which can be done if and when signs of inflation show up but that he does not believe those who favor action at this time can give a reasoned case for it.

Mr. Gilbert said that he agreed 100% with the attitude of Mr. Viner and he commented that the chart revealed very plainly that there was no difficulty demanding action.

Mr. Viner said that the excess reserve would melt away rapidly when recovery comes. Gold will flow out. The Treasury can transfer balances from member banks to reserve banks. Time deposits will be transferred to the demand classification and the proportion of demand deposits to time deposits increase. It must be taken into account, he said, that while currency in circulation is up, there are not so many checking accounts as formerly. It means that the currency is not being hoarded.

Mr. Morgenthau commented that in his opinion any statement to the public would show that the reserve system and the Administration are fearful of present trends.

Mr. Gilbert said that the only answer to public fear is for the Government to move in the direction of a balanced budget -- to reduce expenditures. He added that there is no logic to reducing

credit potentialities at the same time that extraordinary expenditures are being incurred.

Mr. Morgenthau said that he can give encouragement for a substantial reduction in the 1937 deficit. Between now and February 1st when the new Federal Reserve Board comes in the President's budget will be presented. The bonus legislation may be disposed of and there will be a better chance to appraise the credit position and decide whether action is necessary. He mentioned the possibility that the Federal Reserve Board was eager to play with its new tools. His inquiry was whether the situation is so serious that something must be done now or whether it might not be better to wait until February.

Mr. Gilbert said he saw no reason except possible sensitiveness on the part of the Board to previous censure for not having acted in time. He thought he saw a reflection of the commercial bank attitude and the directorate of the 12 reserve banks. He said he suspected that if you got hold of 5 big New York commercial bankers tonight they would approve raising reserve requirements because it would mean higher rates and they would make more money.

Mr. Gilbert said he saw no reason to do it. That there is nothing to worry about. Recovery has begun to raise its head. To discourage recovery now would be ghastly and would be regretted for a long time.

Mr. Stewart wondered if raising reserve requirements would check recovery and Mr. Viner was of the opinion that there would

certainly be such a psychological result.

Mr. Gilbert said that lots of banks are in a difficult position and that even those that were not would have their feet taken out from under them by the proposed action. They are not used to working under the new rules and it would be difficult for them to adjust themselves.

Mr. Stewart thought the results of such action unpredictable.

Mr. Viner thought that when and if action is taken there should be 6 weeks notice given.

Mr. Gilbert said that if there is need for emergency action within the next 6 months that he would be inclined to have the Federal Reserve Banks sell Governments or let their Governments run off. He thinks it would be far better to control by that method than to change the whole basis of action with which American banks and American business men are familiar.

Mr. Viner observed that open market operations throw the whole brunt of a credit change on one agency, the Treasury.

Mr. Gilbert thought it would be a great mistake to do that now.

Mr. Viner said there should be a greater variety of powers. In England the Central bank can borrow from the market.

Mr. Gilbert said he opposed open market operations for credit control upon occasion when he was Under Secretary of the Treasury because of the fact mentioned by Mr. Viner -- that it did throw the whole burden on the Government.

Mr. Viner said that he had wanted legislation to permit the

Federal Reserve to borrow from the market but had been unable to secure it.

Mr. Stewart said something of the same effect could be gained by shifts of Treasury funds.

Mr. Morgenthau said that when he came to the Treasury he wanted the Federal Reserve banks to buy some Governments and they would not and had not increased their holdings of Governments since -- merely replacing maturities.

Mr. Stewart said that he thought the burden of proof as to the time for exercising market checks, particularly with respect to doing it now, is on those who favor action. On the other hand, he said, the burden of proof in a quantitative sense is on those who oppose action because after all the \$3,000,000,000 of excess reserves bulk pretty large in the picture. He was of the opinion that the elimination of the excess reserves would put the central banking system in position to act if they needed to. He saw no advantage to the country as against risk to the country in action now. The question remains, he said, as to whether the agencies will act when the time comes that they should. There is some burden of proof, he added, on those who defend \$3,000,000,000 of excess reserves.

Neither Mr. Stewart nor Mr. Gilbert saw anything between now and the first of February which would require action.

Mr. Viner said that action now would be taken without adequate grounds which has so often been true of central bank action in this country. He suggested a statement to the effect that the

Federal Reserve System will do whatever is necessary to check ruinous inflation.

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Mr. Stewart asked if we were in a position to let excess reserves reflect Treasury operations as distinguished from gold imports. He thought those resulting from gold imports more easily defended than those resulting from Treasury operations. He commented that some increase comes from spending the profits of devaluation.

Mr. Morgenthau rejoined that nothing of those profits had been spent.

Mr. Stewart replied that some \$800,000,000 had been added to excess reserves through debt retirement. He asked if it was possible to pursue a policy where the excess reserves reflect gold imports and not Treasury transactions. He sees no objection to excess reserves reflecting imports of money metals, gold or silver. He does not like to see Treasury operations increase excess reserves.

It was pointed out subsequently by Mr. Viner that domestic purchases of silver increase excess reserves but foreign purchases are not effective either way.

Speaking to the point of what the Treasury could do to negative the influence of excess reserves, Mr. Viner commented that it could shift its balance from member banks, to the Federal Reserve Banks (or from member banks to non-member banks) or it could create a time lag before it built up its Postal Savings investment by keeping them in the banks, or it could publish the totals of short

term balances definitely labelling them "bad" money against which an 80% gold reserve ought to be maintained.

Mr. Gilbert commented that it wouldn't be wise to go too far in breaking down the depository system..

There was some discussion of the amount of gold that might flow out and it was agreed that if there were international stabilization on the gold standard, and particularly if gold were put into circulation, we would lose a fairly substantial amount.

There was some discussion of the possibility of French devaluation and Mr. Morgenthau was of the opinion that if they devalued 20% it would not affect the United States much. The view was expressed that it might help the United States to get France out of the devaluation grind.

Mr. Morgenthau said that his comment upon returning to this country that he was not worried about gold coming in freed him from the necessity of worrying about it when it goes out.

Mr. Stewart and Mr. Gilbert both agreed that it was smart to have kept France from devaluation before -- that it would have been bad if it had occurred on May 30th.

Mr. Morgenthau said that he understood England is softening on stabilization and Mr. Gilbert said he hears so.

Mr. Stewart said that it seems a good many of the Federal Reserve people do things for the sake of the record and that if the Treasury makes any comment on the present proposal that we should approach it in the nature of a State document with a written reply. He added that so long as the Treasury is a heavy borrower

and contributes to the ease of the market it has some responsibility.

Mr. Stewart volunteered that things looked a little better to him than they had when he had lunched with the Secretary earlier.

Mr. Gilbert said that he would hate to see reserve requirements raised just as we are beginning to get a little recovery. He agreed that there is a considerable bitterness toward the Administration in New York and that it is probably more intense in Chicago. He said there is an active and growing concern about expenditures -- that intelligent opinion no longer insists upon an immediately balanced budget but that it does want to see reduced expenditures.

Mr. Viner indicated that the global debt of all governments, Federal, State and local is growing less now than it was in good times.

In the course of the discussion Mr. Morgenthau suggested that detailed figures on short term balances for foreign account might well be published in a statistical bulletin which the Treasury contemplates issuing monthly.

Mr. Haas suggested that if so that they be published about 6 months late so that they would not constitute a current series with speculative significance.

The Committee reviewed the preliminary memorandum submitted by the Chairman and discussed at length business and credit conditions and the banking position in relation to them. It was the unanimous opinion of the Committee that the primary objective of the System at the present time is still the furtherance of recovery. While much progress has been made, it cannot be said that business activity on the whole is yet normal, or that the effects of the depression are yet overcome. Statistics of business activity and credit activity, both short and long term, do not now show any undue expansion. In these circumstances, the Committee was unanimously of the opinion that there is nothing in the business or credit picture which at this time necessitates the adoption of any policy designed to retard credit expansion.

But the Committee cannot fail to recognize that the rapid growth of bank deposits and bank reserves in the past year and a half is building up a credit base which may be very difficult to control if undue credit expansion should become evident. The continued large imports of gold and silver serve to increase the magnitude of that problem. Even now actual reserves of member banks are more than double their requirements, and there is no evidence of a let-up in their growth. That being so, the Committee is of the opinion that steps should be taken by the reserve system as promptly as may be possible to absorb at least some of these excess reserves, not with a view to checking some further expansion of credit, but rather to put the system in a better position to act effectively in the event that credit expansion should go too far.

Two methods of absorbing excess reserves have been discussed by the Committee: (a) the sale of Government securities by the Federal Reserve System, and (b) the raising of reserve requirements.

While the Committee feels that method (a), if employed, would have the dual effect of absorbing excess reserves and improving the position of the reserve banks, nevertheless, there are two risks in this method. First, that it may be an unnecessary shock to the bond market, inspiring sales of securities by banks all over the country; second, that however it may be explained publicly, it may be construed by the public as a major reversal of credit policy since this weapon has never been employed except as a means of restraint, which is not desired at this time. A majority of the Committee is opposed to the sale of Government securities at this time, believing that the admitted advantages of absorbing some of the present volume of excess reserves do not now justify the risks to recovery involved in this method of dealing with the subject.

There are also risks incident to method (b), - raising reserve requirements. This method of control is new and untried and may possibly prove at this time to be an undue and restraining influence on the necessary extension of bank credit. The Committee, feels, therefore, that before this method of dealing with the problem of excess reserves is employed, it would be wise for the Board of Governors of the Federal Reserve System to make a thorough study, through the twelve Federal Reserve Banks, of the amount and location of excess reserves by districts and by classes of banks, in order thus to determine whether, or to what extent if at all, an increase in reserve requirements might interfere with the extension of loans and investments of member banks.

In view of the monetary powers now possessed by the Treasury, the Committee is impressed with the importance of advising with the Treasury relative to any steps that may be taken by the Reserve System in order as far as possible to insure reasonable coordination of action.

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Furthermore, the Committee recognizes the possible dangers of the public misunderstanding of any action which may be taken in this matter, and would favor a careful public statement before action is taken.

In making these suggestions to the Board of Governors regarding reserve requirements, the Committee recognizes that it is going somewhat beyond its own immediate jurisdiction, but it has found it impossible to consider open market operations independently from the whole credit situation and other Federal Reserve policies.

Admiral Hamlet

October 28, 1935
Monday

H.G.H.: Hello, Mr. Secretary, Hamlet speaking --

H.M.Jr.: Yes -- The President has asked us to let him have one of the one hundred and sixty five foot wooden Diesel engine boats, what he calls the "two stacker", see?

H.G.H.: Yes, sir, but we have no one hundred and sixty five foot wooden ones, sir, they're steel.

H.M.Jr.: No, steel --

H.G.H.: Yes, sir

H.M.Jr.: He wants steel.

H.G.H.: Yes, sir

H.M.Jr.: If you will come over to my office tomorrow morning at 9:15 I'll explain it to you.

H.G.H.: Aye, aye, sir --

H.M.Jr.: And he wants to get right in touch with Joey Land.

H.G.H.: Aye, aye, sir --

H.M.Jr.: He is going to give us back the Cuyahoga.

H.G.H.: I see --

H.M.Jr.: And he is going to convert one of these one hundred and sixty five footers into a boat for himself.

H.G.H.: I see --

H.M.Jr.: Then I worked out a deal also -- speak to me about it -- where he is going to have the Navy give me a two engine ship.

H.G.H.: I see --

H.M.Jr.: Fine

H.G.H.: You mean an aeroplane?

H.M.Jr.: An aeroplane.

H.G.H.: Fine

H.G.H.: Well, Mr. Secretary?

H.M.Jr.: Yes --

H.G.H.: Shall I bring any plans or anything --

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

H.G.H.: Just come over and discuss it with you?

H.M.Jr.: Yes - at 9:15

H.G.H.: Yes --

H.M.Jr.: -- Because he is very anxious to get it started.

H.G.H.: Well, we can handle it in one day for him.

H.M.Jr.: Oh kay. I thank you. Goodbye.

Frank Walker

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October 28, 1935
Monday

H.M.Jr.: Are you alone?

F.W.: Yes

H.M.Jr.: I'd like to talk a couple of minutes over the phone in advance of tomorrow, see?

F.W.: Yes --

H.M.Jr.: Since I've come back I've found that Peter Grimm has done some very good work. - I don't know what you hear -

F.W.: I hear very good reports of him - very good

H.M.Jr.: Now, you know he's holding these various meetings and I think that they are very helpful.

F.W.: Yes

H.M.Jr.: In the field

F.W.: Yes

H.M.Jr.: And -- of course there is a certain amount of jealousy - the way they are - always, see?

F.W.: Sure --

H.M.Jr.: And there are certain people trying to block it.

F.W.: Yes --

H.M.Jr.: Now, I'd like to make this suggestion to the President if it was entirely agreeable to you, and of course if it wasn't I wouldn't.

F.W.: Yes --

H.M.Jr.: Would it be agreeable to you to have Grimm as an assistant to you, in order that he could get that extra authority which your Executive Council has?

F.W.: - Perfectly

H.M.Jr.: - So that when he goes out in the field and has these meetings he'd really be representing you rather than me?

F.W.: That would be very agreeable.

H.M.Jr.: - And the meetings would be called in the name of the Executive Council -

F.W.: Yes -

H.M.Jr.: You see?

F.W.: Yes -

H.M.Jr.: Because there is some criticism - 'why does he go out and do this' and most of it comes over from Ickes' shop, anyway - the criticism -

F.W.: Yes --

H.M.Jr.: But if he went out and represented the Executive Council, that would end that criticism.

F.W.: Tell him to drop over to see me and I'll have a talk with him and we'll work it out, Henry.

H.M.Jr.: Well, I'd want to talk to the President about it first --

F.W.: Well, I mean - I know -- as soon as you're ready, then.

H.M.Jr.: But I wouldn't talk - make the suggestion about that unless you said, 'Well, Henry, that would be fine'.

F.W.: Henry, it would be fine and I've heard very good reports on what he is doing.

H.M.Jr.: Because you - you don't - you're too busy to get into the field - I'm too busy to get into the field, but he isn't.

F.W.: Yes - I'm going out and I --- I'd like to have a talk -- I'm going out and conduct regional meetings now and he may - it might be all right for him to come out to one that I am going to.

H.M.Jr.: Well, that would be fine.

F.W.: But -- it would --

H.M.Jr.: That would make complete coordination between your shop and mine.

F.W.: I'm very happy to have -- I think your interest mostly with him is this housing business.

H.M.Jr.: And I'd like him to continue to concentrate, but if he had the authority which you have --

F.W.: Yes --

H.M.Jr.: -- to bring that to bear on the housing thing, it would be most helpful and I - I - as long as these fellows want to be more interested in fighting than they are in recovery, I'd like to be a little smarter than they are --

F.W.: Yes --

H.M.Jr.: -- and outsmart them.

F.W.: Yes --

H.M.Jr.: And then with all the authority that you have in the Executive Council, if he could draw on that, it would stop a lot of it.

F.W.: Yes --

H.M.Jr.: But I want him to continue to push housing.

F.W.: I'm perfectly willing to have him do it and you tell him that and as soon as you get it decided upon let me know and I'll be glad to speak to him about it.

H.M.Jr.: You'll be here for the next day or two?

F.W.: Yes --

H.M.Jr.: Well, that would be grand.

F.W.: Yes

H.M.Jr.: I knew you liked him but I wouldn't say a word to anybody until I spoke to you.

F.W.: Yes - That's perfectly O. K. with me.
As a matter of fact I'll be very glad to have him do it.

H.M.Jr.: Fine, Thank you.

F.W.: All right, goodbye.

Peter Grimm

October 28, 1935
Monday

H.M. Jr.: I just talked to Frank Walker and asked him, before talking to the President, how he would feel about that suggestion.

P.G.: Yes

H.M. Jr.: He said, 'Simply delighted'

P.G.: Really?

H.M. Jr.: Yes

P.G.: That's fine.

H.M. Jr.: And he said he is going to have some regional meetings and he is going out and if this arrangement was made he'd like you to go right along with him.

P.G.: Oh, fine!

H.M. Jr.: See?

P.G.: Fine, fine!

H.M. Jr.: So now I'm ready to talk to the President and say it's agreeable to both of you if it's agreeable to him.

P.G.: Yes - well that's fine.

H.M. Jr.: And Walker said just as soon as he - the President - said yes or no that you would please come over to see him.

P.G.: Good.

H.M. Jr.: See?

P.G.: All right, that's --

H.M. Jr.: But I think the publicity on that wants to be very carefully written.

P.G.: Yes, yes -- well, that's first rate. That's the -- all right.

H.M. Jr.: All right

P.G.: All right

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H.M. Jr.: All right.

P.G.: Fine

H.M. Jr.: Listen --

P.G.: Yes --

H.M. Jr.: If a fellow comes down to help me, I see him through, you know that.

P.G.: And you are simply remarkable about it, I --

H.M. Jr.: And when any of these bastards want to fight and slow up the thing, why I can fight.

P.G.: *you're* We're two fisted.

H.M. Jr.: Right.

P.G.: I know, goodbye.

H.M. Jr.: Goodbye.

October 29th

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I telephoned the President to-day and told him that the Chinese Ambassador came to see me at my home last night at 10 o'clock. He offered to sell me from one to two million ounces of silver. He told me that they are going on a paper basis. I laid down the following conditions to him:

1. I want a detailed explanation of their financial program.
2. If they are going to have a Stabilization Fund, I want it handled by American banks.
3. I want some unofficial person to have complete access to their fund and that I want to choose that person though, of course, he would have to be acceptable to them.

I told the President that this is our chance, if they are down low enough, to hook them up to the dollar instead of the pound sterling.

The Ambassador also told me that there is nothing to all this talk about England and Japan getting together against China. My thought is to turn the money over to the Chase and the National City Bank and let them operate the fund for the Chinese so that they will not use the money for their Army.

Our trade with China is off 44%.

It is very amusing to have the Chinese come to us with Leith-Ross sitting in China.

* * * * *

I also called the President's attention to the speech which Tugwell made in California on the budget. I asked the President whether he would mind if I called Rex and talked to him about not making forecasts on the budget. The President said, "by all means do so and tell him that talk of that kind gives the wrong impression at this time, because nothing definite has been worked out and any talk at this time is very misleading".

I also told the President that I would like to give a picnic on the new Roosevelt-Morgenthau farm at Washington Hollow on Saturday, November 2d, and the President said he would be delighted to come and asked me to check with Mrs. Roosevelt.

October 29th

AT

1. U.S. proposes to ①
buy ^{on shipboard} 100 mil of silver
from China and if
proposed arrangements ~~work~~
out, mutually satisfactorily
~~U.S. to consider further~~
~~50 million of~~
purchases.
2. We suggest that
all proceeds from
sales will be used
exclusively for stabilization
of Chinese currencies.
~~in relation to other~~
~~currencies in the world~~
3. That Chinese propose
set up a stabilization

committee ~~selected~~ D
by ~~team~~ of 3 experts
(with gentleman's
agreement that 1
member is from Chase
and 1 from Met City)

That funds secured
from sale of silver
be kept on deposit
with ^{in New York} agents of Central
Bank of China.

(It is understood that
this will be a U.S.
Bank)

It is further (3)
understood that
if the proposal
~~is~~ is mutually agreed
to that.

1. That the year will be redeemable ~~in~~ at the election of the Chinese Gov in any of these ways.

(B) In a fixed

weight of gold at \$
35.00 per oz
c. In a fixed weight
of silver at \$1.27 oz

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 30, 1935.

TO The Secretary
FROM Mr. Bryan

Obedient to your instructions we are reserving space in the February, March and April issues for four-color full page advertisements of the following magazines:

Ladies' Home Journal.	\$12,500	Per issue
Woman's Home Companion.	10,525	" "
McCall's.	9,600	" "
Pictorial Review.	8,500	" "
Delineator.	6,400	" "
Good Housekeeping.	9,000	" "
Total.	\$56,525	" "

We are also placing reprint orders for booklets to be distributed as follows:

To 84,012 urban, village and rural carriers, 50 each. . . .	2,520,360
Supplies to railroad club cars, aeroplanes, steamships, buses, etc.	800,000
To individuals who made income tax returns in 1934. . . .	4,000,000
Total.	7,120,360
Less present order	1,860,000
	5,260,360

5,260,360 booklets at average reprint price of \$6.57 per M. - \$34,560.57

Should we be able to secure distribution of booklets in the rooms of first-class hotels, our booklet order is to be increased by 1,750,000.

Your approval of the poster contest has been transmitted to Mr. E. B. Rowan of the Procurement Division, who is proceeding to put this through immediately.

The prizes under this contest are to be -

First prize -	\$500
Second " -	300
Third " -	200
Total....	\$1,000

October 23th

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Mr. Oliphant, Mr. Kent and Irely, this afternoon, conferred with the Secretary with respect to the question of policy in the matter of prosecutions in Louisiana. We submitted to the Secretary for consideration the question of whether these prosecutions should be deferred until February 1, 1936. It was pointed out that the primaries in the State of Louisiana are to be held in Louisiana on January 21st, and that considerable feeling has developed and will be developing between now and that time of a political nature, in view of which we felt we might stand a better chance of winning the cases to be tried if they were deferred until after the primaries. The Secretary stated that, while this conclusion may be a proper one from the point of view of the lawyers and investigators interested in these cases, yet as an administrative matter it was his feeling that we should go right ahead with the prosecutions as rapidly as conditions would permit. He was very emphatic about going ahead with the prosecutions. With this instruction of the Secretary in mind, Mr. Kent and Irely proceeded to the Department of Justice from the Secretary's office, where a conference was held with Mr. Morris, Assistant to Assistant Attorney General Wideman, at which were present, besides Mr. Kent and Irely, Mr. Burford, Mr. Wilson and Mr. Joy of the Treasury Department, Mr. Boyd and Mr. Crouter of the Department of Justice. They stated the attitude of the Treasury Department with respect to the handling of the remaining cases in Louisiana and, after discussion, it was decided effort should be made to proceed with the prosecution of the Nelson Brothers case the first Monday in December (it will take that long to give proper notice to the defendants' counsel and to have the witnesses available). Mr. Morris stated he would present the facts to the Attorney General and if this conclusion of ours met with the approval of the Attorney General he, Mr. Morris, would immediately take steps to secure, through Judge Foster, assignment of a District Judge to handle the prosecution.

MR. MORGENTHAU: I am glad to be here and to tell you of my personal interest in what you are discussing today. Some people have wondered why the Treasury is so interested in housing. The reason is this: our big problem is unemployment and how to take care of the unemployed. I do not know of any better way to get people back on the private employment rolls than through housing. I think with the little study I have made and with the intense study Mr. Grimm has made, this is one of the most hopeful and most practical methods for accomplishing this purpose and getting people back into private employment, and off the relief rolls and the Treasury rolls. This is a selfish point of view on my part. I think it is fine of you people to come down and take this interest. I think these building shows are most constructive and legitimate in stimulating housing and I wish you all the success that is possible. I will be glad to give you every help that we can in getting these shows started.

(excerpt from Minutes of Manufacturers' Housing Display Council Meeting, held in office of Mr. Peter Grimm, Assistant to the Secretary of the Treasury, 272 Treasury Building, Washington, D. C., October 30, 1935)



TREASURY DEPARTMENT

WASHINGTON

October 30, 1935

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY.

At 9:30 met with the Executive Committee of the Housing Display Council, and at 10 o'clock with the Council itself. About fifty men attended.

Your appearance before the Council and what you said to them was much appreciated, as the many remarks later to that effect indicated. You wished to see a list of the men who attended. It is herewith.

At 1:50 with you to the White House, detailed account of which is also herewith. I have never tried journalistic reporting, so the account is subject to addition and correction by you.

At 4 o'clock with Congressman Sabath and assisting him further with his work. I am, by the way, getting along with him in first rate style.

PG:hh

A handwritten signature in cursive script, reading "Peter Grimm", is located to the right of the typed name.

P. S. Mr. Grimm will hand you the White House story in the morning.

- M. B. Ellis,
Timken Silent Automatic Co.
- D. H. Waddington
American Gas Products Corp.
- Frederic A. Deininger
The Estate Stove Co.
- R. E. Espy
Richards -Wilcox Mfg. Co.
- F. E. Wormser
Lead Industries Assn.
- C. W. Meyers
American Steel Wire Company
- R. W. Smith
National Lumber Mfgs. Assn.
- Henry E. Voegeli
American Brass Co.
- Raymond L. Miller
C. H. Dunham Co.
- P. J. Ayton
Fiat Metal Mfg. Co.
- C. A. Wagner
Kohler Co.
- I. N. Tate
Weyerhaeuser Sales Co.
- Herbert A. Faber
The Fornica Insulation Co.
- K. E. Moore
Johns-Manville
- A. D. Kilham
Bird and Son
- Chas. I. Weiller
Automatic Burner Corp.
- H. E. Gosch
Weatherbest Corporation
- W. E. McLain
Tennessee Coal Iron & Railroad Supply
- Wm. K. Hoyt
H. A. Thrush & Co.
- R. D. Terhune
American Gas Association
- H. Dorsey Newson
Federal Housing Administration
- R. H. Bishop
Detroit Steel Products Co.
- P. B. Pace
Pittsburgh Plate Glass Co.
- C. E. Meissner
American Sheet & Tinplate Co.
- Joseph J. Cermak
Structural Clay Products Co. Inc.
- C. W. Seeley
American Brass Co.
- Jordan A. Pugh
Structural Clay Products Co. Inc.
- Irwing W. Clark
Westinghouse Electric & Mfg. Co.
- Joe M. Baker
Milcor Steel Co.
- J. M. Flippin
The Flintkote Co.
- T. H. Danchy
International Nickel Co.
- H. F. Knapp
Carnegie Illinois Steel Corp
- Russell G. Creviston
Crane Company
- J. F. Cantwell
Indianapolis, Indiana
- I. W. Peffly
American Stove Co.

M. B. Ellis,
Timken Silent Automatic Co.

D. H. Waddington
American Gas Products Corp.

Frederic A. Deininger
The Estate Stove Co.

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American Brass Co.

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C. H. Dunham Co.

P. J. Ayton
Fiat Metal Mfg. Co.

C. A. Wagner
Kohler Co.

I. N. Tate
Weyerhaeuser Sales Co.

Herbert A. Faber
The Fornica Insulation Co.

K. E. Moore
Johns-Manville

A. D. Kilham
Bird and Son

Chas. I. Weiller
Automatic Burner Corp.

H. E. Gosch
Weatherbest Corporation

W. E. McLain
Tennessee Coal Iron & Railroad Supply

Wm. K. Hoyt
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The Flintkote Co.

T. H. Danchy
International Nickel Co.

H. F. Knapp
Carnegie Illinois Steel Corp

Russell G. Creviston
Crane Company

J. F. Cantwell
Indianapolis, Indiana

I. W. Peffly
American Stove Co.

Edwin H. White
The Sisalkraft Co.

Jas. W. Speer
National Elec. Mfg. Assn.

Leonard C. Rennie
Wall Paper Institute

B. B. Caddle
Copper and Brass

J. A. Doucett
Revere Copper & Brass Inc.

L. D. O'Harrow
Southern Pine Assn.

Marshall Adams
American Radiator & S.S. Corp.

Frank Carnahan
National Retail Lumber Dealers Assn.

R. Hartman
Standard Sanitary Mfg. Co.

E. E. Greenwood
Edison Electric Institute

J. F. Quinlan
General Electric Co.

Herbert U. Nelson
Nat'l. Assn. of Real Estate Boards

Chas. H. Pascoe
American Window Glass Co.

H. H. Hobark
Curtis Companies, Inc.

S. M. Eaton
Southern Pine Assn.

T. C. Carter
The Eagle-Picher Sales Co.

A. E. Newby
National Fire Proofing Corp.

Wm. Lancaster
Graybar Electric Co.

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SUMMARY OF LETTER TO THE SECRETARY
FROM MR. GRIMM

1. States visited: New Jersey, Pennsylvania, Massachusetts, Illinois Ohio and Georgia.
2. Real Estate is rapidly recovering, with nominal vacancies in dwellings and desirable retail space. Demand for office, loft, and factory space lags.
3. Real Estate relief agencies have largely served their purposes and may be liquidated at an early date.
4. Lending institutions report better business conditions, but poor banking income and portfolios congested with government bonds. Government competition direct and indirect is complained of.
5. The FHA, FCA, and HLB are performing and are likely to continue to perform valuable functions.
6. The Federal agencies are well-manned, but their activities leave something to be desired by way of better correlation.
7. Conclusions based on observations are
 - a) That the processes of recovery are sufficiently well under way to warrant an acceleration of Government withdrawal from relief activities and from those occasioned by the temporary breakdown of private enterprise.
 - b) That a severe housing shortage is impending, which will fall most severely upon the low and moderate income groups unless steps to speed up supply are promptly taken
 - c) That the time is ripe for a redefinition of the Government's housing program in both low rental and moderate rental fields and for a centralization of authority for execution of that program.



TREASURY DEPARTMENT

WASHINGTON

October 23, 1935

Dear Mr. Secretary:

In accordance with your instructions I, in the company of Mr. Riegelman and Mr. Wilmerding, visited the States of New Jersey, Pennsylvania, Massachusetts, Illinois, Ohio and Georgia. In those States I met with the local and regional representatives of the federal agencies, real estate men, and the heads of banks, trust companies and insurance companies. These men, numbering 344, represented the opinion of responsible persons not only in the cities in which I held my hearings but in cities throughout the state and in surrounding states. For example, in Chicago I met with representatives of lending institutions from 14 cities in Illinois, Indiana, Iowa and Wisconsin. To Columbus and Cleveland men came from Tennessee, West Virginia, Michigan and Missouri.

The conclusions based upon my observations follow:

Real estate is rapidly recovering.

Residential space, especially in the low and moderate rental groups, is in great demand. Vacancies vary from less than 1 per cent to about 4 per cent, as against 10 per cent a year ago, and 20 per cent two years ago. There are, of course, some exceptions to this rule, notably in New England where the closing of mills in such places as Fall River, New Bedford, Chicopee, and Holyoke, have left the low-income groups stranded. Even in those cities, however, residential space for persons of moderate incomes is scarce.

The same is true of retail store space, which is fully occupied in the 100% retail areas, and is filling up even in outlying areas.

Only commercial, manufacturing, and office space shows no improvement, vacancies remaining at about 30 per cent.

Rents in residential properties and in retail stores are from 5 to 10 per cent higher than they were a year ago. Commercial space shows little or no improvement in this respect.

There is some new building of small residences by persons who intend to occupy them. Building for investment is not yet under way, as it is still cheaper to buy than to build.

The experience of the local federal agencies corroborates the testimony of real estate men. The St. Louis agency of the Farm Credit Administration reported a drop from 500 to 50 in the number of loan applications received daily in 1933 and at present. The Columbia, S. C. agency reported a drop from 1300 to 30. The Ohio agency of the Home Owners' Loan Corporation reported that it received in the last 30-day period during which applications were accepted only about 20 per cent of the volume expected. Other agencies reported similar experiences.

Statements by representatives of the FCA, the RFC, and the HOLC indicate that the factor of distress present in the applications made to those agencies is constantly diminishing. The HOLC, which lends only where distress is present, expects to reject three-fourths of its applications which remain to be considered on the ground that there is no distress.

In all communities the Federal Housing Administration reported that the number of loans insured for new construction is constantly increasing as compared to the number of loans insured for refinancing. This change in proportions presumably represents an increase in building activity on the one hand and a falling off in distress on the other.

Lending institutions are not performing their full functions.

The representatives of lending institutions, while agreeing that business in general, and retail trade in particular, is better, sounded a note of alarm. They pointed out that the banks have ceased to exercise their function as middlemen between borrowers and lenders and have become merely the temporary holders of large blocks of government bonds. These because of their low interest rates cannot be passed on to the public.

The low rates on government bonds, in their view, are not a result of the law of supply and demand, but of two other factors: the inability of banks to place their funds elsewhere and the unwillingness of the owners of savings to invest them.

The first of these factors was stated by the bankers to be due to direct and indirect government competition with business. In Georgia, for example, it was pointed out that the RFC, acting through the Commodity Credit Corporation, has completely taken over the making of cotton loans; last year the banks had \$3,000,000 worth of this business; this year they have almost none.

One institution stated that prior to the depression its outstanding live-stock loans attained as much as \$16,000,000. It has been unable to bring its present volume to more than \$500,000. It attributed its inability to expand its loan business entirely to Government competition.

In Iowa and in Georgia considerable dissatisfaction was expressed at the aggressive campaign being conducted by the Production Credit Associations, for the chattel mortgage business. One banker, however, expressed the view that a little more initiative on the part of the country bankers would enable them to regain that business.

In the home-building field there was much evidence that the activities of the Federal Housing Administration in insuring loans and of the RFC in providing liquidity for those loans, have done much to restore to private lending institutions their normal functions. In many cases it was evident that banks and insurance companies are not cooperating with the FHA, simply because they are ignorant of the advantages of cooperation. The evidence which the presidents of the institutions heard from other bankers and insurance men at our conferences led many of them to reconsider their positions. Of these men Mr. Cleary, of the Northwestern Mutual Life Insurance Company, is perhaps the most important.

Some agencies have outlived their usefulness.

It was apparent that some agencies have outlived their usefulness. The HOLC has fulfilled its functions and should be liquidated as soon as possible. This policy was advocated by real estate men, bankers, and the local representatives of the HOLC itself.

The PWA Housing Division and the RA Suburban Resettlement Division were represented as deterring recovery by holding the threat of public competition over the heads of those willing to invest private capital in housing of moderate rentals. Real estate men were unanimous in stating that the uncertainty of the location of PWA Housing and the belief that its incidental conveniences would make it competitive with moderate rental properties had generally retarded private building operations which would otherwise have been undertaken.

In the Farm Credit Administration it seemed that the making of Commissioner Loans might soon be discontinued, the field of farm mortgages being left to the Federal land banks and other farm lending institutions.

Some emergency agencies are still useful.

The RFC still meets a definite need in making its industrial loans, and the RFC Mortgage Company in refinancing income-producing properties.

Title I of the National Housing Act continues to serve a useful purpose, especially in financing the improvement of business properties. Government insurance of modernization loans need not, however, extend beyond 1936.

Other agencies have a permanent value.

Agencies which serve to stimulate and encourage private activity are daily becoming stronger. The permanent value of the Farm Credit Administration, the Home Loan Bank System, and the Federal Housing Administration was attested by all.

These agencies were criticized only on the ground that they were creating competition between different types of private lending institutions. The country banks, for example, were jealous of the aid extended by FCA to farmers' cooperatives; the savings banks were aggrieved at the competition of Federal savings and loan associations; and the savings and loan associations were annoyed that FHA enables commercial banks to enter the home-financing field. Likewise finance companies objected to FHA for encouraging other types of institution to finance the sale of appliances.

Agencies are doing a good job.

In general, the local representatives of each agency seemed to be alert, energetic, and resourceful. I noted a few exceptions to this rule and brought them to the attention of the Administrators concerned.

The only agency which did not seem to be accomplishing its objectives was the National Emergency Council. It does not appear to be a help to the other agencies nor is it playing an important role in the general scheme. In Georgia, however, the contrary is the case, for there the NEC is under very strong leadership, and is acting as a real agency of promotion and control.

There is a certain amount of inter-agency ignorance.

In some localities I found a certain lack of understanding on the part of the representatives of the federal agencies as to their relationships. In general, however, this extended only to the more recent policies and regulations.

In Newark, for example, the representative of the RFC heard for the first time of the FHA's modernization loans to industry. In Boston the officers of the Federal Reserve Bank were not aware that the reserves for FHA's two types of modernization loans could be pooled--a new regulation of great advantage to lending institutions. In Philadelphia the Comptroller of the Currency was accused of hindering the Federal Housing Administration by persons unaware that he had already instructed his examiners not to classify FHA insured loans as "slow, doubtful or lost".

Our conferences corrected these and similar situations.

Further cooperation between agencies is possible.

The representatives of the federal agencies in general reported that they were cooperating with each other. Suggestions for further cooperation were, however, made and in particular I urged upon them that they meet together frequently.

In every community, for example, the Federal Housing Administration reported that the production credit associations were not making modernization loans. In some communities, notably Georgia, the same Administration complained that federal savings and loan associations were not making insured mortgages. In these cases the cure must be by persuasion since both the PCA's and the FS&L's are privately controlled.

The FHA in Massachusetts was particularly resentful of the PWA's use of the term, "federal housing", to describe its projects. The confusion engendered in the public mind by this usage was thought harmful to FHA. Press notices elsewhere confirm this.

In every state the FHA also asked that the Works Progress Administration at Washington be induced to approve their Better Housing Project for a house-to-house canvass of home-owners by white-collar relief workers.

The Chicago office of the HOLC suggested that the Post Office Department might instruct its branch offices to furnish space to HOLC collectors on their periodic visits to particular communities.

The HOLC also criticized the PWA for not advising them of the proposed location of their projects; a number of loans were approved in areas later razed by PWA. Fear was also expressed that PWA rents might interfere with the renting of houses foreclosed by HOLC.

At the Newark meeting a conflict was reported between the PWA and the RA. Both were contemplating projects in Chester, Pennsylvania, where one project was sufficient for the need.

It was further suggested that the interests of the borrower were advanced if an agency rejecting his application for lack of jurisdiction would advise him where to go.

There is some evidence of over-centralization.

In Boston and in Chicago strong criticism of the Washington office of the RFC was expressed by the local advisory boards. In Boston, for example, about 500 applications for loans were received by the local agency, 209 were accepted for examination, and 34 were approved. Of these 34, however, only 9 were approved in Washington. The rejections made in Washington were said to be disrupting the morale of the local agencies, the members of which felt themselves better qualified than officials at Washington to weigh the factors involved in local loans.

The local offices of the WPA in Ohio and elsewhere complained of the long delays in Washington between the submission of their projects and the actual receipt of funds.

These matters I have brought to the attention of the appropriate officials.

Summary of Conclusions.

My observations justify our conviction

1st. That the processes of recovery are sufficiently well under way to warrant an acceleration of Government withdrawal from relief activities and from those occasioned by the temporary breakdown of private enterprise.

2nd. That a severe housing shortage is impending, which will fall most severely upon the low and moderate income groups unless steps to speed up supply are promptly taken.

3rd. That the time is ripe for a redefinition of the Government's housing program in both low rental and moderate rental fields and for a centralization of authority for execution of that program.

Sincerely,

The Honorable

The Secretary of the Treasury.

October 31st

H. M. Jr. told the 9:30 group to-day that he wanted to give a speech on interest rates. He asked Upham and Haas to work together and take typical areas - go back five years and study the interest rates for different classification of business. He said, "our policy is to drive interest rates down and we want to show that a man in Montana had to pay 12% on short term credit and to-day only 5%. Take the yield basis of government bonds and show that as we reduce our interest rates it dragged everybody with it. Take the same 28 business concerns that I used in my previous speech and find out what they have actually saved by refunding their fixed charges at lower rate of interest".

He said, "we are coming out of this depression with a lower interest rate than any other depression in history. Find out if that is true, whether it ever happened in any other depression or only in this depression due to the Treasury policy. No one knows what we have done for the farm owner, the home owner and the business man on interest rates."

I want you all to get started and let's see what we can get together.

October 31st

Lunched with the President Monday. He was most friendly. I chided him for not having answered any of my telegrams and particularly the one where I told him that the bond issue was a success. He said, "I purposely did not answer your telegrams because I wanted you to completely forget about Washington and", he said, "I did send Coolidge a telegram congratulating him on the success of the conversion of the Fourth Liberty".

For the first time he started to run down Ickes. He said with all Ickes' snoopers Colonel Hackett, Deputy Administrator of PWA, has an engineering firm in Chicago and I didn't quite understand what the President meant but I gather that the firm had been splitting fees with somebody. Charlie West told me that the head of PWA housing, Mr. Clas', statement to the President and Ickes on the progress of slum clearance had been found to be incorrect.

I told the President that I would like to have him make Peter Grimm assistant to Frank Walker in the Executive Council in order that Grimm could have more authority to go ahead and co-ordinate housing activities. The President said, "fine". I told him that I had already spoken to Walker and it was entirely agreeable to him. I looked the President straight in the eye and said, "when you make Frank Walker Postmaster General, if Grimm makes good as assistant he could succeed Walker". The President never batted an eyelash but simply said, "that might be a good idea".

The President told me that he had the greatest difficulty in getting diplomats in the State Department to let him send his neutrality proclamation on the Italian-Ethiopian situation prior to the announcement from the League on the similar subject. He said everybody over at the State Department, except Hull, fought me. The President said he knew the approximate date at which the League was going to make its announcement and he thought it would be smart to send it a couple of days in advance and he was tickled to death that he had sent it in advance and that he had gotten all of the "Koodoss" out of it. I congratulated him on having moved first and told him that the people in Europe were tremendously impressed with his proclamation.

He told me to inform Coast Guard not to scrap any more boats that were seaworthy but if they wished to decommission any boats that they should simply lay them up but not sell them. He said he had given the same instructions to the Navy. The reason for these instructions were on account of the European situation and in case of war we would need all of these boats. The President took great pleasure in telling me, in great detail, how he wished to swap the Sequoia and the Cuyahoga for a new 160-foot two stacker, as he called it, from Coast Guard. He told me that I could have the

Sequoia if I wanted it for the Treasury as she came originally from the Department of Commerce but they did not need her as Ambassador Bingham had given a bigger and better boat to the Commerce Department which he owned for \$1.00 a year until his return from England. The Cuyahoga originally came from the Coast Guard but evidently he had been over the plans of the ship on the type of the Coast Guard Electra and had figured out that for about \$3,000 he could convert her into a ship for himself. I enjoyed hearing him talk about it. I asked him if he did not want one of our new 320-foot cutters and he said, "emphatically no" - that he wanted a ship like the Electra because she only drew nine feet of water and could go wherever he wanted to take her.

I told him that I could not use the Sequoia but thanked him. I then said, "as long as we are swapping, I would very much like to swap with the Navy for a new twin motor Lockheed for one of our new Grummans." He wrote out a memo to Harry Roosevelt, photostat copy attached herewith, and unhesitatingly gave me the Lockheed, as he said that it worried him to have me fly in a single motor ship.

Right after luncheon he had Jesse Jones, Peter Grimm, Morris L. Cook, of the Rural Electrification Administration, and Stewart McDonald. I was particularly interested to see how the President would react to this meeting, because on the one hand Stewart McDonald represents recovery and, on the other hand, Cook represents reform. It seems that Jones was there because Cook gets some of his money from him. During the whole discussion Jones practically took no part except once to suggest that the two organizations be amalgamated. It seems that during the President's absence an agreement had been drawn up between the two organizations whereby FHA would stop financing electric appliances for homes notwithstanding the fact that they are doing about a million and a quarter dollars business a week in this field alone.

The philosophy that Cook had been advocating is that the only way to get power companies to reduce their rates was through, what he called, the pressure method - namely, to withhold government financing for electric appliances in any district which would not lower its rates where the rates were excessive and, if I understand it, gradually for the government to go into that district and sell electric appliances at very low cost as they have in the Tennessee.

When the meeting started the cards were all stacked against me but I kept drilling into the President that FHA was doing this large business and it would take months and months for Cook's organization to get started. It seems that Cook has put his approval on so-called good companies in only 6% of the whole territory in the United States. I innocently asked what the purpose of the Federal Power Commission was and I was told that they were simply a fact finding organization and nothing else. Of course, I appreciate the

THE WHITE HOUSE
WASHINGTON

H.L.H.

When I saw the great 2000
plan. I was glad to see a
snap off the end of the
for the summer plan.
you are getting for

Feb

necessity of going into certain sections, like on Long Island where the rates are very excessive, and try to get the companies to bring them down but just at the moment I think it is more important to keep FHA in the field where they are doing such a big business than it is to stop them and let Morris Cook try and monkey with the big power companies, through a means and method which approach - blackmail.

During the discussion, it was brought out that Title No. 1 of FHA expires April 1. Stewart McDonald was ready to say that he would stop financing electric appliances then. I told the President that I thought Title No. 1 was doing excellent work and should be extended for a year. He said, "no it should be extended to December 31, 1936". The upshot of the whole meeting was that the President laid down the following rule of thumb:

That FHA should keep out of the urban area (they practically do no business there now).

That Cook's organization should confine itself largely to the rural area (that is where they are now) The borderline area where a company is serve both the city and country and Cook should determine in which of these areas he wishes FHA to keep out of.

If Cook was conducting any negotiations with any power companies he would have the right to tell FHA to keep out of that area.

After almost 45 minutes discussion, someone asked Cook what areas he wanted FHA to keep out of right now and the only area he could think of was the Central Hudson of Poughkeepsie. After leaving both Grimm and McDonald congratulated me on what I had been able to accomplish and I told them that it was quite evident that the fact that made the President decide the way he did was that he did not wish to lose at this time the large amount of business that FHA was doing. The fact that interested me was that the President is evidently willing, at this time, to soft-pedal at reform in behalf of recovery. If he will only stick to these principles for another year I predict that we will be sufficiently along the path of recovery so that we can afford additional reform measures.

Bell and I had our first session with the President on the budget and I keenly looked forward to feeling his pulse after his associating with Ickes and Hopkins for three weeks. I was anxious to find out whether he would be for more spending or less spending. Much to my surprise, I found that he had cut down his estimates for relief for next year to one billion dollars of new money - five hundred million dollars for public works and count on one billion dollars carry over from the various relief agencies to be used after July 1. Attached hereto is a photostat copy of the memo that

SUMMARY OF BUDGET ESTIMATES FOR FISCAL
YEARS 1936 AND 1937

(In millions of dollars)

CONFIDENTIAL

	Fiscal year 1936	Fiscal year 1937
Receipts:		
Internal revenue (excluding AAA)	\$3,322	\$3,935
Processing taxes (AAA)	536	536
Customs	353	346
Miscellaneous	259	250
Total:	\$4,470	\$5,067

Expenditures:		
Regular departments and agencies	2,301	2,800
Interest on public debt	745	813
Benefit payments (AAA)	590	500
Recovery and relief <i>New Mexico</i>	3,565	4,700
Total:	7,201	5,113

Deficit exclusive of debt retirement	2,731	46
Debt retirement	551	580
Deficit, including debt retirement	\$3,282	\$626

(October 26, 1935)

CONFIDENTIAL

Regraded Unclassified

Bell gave him with the President's own changes on this memo. The President's thought is to take out of all appropriations items for new buildings and put them into the five hundred million dollar public works group. As I told the President, after he went over the whole proposition, that I would be more than pleased if next year's budget would be the one that we were working on that day so he said, "of course, it is too early to tell what it would be". I asked him about the bonus and he rather curtly brushed the remark aside so I had no way of knowing what he had in mind other than that he did not wish to discuss it at that time. His instructions to us were to try and hold all administrative expenses within last year's figures. That the 500 million dollars of public works would be exclusive of CCC and would not include any battleships for the Navy or airplanes for the Army. He seems to have it in mind that we may have to go ahead and build up our Navy even more rapidly than we are. He said that when he was in the Panama Canal he found that they had only 30 airplanes and that they were so old that it really was dangerous to let them go up. He told me that he wanted next year to start a War Department Building and to build it out of appropriations made in three successive years. He wished to start a so-called Apex Building. He wanted to build the building one block south of the Mall - a new concrete storage building for all Departmental old files.

I came away from this first conference very much pleased. The President certainly has his feet on the ground. He told me that his rest had done him more good than any that he had since he has been President, and he shows it. He and I together are almost two different men from what we were when I last saw him in September. You again get the feeling that he has strength and reserve power and confidence in himself and the power to inspire confidence which certainly seemed to be lacking during July, August and September. I realize how tired I was and I suppose the President was just as tired because he told me before I left about the bad headaches he was having and he said to me, "I want to ask you a question which you may or may not want to answer". He said, "did you realize in June of 1933 that business had picked up as much as it did at that time". I said no I had not and he said he had not either. He made this remark, when we were going over the charts which he very much wanted to see as he said he had not seen any charts in two months. The only item that he particularly drew my attention to was the fact that employment was going up more rapidly than factory wages. He said, "we will have to do something about this". Whenever he looks at the automobile charts and sees that Chrysler is doing well it always seems to please him. I think the reason is that he does not like the General Motors crowd.

* * * * *

Louis Howe called up and said, "I had something to do with your appointment and I want you to know that I am proud of what you have done in the Treasury."

This should be included in my Chinese Story. 201
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Oct. 31, 1935

TO Mr. Morgenthau

FROM Lockheed

In connection with the apparent decision of the Chinese to make a change in their present currency the following is suggested as a possible basis which might be practical and acceptable from both the Chinese and American point of view.

- (1) That the Chinese Yuan be revalued on a basis of 4 Yuan to each United States dollar.
 - (a) This would about be in line with the current rumors that the revaluation be made on a basis of 12 - 13 pence (24 - 26¢) or par with the Japanese Yen (28¢) or 3 1/2 Yuan to one Customs Gold Unit (27¢).
- (2) The new Yuan currency to be redeemable on demand by draft or Cable transfer on the Chinese Government's correspondents in the United States at the rate of 4 Yuan to \$1.00.
 - (a) The Chinese objection to this might be that their currency would be at the mercy of any further change which we might make in our currency which might not be suitable to them. In order to protect themselves against this contingency they would also have the option of redeeming their notes either in gold or silver as follows:
- (3) Their currency would be redeemable in gold at a fixed weight based on the present price of \$35 per ounce.
- (4) Or redeemable in a fixed weight of silver based on the current price of say 65¢ per ounce.
- (5) By using this method the Yuan would be related to the dollar and be the first unit of a possible dollar block as contrasted to the so-called "sterling" or "gold" blocks. If the price of silver was allowed to decline to any great extent in the future they would be protected by their right to redeem the notes in silver. If on the other hand the price of silver was advanced greatly over the present value they would be protected by their option to pay off their notes in gold.

- (6) As an inducement for them to follow this plan we could agree to purchase whatever proportion of the silver which the Chinese Government would control through the redemption of the old bank notes as they found necessary to sell, giving them an assurance of a stable price for the silver so sold.
- (7) They would probably wish to obtain a loan in order to stabilize their currency but it is questionable whether such a loan would be absolutely necessary as they would obtain a considerable profit on the silver sold to the United States.
- (8) They would not of course be able to obtain the full profit of devaluation on the silver coins circulating in the interior of China over which they have no control. However, by maintaining their present export tax on silver of about 15% they could undoubtedly realize a considerable additional profit from this source as holders of these amounts exported them in order to take advantage of appreciation in value of the silver coins.