

DIARY

Book 61

March 20 - March 31, 1937

Agriculture

Agricultural Adjustment Administration: HMJr requests tabulation of benefit payments by crops, disbursements of which remain to be made as of 3/15/37; also an analysis of 1937 program by crops, estimated benefit disbursements, and what a farmer is required to do in order to secure a benefit check - 3/23/37.....	LXI	54
Farm Tenancy Bills: Haas asked for analysis of bills - 3/24/37.....		104
a) Analysis - 3/29/37.....		195
Agricultural Adjustment Administration		
See Agriculture		

Bullitt, William

Leaving for Paris tomorrow; sees HMJr at five o'clock - 3/29/37.....		248,287
Business Conditions		
See also Government Bond Market		
Feis memorandum: "To guard against unsatisfactory interruption or termination of the course of economic improvement in this country" - 3/29/37.....		268

Carriers' Taxing Act

See Railroad Retirement Act

China

See resume of conversations between HMJr and Chinese delegation - Book LXXVIII, page 190		
American Embassy, Nanking: Kung to be Special Envoy to attend British coronation; no intimation that selection is connected with prospects of additional British financial assistance, but this would be logical assumption in view of recently increased British efforts to consolidate position in Tientsin - 3/24/37.....		63
American Embassy, Nanking: Chiang Kai-shek to head Finance Ministry during Kung's absence - 3/26/37.....		151
Nicholson cables regulations for organization of Central Reserve Bank, approved 3/24/37.....		153

Eccles, Marriner S.

See Government Bond Market

Excess Reserves

See Government Bond Market

Farm Tenancy Bills		
See Agriculture		
Federal Reserve Board		
See Government Bond Market		
Financing, Government		
See also Government Bond Market		
Haas memorandum: "Cash balance and financing requirements"		
3/27/37.....	LXI	167
France		
See Stabilization		

Gold		
See also Stabilization		
Earmarked gold: Taylor resume of steps taken from time of conference on 1/27/37 with representatives of Great Britain, France, Netherlands, Switzerland, and Belgium - 3/31/37.....		354
a) Replies from each country indicating agreement to Treasury's proposal		
1) For acknowledgment by Royal Netherland Legation (Washington) of authorization from Netherlands Government, see Book LXV, page 210		
b) New gold license for Federal Reserve Bank of New York		
Government Bond Market		
For Eccles statement, see Book LX, page 98		
Burgess-HMJr conversation - 3/20/37.....		7
a) Burgess reports Eccles statement did not improve matters		
b) HMJr says neither FDR nor he saw statement before it was issued		
HMJr-Taylor conversation concerning market - 3/20/37.....		14
Burgess memorandum - 3/20/37.....		22
" " (further decline) - 3/22/37.....		49
" " (prices rising) - 3/24/37.....		65
" " (no purchases) - 3/25/37.....		106
" " (downward movement in moderately active but orderly trading) - 3/31/37.....		346
Haas memorandum: "Causes and character of recent rise in interest rates" - 3/27/37.....		156
Haas memorandum: "Decline in aggregate amount of direct Government securities held by weekly reporting member banks" - 3/29/37.....		178

	Book	Page
Government Bond Market (Continued)		
Upon return from Georgia, HMJr discusses situation at group meeting - 3/29/37.....	LXI	204
a) HMJr asks Gaston to assemble Eccles statements (in Fortune, et ceters) so that HMJr may take them to the White House - 3/29/37		
b) At white House luncheon, wants to keep from mentioning Eccles; thinks there are two distinct angles to question: (1) interest rates and (2) revenue		
1) Does the Treasury want to take position that Federal Reserve move to increase excess reserve requirements artificially changed the whole level of interest rates?		
HMJr asks Securities and Exchange Commission how many bond or stock issues have been held up recently pending market conditions - 3/29/37.....		243
HMJr tells group, after conference with FDR, that FDR said, "I'm not going to buy your bonds when they're only around 2 $\frac{1}{2}$, and there are millions like me"; HMJr does not think FDR had seen either of the Eccles statements - 3/29/37.....		254
HMJr and Eccles lunch together - 3/30/37.....		287
a) Eccles quite apologetic; assures HMJr he is going to write no more articles		
b) Eccles says there are three things Federal Reserve can do: (1) announce that additional increase in excess reserves on May 1st will not apply to country banks; (2) start open market operations, concentrating on purchases of bills; (3) ask Treasury to deposit more gold certificates from our sterilized gold		
Duffield story: Harrison tells HMJr "it didn't help any" - 3/31/37.....		298
a) HMJr asks Taylor and Gaston to check on source of information.....		324
Great Britain		
See Stabilization: England		

Housing

Lindow (Division of Research and Statistics) requested to make up book including two sheets for each housing project of Public Works Administration (53 in number) and two sheets for each housing project of Resettlement Administration - 3/23/37.....	53
--	----

- M -

Mellon, Andrew W.

Elephant memorandum giving abstract of what the Mellon
brief shows about the character of his activities
in relation to his Federal taxes - 3/29/37.....

Book Page

LXI 184

- N -

Narcotics

Graves memorandum to serve as basis for discussion with
Ambassador Bullitt on general subject of relations
of State and Treasury Departments with regard to
narcotics - 3/29/37.....
Thompson memorandum from Marseilles - 3/31/37.....

179
347

- R -

Railroad Retirement Act

Re Altmeyer conference - 3/23/37.....

52

- a) Williamson (Social Security Board Actuary) has
computed cost of proposed railroad retirement
allowances and found they will run 8- or 9% of
the railroad payrolls; Williamson feels Latimer's
estimated retirement age, averaging seventy, is
entirely too high
- b) Williamson apparently considers so-called differential
correct, although Treasury computations show it is
without basis

Bill to amend the Act - 3/24/37.....

68

- a) Memorandum showing probable cost of proposed bill -
3/24/37.....
- b) Magill conference with Representatives Doughton,
Cullen, and Cooper - 3/24/37.....
- c) Magill conference in Senator Harrison's office;
present: Harrison; Representatives Doughton, Vinson,
and Crosser; Altmeyer (Social Security Board); Latimer
(Railroad Retirement Board); George Harrison (Chairman,
Railway Labor Executives Association) and Hay (Attorney
for the Association); Pelley (President, Association of
American Railroads) and Fletcher (Counsel for the
Association) - 3/24/37.....

97
100

Magill describes conferences to HMJr (in Georgia) - 3/25/37..

101
109

Magill-Latimer conference on Latimer calculations of
requisite tax - 3/25/37.....

136

Altmeyer reports Williamson (Actuary for Social Security Board)
and Glenn (Actuary for Retirement Board) agree there is no
evidence to show any tangible differential in favor of the
railroad employees prior to 1980 - 3/26/37.....

154

HMJr tells Magill, FDR has not discussed rates with anybody
and is willing to leave it to Treasury to work out -
3/29/37.....

250

	Book	Page
Revenue Estimates		
HMJr tells Bell a revision must be prepared for FDR -		
3/29/37.....	LXI	255
a) At Warm Springs, FDR told HMJr, "With the Farm Tenancy Bills and the others, it will be a couple of hundred million dollars over the estimates but they won't spend but thirty or forty million of it; you won't have to borrow any money - it's just on the books, that's all; it's just an appropriation"		
1) Bell: "That's what hurts"		
- S -		
Securities and Exchange Commission		
See Government Bond Market		
"Selective Spending"		
See discussion of Haas memorandum on subject "Selective Federal Purchasing and Allocation of Federal Projects from Standpoint of Employment and Cost of Materials" prepared for second conference with Governors' Council -		
3/31/37.....		292
Stabilization		
Farmarked gold: Taylor resumed of steps taken from time of conference on 1/27/37 with representatives of Great Britain, France, Netherlands, Switzerland, and Belgium -		
3/31/37.....		354
a) Replies from each country indicating agreement to Treasury's proposal		
1) For acknowledgment by Royal Netherland Legation (Washington) of authorization from Netherlands Government, see Book LXV, page 210		
b) New gold license for Federal Reserve Bank of New York		
England: Possibility of dropping price of gold discussed with Bewley at Sea Island, Georgia - 3/26/37.....		155-A
a) HMJr does not think anything in Tripartite Agreement necessitates consultation with partners in regard to dropping price		
b) HMJr also thinks gold, in future, should be purchased only from designated agents of Governments, as, for example, Central Banks; thinks increased Russian sales are to secure money to buy war materials		
France: For Denoyer story in "Le Petit Parisien" stating that HMJr gave Bonnet "unequivocal assurance," see Book LVII, page 212		
Gaston-Wilson (United Press Associations) correspondence concerning article - 3/16/37-3/30/37.....		280
Market movements resume' (Cochran) - 3/25/37.....		139

- T -

	Book	Page
Taxation		
Internal Revenue Forms:		
Magill reports Committee has made certain preliminary recommendations - 3/26/37.....	LXI	155
Treasury Department		
Washington Herald statement that the Treasury is the worst organized department in Washington discussed at 9:30 meeting - 3/31/37.....		289

- U -

Unemployment Relief		
In preparation for second conference with Governors'		
Council:		
a) HMJr discusses Haas memorandum "Selective Federal Purchasing and Allocation of Federal Projects from the Standpoint of Employment and Cost of Materials" at 9:30 meeting - 3/31/37.....		292
b) HMJr discusses additional material with Lubin.....		305
c) " " " " " Hopkins...		308
d) " " " " " Perkins...		312
e) " " " " " Wallace...		315

U

GRAY

Paris

Dated March 20, 1937

Rec'd 11 a.m.

Secretary of State

Washington

388, March 20, 1 p.m.

FROM COCHRAN.

Unofficial exchange trading very quiet this forenoon with Bank of France acquiring a little sterling.

In article entitled "Blum Faces Hard Test" Paris correspondent of LONDON FINANCIAL NEWS today says in part:

"Most people admit that if the Government is to finance its plan at least the money market must be flush with funds and that the money market (now very tight) cannot be flush with funds unless hoarded or exported capital continues to come home. They admit also that if the loan on account of its extraordinary privileges has been so quickly subscribed that does not necessarily mean a rebirth of confidence such as must preclude all further flight of capital. At best it may be said that we are in the very first stage of convalescence--and even that is not certain. Granted that the money which the Treasury has now received is enough to carry it along into the summer when the pressure on the exchanges should be eased and the recovery should make headway, it is being asked already whether renewed trouble

can

U -2- #388, Mar. 20, 1 p.m. from Paris

can be avoided in the early autumn when the tourist quits these shores and when incidentally the Treasury faces a heavy internal debt maturity. And there are those who also look further ahead and express grave doubts about the budget for 1938".

Lucien Weil today invoiced to Baker and Company, New York, 995,000 francs silver bars ILF DE FRANCE.

WILSON

CSB

RECEIVED

APR 1 1938

RECEIVED
APR 1 1938
U.S. DEPT. OF THE TREASURY

RB

GRAY

London

Dated March 22, 1937

Rec'd 3:45 p. m.

Secretary of State
Washington.

162, March 22, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

The financial editor of the LONDON TIMES refers today to the recent statements of Messrs. Wallace, Eccles and Roper expressing concern over the possibility of another boom developing in the United States and after indicating that the reason for this concern is the rapid rise in prices states "it used to be said during the depression period that prices could be raised by monetary methods and every device was resorted to to make money cheap in order to raise prices. But though the American problem has entirely changed a reversal of monetary policy is not contemplated. Mr. Eccles apparently fears that if the sharp rise in basic commodities were controlled by a restrictive monetary policy other undesirable results might ensue and now seems anxious to suggest that the rise in prices has not been due to monetary factors. He also holds that the safest way to control unjustified price increases is to expand production and that cheap money is necessary to achieve

RB

-2-#162, March 22, 6 p. m. from
London

to achieve this. This may be true but if the American authorities wish to control the price structure they should not forego the use of what may prove to be their most powerful weapon. Experience leaves little room for doubt that one of the main causes of the rise in prices in America as in this country has been the depreciation of the currency for although depreciation takes effect first in terms of gold it is only a matter of time before the depreciation also becomes effective in terms of other commodities".

Although there is some feeling of nervousness in Paris today the demand for francs continues unabated.

BINGHAM

CSB

March 20, 1937
11:25 a.m.

Treasury

Operator: He's talking to somebody else now. I'll ring you back.

W. R. Burgess: Right.

T. O. Right.

B: Hello, Sir.....

HMJr: Mr. Bur

B: ...how are you?

HMJr: How are you?

B: Well, I'm pretty well...

HMJr: ah ...

B: ..just a little party here this morning.....

HMJr: Yes I.....

B:but it's not badly active.

HMJr: I was just talking to Wayne and I thought I'd talk to you.

B: Yes.

HMJr: This is Saturday, the end of the week, and I just thought I'd get

B: Yes.

HMJr: Wayne knows about it and he's listening on the phone.

B: Well, we've bought about seven million so far today.

HMJr: Is that the total?

B: That's the total so far, yes.

HMJr: Yes.

B: And the market is quite weak.

HMJr: Yes.

B: But it's been a little quieter the last few minutes.

HMJr: Yes.

B: It's just going through this process of readjustment, I think,....

H.M.Jr: Yes.

B: And there's nothing very much we can do about it. We're keeping orderly market.

HMJr: Yes.

B: We're watching here to see if the time comes when it, when it might be turned a bit.

HMJr: Yes.

B: But there's no use trying until we get a little bit of a prospect of an opening.

HMJr: Well, now Friday looked as though it took care of itself, didn't it - or Thursday was it?

B: Thursday, it pretty well took care of itself, yes. Before I came in and selling dried up; but these markets slop about - you can't tell much about them. I think we're getting nearer bottom here.

HMJr: You do.

B: I think that is evidence, that we are.

HMJr: Well, now is the selling coming from banks or from individuals?

B: Mostly banks.

HMJr: Yes.

B: And one Savings Bank selling here yesterday.

HMJr: Ah- from what State?

B: Well, that was the New York City Savings Bank, but they're - selling is coming from commercial banks everywhere; no particular place - just a little orders dribbling in from all over, some larger orders.

HMJr: Yes.....

B: Guess all the boys who've been speculating in these things want to sell at the same time.

HMJr: Well, now of course this has been going ten days. Now, what reasons do they give for selling?

B: Well, they, they think they're going lower.

HMJr: Yes.

B: They got the profit and they want to go out. A lot of them bought the longer bonds thinking they'd hold them for awhile and later switch to shorter. They've all of them got. There must have been a lot of fellows speculating in these.

HMJr: Well, don't they pin it on anything?

B: Ah - well, this inflation talk, you know, has had a great effect. A lot of them are talking more about that. That, that's been very important, I think.

HMJr: Didn't Eccles' statement quiet them on that?

B: No, I don't think they were quieted on that. You see they've been talking about it all the time.

HMJr: Well, you know I never saw that statement, you know, before it was given out.

B: You mean Marriner's one.

HMJr: Yes.

B: Well, I didn't either.

H.M.Jr: And neither did the President.

B: Yes.

HMJr: I just wanted you to know that.

B: Well, I don't think that had very much effect on the market either way.

HMJr: Well, I don't think it helped any.

B: Well, I don't think it helped it very much.

HMJr: Now this, this - I think you're going to find out that this is going to be a time to do something and not to talk about it.

B: Well, I don't think there's much you can do about it Henry. I think it'll take its course and I think it's running out gradually.

HMJr: Yes.

B: I think you'll find that in feeling for a bottom it'll, it'll level off here - pretty soon.

HMJr: Well, you know how we feel; you know when our money's exhausted.

B: That's right. Well, we're going right ahead and doing whatever is necessary, you know.

HMJr: Yes. Well, I think up to now - I mean you have done everything....

B: Yes.

HMJr:I mean as far as buying is concerned.

B: Yes, yes.

HMJr: But - if you don't mind my saying, I'm not satisfied with the analysis; I don't mean that, that -- I'm satisfied with what you tell me, but I'm not satisfied with the information.

B: Yes, yes.

HMJr: I mean I'm - I think you're telling me what you think it is - see?

B: Yes.

HMJr: But I think, I think it's something else; I've thought so right along.

B: Well, I don't know what to say, Henry.

HMJr: No. But, another week or two will tell the story.

B: That's right. You can tell as it goes ahead.

HMJr: And I've got a week of some rest, not much.

B: You've got a what?

HMJr: I have a little rest in me and in another week I'll feel strong enough to

B: That's fine.

HMJr:take anything.

B: Well, I, I really think that this is one of these things that was just on the card and was bound to happen, and the best we can do is to soften the blow a little.

HMJr: Yes, but the more you look back on this idea you'll agree with me that you could tighten up short term rates and not - tighten up long term rates.

B: Oh, that is balogna; you couldn't do that.

HMJr: You just can't do it, that, that's - Eccles kept talking that you could tighten up short term rates and not tighten up long term rates, and I don't think that's possible.

B: Yes. Well, I think it was inevitable that these rates would go up some - the long term rates, but I think they'll find a level here pretty soon.

HMJr: Well, there are places where I differ; I think that they would have, but I, I think that that time was at least, for them to do so naturally, was, was a month, if not a year or two, off; because the commercial needs for money weren't there and they're not there now.

B: Well, the people are anticipating it; these markets always anticipate what's going to happen, or they try to.

HMJr: Yes, but where we differ is, I think that the Federal Reserve anticipated it too soon, that's - that's where we differ.

B: Well, I, I think.....

HMJr:

B:our actions had something to do with it, of course.

HMJr: we tell the story.

B: I think it's had a good deal to do with it.

HMJr: What?

B: But I don't think you can back up on that, Henry.

HMJr: Pardon me?

B: I don't think you can back up on it and get away with it.

HMJr: But to back up on it?

B: No, I don't think you can do that -- and our long range problem here is what to do about these inflationary things; and the market just hasn't adjusted itself to that angle.

HMJr: Well, ah.....

B:That's a long story.

HMJr:I, I'm in a very philosophical mood, and, and as I say, from a market standpoint, I mean the handling of the market, I, I have absolutely no criticism, see?

Hello. Hello.

B: Yes, just a minute, I - they're starting an adding machine here.

HMJr: Oh. I say I have no criticism as to how you handle the day to day operation, I

B: Well, I'm glad to hear that Henry.

HMJr: What?

B: I'm relieved at that.

HMJr: Well, I have absolutely no criticism of how you handle the day - I'm perfectly satisfied.

B: Yes.

- 7 -

HMJr: And I

B: Thank you, Sir; I'm glad to hear that.

HMJr:called you up during the week. That perfectly satisfies how you handle the day to day operations.

B: Good.

HMJr: I want you to know that.

B: Well, I'm glad you told me.

HMJr: Well, ah - if the thing continues I may call up again in a couple of days, but we'll see All right.

B: Well, we're watching it very closely, Henry.

HMJr: All right, Randolph, now be good.

B: Good-bye.

HMJr: Good-bye.

B: Good-bye.

Taylor: Hello.

Treasury
Operator: Go ahead.

T: Hello.

HMJr: Hello.

T: Yes.

HMJr: Wayne

T: Fine.

HMJr: Did you hear it?

T: Yes.

HMJr: Did you make a record of it?

T: Yes.

HMJr: It's on the machine, isn't it?

T: Yes.

HMJr: Right. Any difference?

T: No. I think that's just right.

HMJr: What?

T: That's just right.

HMJr: How does, now does Archie feel?

T: (Pause) Ah, he says, he says that's just right, too.

HMJr: And - well that's the way I feel, but - the reason I said it was because - well, I thought it was time. I haven't talked to him in a week.

T: Yes.

HMJr: And
I thought I could, could afford to be a little philosophical, which I am.

T: Well, the only thing I was worried about this morning, was that after I'd talked to you that we would go ahead and con - try to continue joint account, you see.

HMJr: Yes.

T: And I was very worried about that because I didn't see where we were going to end up on our cash position.

HMJr: Yes.

T: And I think that the way it is now is the best - is the only gamble we can take until we go the whole way on the, on the rail movement, see?

HMJr: I guess so.

T: Right?

HMJr: That's right. Well, I'll tell you what you do - ah, give me - when you get the market closings, give me, just give me a ring on the phone, will you?

T: I will.

HMJr: And after the market closes I'd like to know how much it cost us to give it a break.

T: Right.

HMJr: May I have Mrs. Spangler, please?

Treas.

Operator: Hello.

HMJr: Mrs. Spangler.

T. O. Yes, sir.

March 20, 1937
12:25 p.m.

HMJr: Hello.

Wayne Taylor: Hello, Henry.

HMJr: I wanted to go out but I thought I'd

T: I just had it - we, we just crossed 'cause I was going to call you.

HMJr: Good.

T: Ah, lousy.

HMJr: Yes.

T: Do you want the individual issues?

HMJr: Oh, just 2 1/2's and 2 7/8's.

T: 2 1/2's 98-25.

HMJr: 98 how much?

T: 25.

HMJr: Yes.

T: 2 3/4's of 51-54

HMJr: Yes.

T: 99-30.

HMJr: How much off is that?

T: 1 3/8's.

HMJr: 1 and what?

T: And 3/8's, - 3/32nds.

HMJr: Yes.

T: The 56's, 59's did the same - closed the same place.

HMJr: That's off - they're off how much?

T: 1 and - 1 1/32nd.

HMJr: That's a real break, isn't it?

T: Yes.

HMJr: How much did they spend?

T: Nine million.

HMJr: Nine million?

T: Yes.

HMJr: Let's see, that's

T: Our half is four - is four and a half.

HMJr: That leaves us about what? Five or six?

T: Yes.

HMJr: Million.

What did the rest of the market do?

T: Stocks off.

HMJr: How much?

T: Half a point.

HMJr: Yes.

T: Not much - not terribly big volume. It's
industrials.

HMJr: What about

T: Rails unchanged; utilities up 6/100ths;
commodities up - not much, 15/100ths, but

HMJr: How much

T: but, but wheat went up, corn went up, and
cotton went up, not much.

HMJr: How about corporate bonds?

T: Corporate bonds are up.

HMJr: What did sterling close at?

T: 88 5/16ths.

HMJr: Is that up or down?

T: 1/8th down.

HMJr: Well, there's nothing we can do about it

T: What?

HMJr: unless - have you any suggestions?

T: No, just as, just as is and hope to God somebody changes their mind over the week-end.

HMJr: Pardon me?

T: Just hope that somebody changes their mind over the week-end.

HMJr: All right. Is the weather so's you can get a little golf?

T: Unless it snows I'm going to play anyhow. (Laughs)

HMJr: All right. Ah, does Archie want to say anything?

T: No, he says that covered it.

HMJr: Yes.

T: It, it might turn, Henry, but it looks lousy; been just, just a rotten market.

HMJr: Well, as long as we take the position we have, there's nothing we can do.

T: . That's right.

HMJr: And, we've done everything we can, and the next move is up to the Federal Reserve.

T: Right.

HMJr: And I think they've got a terrific responsibility.

T: No question about it.

HMJr: And the fact that - that there's no newspaper that thinks it's our responsibility.

T: Right.

-4-

HMJr: And, this theory that Marriner
that long term rates would pay the same and that
short term rates would tighten is just crazy.

T: Ah, Ever

HMJr: I think that - I wouldn't be surprised
... (fade out)

T: Well - I'm - I think Monday's going to tell your
story.

HMJr: Well - it may. I'm, I'm, I - you see I'm a little
rested now

T: Yes.

H.M.Jr: and I can take this sort of thing. See?

T: Well, the reason I think Monday is important is
because tax receipts

H.M.Jr: Yes.

T:will be pretty final by then.

HMJr: Yes.

T: Ah - the market's watching that like a hawk.

HMJr: What?

T: The market's watching that figure like a hawk.

HMJr: They are.

T: Yes.

HMJr: Well, that's because the tax figure is going to be bad.

T: Right.

HMJr: Tax receipts.

T: And - well for instance, that shift, shift in our
balances.

HMJr: Yes.

T: They picked that up right away.

- 5 -

HMJr: Was it on the ticker?

T: On the ticker? Yes.

HMJr: I mean, that we called a hundred million?

T: Yes. And they knew just what that was too.

HMJr: Yes. Well, I thought they would.

T: Yes.

HMJr: Well, maybe they discounted today.

T: Well - it may be. But, as I say, people might change their minds over the week-end, but if they don't, why, we're going to have a rough day on Monday.

HMJr: Yes. Well, I told the President that I would not go back to Washington until I'd had a good talk with him.

T: Right.

HMJr: Because there is nothing that I can do single-handedly.

T: Not a damn thing.

HMJr: After all, you've got the strikes; you've got people who, who'll talk nothing but about the Court; and you've got - you're going to have bad tax figures, and the financial critics are going to ask, "Well, what is the Government going to do to make up this loss in revenue?"

T: It's the first one.

HMJr: And, no one can answer that but the President.

T: Right.

HMJr: I can't, I can't answer

T: You, you can't do a damn thing alone, Henry.

HMJr: I mean, I can talk my head off that I want to balance the budget, and all that, and cut down expenses

T: You're thinking absolutely straight.

HMJr: but I - I - I can't do it unless I have the President back of me. And I think

T: Correct.

HMJr: Like all other things - just, just at a time when a thing goes bad, they always look for a dope.

T: (Laughs)

HMJr:

T: A fellow by the name of Henry isn't going to be it. You're quite right.

HMJr: No because it isn't my fault.

T: A - a

HMJr: I, I mean if I had the authority I'd just change this thing completely.

T: Right.

HMJr: But, but I can't do it unless the President backs me up,--and gets worried again.

T: (Laughs) Well....

HMJr: When he begins to get worried then I'll get

T: Well, as I say, my guess is that that'll be Monday but you (Laughs)

HMJr: Well

T: you don't - maybe, maybe it'll be Tuesday.

HMJr: I can wait.

T: Right.

HMJr: Huh?

T: Sure.

HMJr: When Aldrich gets hold of Vincent Astor and tells him all about it, then he'll get worried.

T: I get it.

HMJr: That happened once before.

- 7 -

T: (Laughs)

HMJr: And

T: Well, I think, I think the climate down there must be wonderful.

HMJr: It is.

T: Yes.

HMJr: O.K.

T: All right, Henry.

HMJr:

T: (Laughs) It might, it might be a little higher than that. (Laughs)

HMJr: All right.

T: Right.

HMJr: Good-bye.

T: Right.

Saturday, March 20, 1937

The same policy as that followed since Tuesday was used in making purchases in support of the market today.

As a result of easier prices in late trading yesterday the market opened at a lower level and dropped steadily throughout the morning on heavy selling. Treasury bonds closed at their lows; the seven longest issues were down $3/4$ of a point to $1\ 1/8$ points, the intermediate issues down $1/2$ to $3/4$ of a point and the four shortest issues down 3 to $6/32$ nds. Treasury notes eased 1 to $7/32$ nds.

Combined purchases totaled \$9,083,000. In accordance with the agreement with the Federal Reserve System, the Treasury's share for the account of the Postal Savings Sytem was \$4,541,000.

MEMORANDUM

March 20, 1937.

To: Secretary Morgenthau
From: Dr. Burgess

Government bonds which were easier in the late market yesterday, with declines ranging up to $1/4$ of a point, opened today at this lower level, and dropped steadily throughout the session on renewed selling in substantial volume, apparently from widespread sources. Treasury bonds closed at the lows of the morning with the seven longest maturities down $3/4$ of a point to $1\ 1/8$ points, intermediate maturities down $1/2$ to $3/4$ of a point, and the four shortest bonds down $3/32$ to $6/32$. The $2\ 1/2$ s of 1949-53 closed at 98.25, off $23/32$. Guaranteed bonds declined similarly with losses up to 1 point. Total sales of Government bonds on the Board amounted to \$4,893,000 against \$3,169,000 for the first two hours yesterday.

Domestic bonds were easier and not very active. In the high grades the lower coupon refunding issues showed losses ranging up to $1/2$ point. Seasoned issues were largely inactive, final quotations indicating easiness. Second grades were fractionally off in quiet trading.

Foreign bonds held steady in quiet trading. Polish 6s gained 3 points.

Total purchases today \$9,083,000, one half of which is for the Treasury.

March 22, 1937
4:40 P.M.

23

Archie
Lochhead: Hello, Mr. Morgenthau. Everybody is here.

H.M.Jr: Mr. Taylor first, please.

L: Right.

Wayne
Taylor: Hello?

H.M.Jr: Hello, Wayne?

T: Hello, Henry.

H.M.Jr: Well, let's have the bad news.

T: It's sort of bad.

H.M.Jr: Well, I can take it today.

T: Yes. Which do you want first?

H.M.Jr: You can choose.

T: Well, I can start at the top of the sheet.

H.M.Jr: Yes.

T: Commodities up forty-five hundreds. Stocks off -
Industrials four twenty-two.

H.M.Jr: How much?

T: Four twenty-two.

H.M.Jr: Four twenty-two.

T: Railroads, two forty. Utilities eighty-seven.
Volume not very big, but just a little over two
million shares. However, seven hundred of that
was in the last hour.

H.M.Jr: I carry a figure in my mind of Dow Jones' that
common stock - I think was up around - what was
it, ninety-four or something?

T: One ninety-five about, wasn't it?

H.M.Jr: Was it?

T: Yes.

H.M.Jr: What is it now?

T: One seventy-nine eighty two.

H.M.Jr: How much?

T: One seventy-nine.

H.M.Jr: That's off quite a lot, isn't it?

T: Yes.

H.M.Jr: That was one ninety-four. Was there one ninety-five?

T: One ninety-five, yes.

H.M.Jr: O.K.

T: Bonds - corporates.

H.M.Jr: Yes.

T: Off sixteen hundreds.

H.M.Jr: Where are your bonds?

T: My bonds?

H.M.Jr: Yes.

T: All of them make new lows.

H.M.Jr: I see.

T: Yes. Two and a half's ninety-eight ten.

H.M.Jr: What?

T: Ninety-eight ten.

H.M.Jr: Ninety-eight ten.

T: There we had a line they're too high.

H.M.Jr: Really?

T: Yes.

H.M.Jr: Are you joking?

T: No.

H.M.Jr: What are the two and seven eighths?

T: Two and seven eighths closed at par and twenty-eight thirty-seconds.

H.M.Jr: Four and what?

T: Par.

H.M.Jr: Par.

T: And twenty-eight thirty-seconds.

H.M.Jr: Well -

T: There are two issues of two and three-quarters at ninety-nine twenty-three.

H.M.Jr: How much did we buy or how much was bought altogether?

T: Approximately six.

H.M.Jr: Six.

T: Yes.

H.M.Jr: And - does that use up our bonds?

T: No, we've still got a little. And we've got a couple of odd amounts, but I don't think we ought to order what we said before.

H.M.Jr: No, no.

T: Yes. We could even stay out a couple of days and then just turn them in as orders, you see?

H.M.Jr: No, no, I'd use them up. When it's gone, it's gone.

T: What?

H.M.Jr: Let them have what we've got.

T: Yes. Let - that's what I figured, too, but not - we'll go to an end of our fifty-fifty arrangement, you see? But, then fill the orders for any cash that we have available.

H.M.Jr: As they come in?

T: Yes.

-4-

H.M.Jr: But when you get down to twenty-five it's postal savings stock.

T: That's right.

H.M.Jr: You can't have more than a million or two dollars left.

T: That's right. Yes. There was a little extra came in.

H.M.Jr: From where?

T: Postal savings and F.D.I.C. But, it just means it doesn't amount to a darn thing.

H.M.Jr: I wouldn't use it.

T: Right.

H.M.Jr: We told them we had fifteen million, didn't we?

T: Fourteen.

H.M.Jr: Well, when that's gone we stop.

T: Check.

H.M.Jr: Check?

T: Yes.

H.M.Jr: How much of that fourteen million is left?

T: About a million and a half.

H.M.Jr: Well, I wouldn't go beyond the fourteen.

T: O.K.

H.M.Jr: I mean it's too big a policy involved.

T: Yes. I mean - I entirely agree.

H.M.Jr: Yes. I mean, whether we give them a million or more doesn't make any difference.

T: Doesn't make a damn bit of difference.

H.M.Jr: No. When we told them fourteen we're through.

T: Yes.

H.M.Jr: Now, anything on the -- what else have you got?
T: Treasury bills.
H.M.Jr: Yes, oh yes.
T: You're going to love this one.
H.M.Jr: Yes.
T: The rates for the country are going to look considerably better than this.
H.M.Jr: Yes.
T: But, the eighty-five day bills -
H.M.Jr: How much?
T: On eighty-five day bills -
H.M.Jr: still eighty-five? That's what it was last
T: Well, it's the June bills.
H.M.Jr: Yes. It was eighty-five days last
T: Yes.
H.M.Jr: Seven days less.
T: Yes. Total tenders from New York, fifty-six eight.
H.M.Jr: Yes.
T: Average discount for New York, naught six one four. The figure that - that will only take about eighteen of the bills we've got so that the rate will be higher, I mean, will be better than that.
H.M.Jr: Send me a telegram when you get it.
T: Yes.
H.M.Jr: And when you get it, give me just the last figure - not all those complicated figures.
T: Right.
H.M.Jr: Just the --

-6-

T: You just want the average.

H.M.Jr: Yes, the average - the total of volume bid.

T: Yes.

H.M.Jr: A hundred million. Whatever it is - 101.

T: I'll get it to you.

H.M.Jr: Yes.

T: The long ones did better. Comparatively.

H.M.Jr: Yes, how much -

T: Ninety-one bid - bid for New York. Average discount seventy-three seven. The country will bring that average down a little bit too, probably around seventy.

H.M.Jr: Yes. Give me the total dollars and the average on both of those when you get them.

T: Right.

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

T: That's about all.

H.M.Jr: Those rates call for another speech by Eccles. All right.

T: Yes.

H.M.Jr: That's enough. That's enough.

T: Do you want any cash figures or balances?

H.M.Jr: Yes.

T: Six - six fifty-two actual with another million - two million estimated undeposited.

H.M.Jr: Six fifty-two up to Saturday night?

T: Yes.

H.M.Jr: And what was - what was

-7-

T: Seven seventy.

H.M.Jr: How much?

T: Seven seventy.

H.M.Jr: Just a second. (To himself: Through Saturday six fifty-two and --) Expectations were how much?

T: Seven seventy.

H.M.Jr: Did that make Haas break out in a cold sweat?

T: Well, he says he feels no pain.

H.M.Jr: Well, he must have taken a little gas.

T: Yes.

H.M.Jr: All right.

T: We'll pick up some more before the month is over. Maybe twenty-five more.

H.M.Jr: All right. I have my sun glasses.

T: Yes. Well, I think that about concludes it.

H.M.Jr:

T: It's nothing to be cheerful about.

H.M.Jr: Who is this talking - Magill?

T: No, this is still Wayne talking.

H.M.Jr: Magill had some bad ones. The last fellow's going to get it.

T: All right.

H.M.Jr: I'm sorry for the last fellow.

T: (Laughs) Well, we'll give it to Ros next.

H.M.Jr: All right.

Magill: Hello.

-8-

H.M.Jr: Yes.

M: I haven't anything very new. We went over the figures on this Railroad Retirement thing this morning.

H.M.Jr: Yes.

M: And it looks just as bad as we thought it did, if possibly, a little worse.

H.M.Jr: Wonderful!

M: (Laughs) The best argument that I think we've got, really, is that - one of the Budget boys produced that if we put through this plan that will require an appropriation bill this year - forty million dollars right off the bat.

H.M.Jr: And what we've lost in our taxes.

M: Yes, we can just add that right on.

H.M.Jr: Yes.

M: And as they figure it, it represents - if we put the plan through, we put on the books a deficit of a billion four hundred million.

H.M.Jr: Good. A billion four?

M: That's right.

H.M.Jr: The last I heard it was a billion.

M: Well, we're working up gradually.

H.M.Jr: I see.

M: I understand the railroads are working on this now and they've decided that nobody will retire until he gets to be seventy-two.

H.M.Jr: I see.

M: Jogging the figures up on it.

H.M.Jr: I see.

M: So, we're apparently going to have a very pleasant party Wednesday.

- 9 -

H.M.Jr: Well, get a couple of good nights' rest --

M: (Laughs) I'll do that.

H.M.Jr: All right.

M: I'll do that. Who else do you want to talk to here?

H.M.Jr: Let me talk to my boy Haas .

M: All right, I'll bring the estimator around.

Haas: Hello, Mr. Secretary?

H.M.Jr: Did you have a good --

H: Am I the last one?

H.M.Jr: I don't know.

H: (Laughs)

H.M.Jr: Did you have a good week-end?

H: Yes, I feel very good today. If we'd get some more collections I'd feel all right.

H.M.Jr: Well, I suppose what we should do is refer all the pests to you.

H: (Laughs) That's right. That's right, I need rest over more than one week-end.

H.M.Jr: Wait until I get my letter from W. O. May; I'll turn that over to you to answer.

H: Well, I think we're all right on him.

H.M.Jr: Oh, you do?

H: Yes.

H.M.Jr: How?

H: As a matter of fact the whole thing may be all right. The question of how much was paid in full on March - if that works out differently than we estimate there's a possibility - if that's the case - then the tax liability is just the same as estimated.

-10-

H.M.Jr: Really?

H: That's right.

H.M.Jr: You mean if there's less of them paid in full?

H: There's a distinct possibility. We're going to get a check on that.

H.M.Jr: Well, for God's sake, get it soon, will you?

H: All right. (Laughs)

H.M.Jr: Because I'll have to take it right square on the chin and the nose from behind, too.

H: Yes.

H.M.Jr: And I'm the fellow that's going to have to explain when I get back.

H: Yes. There's some interesting differences in the figures when you study them by States.

H.M.Jr: Well, I'm serious now, George, so for Heaven's sake, if you've got any explanation have it when I get back next Monday.

H: Well -

H.M.Jr: Because I'll have to explain to Papa across the street.

H: Yes, I thought I had to explain to you too, so I'm working hard on it. (Laughs)

H.M.Jr: You do.

H: There may be - it may not be as bad as it looks on the preliminary ticket.

H.M.Jr: Well, for Heaven's sake -

H: Yes.

H.M.Jr: Grab a telephone or anything just so when I see the President next Monday I can say something that sounds intelligent.

-11-

H: Yes. You know, Mr. Mellon's district worked out swell. He's up over two hundred percent. And so is Delaware, the Dupont district.

H.M.Jr: That's something, but --

H: Yes. (Laughs)

H.M.Jr: It's and seriously, I'll have to have a story next Monday.

H: Yes.

H.M.Jr: So, I'd say that between now and Monday this is number one

H: Yes. O.K. Well, we'll do all we can on it.

H.M.Jr: I'm glad that Mr. Mellon and Dupont helped you out, but evidently the rest of the country -

H: Somebody let us down. Well, I'm not sure they did, Mr. Secretary.

H.M.Jr: Well, seriously, George, have something for me next Monday if you can.

H: Yes, well I'll do all I can on it.

H.M.Jr:

H: Yes

H.M.Jr:

H: Yes. Ralph was talking to them over there today. I was in his office. We'll get those checked up right away.

H.M.Jr: Have something for me Monday because I'm the fellow that's going to have to take it when I get back.

H: Yes, I know it. I know it.

H.M.Jr: I won't promise any more until I do get back, but when I get back on my neck and the President -

H: Yes.

H.M.Jr: - will say, "How come?"

-12-

H: Yes.

H.M.Jr: Incidentally, I wish to talk to Gaston. Who the hell ever let out that figure of eight forty? We haven't given out March figures before, have we?

H: Herbert knows who did that. He'll talk to you.

H.M.Jr: All right.

H: Goodbye, Mr. Secretary.

H.M.Jr: Goodbye, George.

Gaston: Hello.

H.M.Jr: Yes.

G: About that figure.

H.M.Jr: Yes.

G: Well, I learned in very great confidence, but it's - several people know it now, that Duffield got that figure from McLeod.

H.M.Jr: McLeod.

G: McLeod.

H.M.Jr: Since he left?

G: What?

H.M.Jr: After he left?

G: Yes.

H.M.Jr: Yes.

G: Yes. We haven't - so far as I can find nobody in the shop has ever undertaken to make any estimates. What I've done is simply -

H.M.Jr: I always got those figures in my press conference.

G: Yes.

H.M.Jr: I would have to know things on a yearly basis.

G: Yes, yes. That's what we've been telling them and all I've done is to call their attention to the annual estimates, which I said is the only kind of an estimate we ever publish. I tell them to make their own computations on the basis of the annual estimate and the daily Treasury statement of what we've taken in up to date, which some of them did.

H.M.Jr: And McLeod gave them out?

G: Well, very confidentially, Upham learned from Duffield that McLeod had told him that figure of eight forty.

H.M.Jr: Well, what are McLeod's figures, or did he estimate?

G: Yes, he did. His estimate at that time was eight forty-two.

H.M.Jr: Tell him that he's a goat - let the fellows that gave them out defend him.

G: The boys kind of gave Duffield a rough time down there, pinning that estimate on him. I told him that the Treasury hadn't given out any estimate.

H.M.Jr: No, we don't want any goats until I come back.

G: No, no. What I did today - we - I gave out the photostat - handed the boys a photostat of that sheet after I sent it up to Parker. He said he - they didn't want to give it out up there, that we could give it out. I handed him that photostat and I simply called their attention to the fact that our receipts for the first twenty days of March this year were approximately sixty-seven percent above those of year and the A.P. and U.P.

H.M.Jr: Listen, I was sort of joking about McLeod. I'm glad

G: Yes, yes.

H.M.Jr: I repeat to everybody until I come back

G: Yes.

H.M.Jr: And then when I come back we'll get together.

G: Yes.

-14-

H.M.Jr:

G: Yes, yes.

H.M.Jr:

G: Yes, yes. I've been - it isn't worrying me any - I've been just telling the fellows that as far as handling them is concerned I've been just telling the fellows the figures speak for themselves. They can make their own computations. We don't publish estimates, we don't at this time comment; we don't know finally until the year is over how much money we'll have.

H.M.Jr: And I'd stress the fact that we never have gone on quarterly figures.

G: Yes, yes. Yes, I've told them the only figures we give out are the - are the annual figures.

H.M.Jr:

G: Well, well while I was down there Cecil Dixon said, "My God, I wish I'd stuck to my original guess on this thing which was seven hundred and fifty million for March," but he says, "the office hammered me because they'd seen this stuff in the Wall Street Journal and United Press, and so then I used that figure instead, and I didn't have sense enough to stick to my own hunch." And then Duffield put in, "Well," he said, "that wasn't my figure. I wasn't estimating. That's Treasury figure." And then I remarked, "Well, so far as I know the Treasury hasn't given out any figure."

HMJr: Incidentally, is Upham back?

G: Yes, he is. Yes.

HMJr: Now, did you run down - did the SEC give out those foreign figures?

G: Well, a - a - Wayne talked to Landis about that; I think he has something to contribute. George said that from the internal evidence of Duffield's story, it appeared to have - the source appeared to have been one of those confidential weekly reports of the SEC.

HMJr: Yes.

G: Of course it worried Landis a lot because the suspicion at once arose that it did come from the SEC.

HMJr: Well, now who's going to talk to the Wall - the Manager of the Wall Street Journal?

G: Well, I just don't know what good we could ha - - - what - I don't - I just don't know what to talk to him about.

HMJr: Well, I'll tell you what to talk to him about.

G: Yes.

HMJr: Tell him that those figures can only come from the Treasury. We're not going

G: Yes.

H.M.Jr:

G: Yes. Well, of course the trouble with that is that we say we will not give them the figures so he picks them up from some - any source he can get them - -

HMJr: Listen Herbert

G: Yes.

HMJr: You can't do that. I know the Wall Street Journal. The Wall Street Journal will

G: Yes, yes.

HMJr: The Wall Street Journal

G: Yes, yes, yes.

HMJr: It's a high class organization, and - I don't want to go over the head of the Manager.

G: Yes, yes. That's Barney Kilgore. Yes, I'll talk to him.

H.M.Jr: I wish you would talk to Kilgore.

G: Yes.

HMJr: But in the future we're going to ask him not to.

G: Not to print them.

HMJr: Not to print them.

G: Yes. Of course, offering them to us for verification would be no good because we just simply couldn't verify them. Yes.

HMJr: Well - a- if you, if you will talk to Barney Kilgore - they're

G: Yes.

H.M.Jr: They're a high class

G: Yes - yes - yes - all right, I'll do that.

H.M.Jr: I, I really wish you would.

G: Yes, yes - all right.

A - a - I think Wayne has something to add about

H.M.Jr: All right.

G: Did you have anything else for me?

HMJr: That's all.

G: Right.

Wayne Taylor: Hello.

HMJr: Yes.

T: I had quite a long talk with Landis on the thing and he says that they give fairly wide distribution to those SEC reports, in the Government, and quite a few of them get up to New York. And he's investigating it further

with a possible idea of not including those figures in their SEC reports.

HMJr: Well, I think - I don't think anybody should have had them in the first place.

T: Well - they - they're included in - their general weekly letter - the equivalent of a letter; not in great detail, but they apparently are included.

HMJr: Well, why in the hell is it that we don't ever have anything

T: A little different type of organization I guess.

HMJr: What?

T: Different type of organization.

HMJr: All right. Well, my suggestion to Mr. Herbert E. Gaston still holds. I know the Wall Street Journal organization.

T: Right.

HMJr:

T: Well, I'm - I haven't any comment to make on that. I was simply tel - wanted to tell you what - the conversation I'd had with Landis.

HMJr: Then that is up to the SEC to do their own believing.

T: Yes.

HMJr: But what I told you was true - that Landis didn't get up on his high horse - did he?

T: No, no, not a bit.

HMJr: And I'll bet he was disturbed.

T: He was. And it was left on the basis that he's going to think it over

HMJr: Yes.

T:And investigate a little bit more, and then we're going to talk again about it.

HMJr: O.K.

T: Right.

HMJr: Does Oliphant want anything or got anything? Herman?

Oliphant: Hello.

HMJr: Can't you show

O: Well, I have some very good news for you. (Laughs) Remember we wrote the A. G. about E. M. Smith of Los Angeles?

HMJr: Yes.

O: And I have back a letter acknowledging that, and concluding with just one sentence.

HMJr: Yes.

O: And that is, "These cases were postponed to April, pending consideration of an offer, of an offer of compromise. Very truly yours, " (Laughs).

HMJr: They were what?

O: Were postponed until April pending the con - the consideration of an offer of compromise.

HMJr: I see.

O: (Laughs)

HMJr: That means what?

O: Means exactly nothing.

HMJr: Yes.

O: Except that he knows that you have them in mind.

HMJr: Yes.

O: A - do you want to think about it now?

HMJr: Well, I can't do anything about it.

O: Well, I was thinking about the possibility of inquiring if the offer of compromise which he has under consideration is the one that we've previously passed on and turned down.

HMJr: No, I don't think

O: No.

HMJr: I don't think we can go any further, Herman.

O: No, I think he knows we have it on our mind.

HMJr: Yes.

O: No ...

HMJr: You're a cheerful crowd up there.

O: Well, everything's going all right.

HMJr: A

O:Is the sun shining down there?

HMJr: got a recommendation to make.

O: What?

HMJr: I think you ought to all go out and get a double Old Fashioned.

O: (Laughs) But I insist - is the sun shining down there?

HMJr: Yes - don't - well don't I sound that way?

O: Well, yes, that's better - I thought - the sun's shining here today, you know.

HMJr: Well, I recommend a double Old Fashioned.

O: For all of us?

HMJr: For all of you.

O: Including George?

-20-

HMJr: Including a - George?

O: Yes.

HMJr: A triple one.

O: (Laughs)

HMJr:

O: (Laughs) Well, they're all telling me something to tell you, and I'm not a-going to tell you anything.

HMJr: What?

O: They're all telling me something to tell you.

HMJr: I can't hear you.

O: They're all telling me what to tell you.

HMJr: Go ahead.

O: (Laughs)

HMJr: No, I'd like -- I'd like you to all take George out

O: Yes.

HMJr:give him that double Old Fashioned, then watch George talk.

O: (Laughs) All right.

HMJr: Then you - well listen, Magill is pretty good at drinking too, you know.

O: Is he?

HMJr: Oh, yes.

O: My, my, what the Treasury's doing for that boy.

HMJr: Yes.

O: (Laughs) All right. Well, tomorrow's another day.

-21-

HMJr: - my dry friend, who is a political dry,
Morrie Shafroth, never took a drink until he came
to Washington.

O: Has he taken one?

HMJr: Oh

O: Well, that's a load off of my mind.

HMJr: Oh, , he's got to be a
regular old souse.

O: (Laughs) Well, that's a load off of my mind. (Laughs)

HMJr: - your what?

O: I'm going to accept his next dinner invitation.

H.M.Jr: O.K.

O: (Laughs) Good-bye.

HMJr: Now, wait a minute. Go out and get - all of you
get that drink and watch George interpret.

O: (Laughs) Well, we'll take him right down.

HMJr: All right.

O: Good-bye.

LMS

GRAY

Paris

Dated March 22, 1937

Rec'd 5:15 p. m.

Secretary of State,
Washington.

394, March 22, 4 p. m. (SECTION ONE)

FROM COCHRAN.

Paris exchange and stock markets uneasy today. Bank of France acquired some sterling but people were seeking dollars and bid for them above the bank's price. French rentes down one to one-half francs. New defense bonds offered at 30 francs per 1000 discount without buyers. French shares weak. International shares particularly copper and other metals extremely heavy. Market nervousness comes partly from internal French political situation with debate on Clichy riot scheduled for Chamber tomorrow. More concern comes from external causes such as Spanish nationalist defeats and alleged dissensions, Mussolini's plans to hasten his return to Rome and the Austro-Italian football fight.

French Minister of Finance has issued communique fixing the basis for indemnifying those who have turned in gold or foreign exchange at Bank of France since

October

LMS 2-No. 394, March 22, 4 p. m., Sec. 1, from Paris.

October 1 at rates lower than those obtaining under new regulations. Basic gold price for such readjustments is

WILSON

CSB

PARAPHRASE OF TELEGRAM NO. 394, SECTION TWO.
from Paris, March 22, 1937.

fixed at 24,496.482 francs per kilo which was the average price for gold on March 8, 9 and 10. Basic rates for foreign exchange are: sterling 106.96 dollar 21.901 Swiss francs 4.9939 florin 11.9829.

This afternoon I had a telephone conversation with Jacobsson who had visited Berlin and had just returned to the BIS. He had found Germany more calm than he had expected, and he does not anticipate that there will be an early breakdown in Germany. Schacht, he said, continues to be more hopeful over the outlook for exports from Germany, and he is cheered up by sales of machinery to Latin America, Great Britain, and other countries. The world rise in raw materials constituted their chief worry, since imports of raw materials are more costly, and such countries as Hungary and Bulgaria and Rumania are made less dependent on their German outlet, and therefore they become less interested in bartering for goods from Germany. It is Jacobsson's opinion that the German people are more inclined now toward international trade negotiations than they have been for a long time. Schacht, he said, had international problems in mind when he purposely made his recent Reichsbank report a rather conservative and inoffensive one.

I was told by Jacobsson that increasing stories come to Basel of a strained economic situation in Italy and

of

- 2 -

of a declining standard of living. All of this confirms the statement which Guarneri made to me at Rome in December 1935 to the effect that after the Ethiopian campaign was over the really difficult time for his country would come.

END MESSAGE.

WILSON.

EA:LWW

RECEIVED

MAR 23 1937

TREASURY DEPARTMENT
Office of the Secretary
(Section of the Treasury for the Secretary)

Monday, March 22, 1937

In early trading bonds sold up as much as 6/32nds but subsequently prices turned downward in active trading and at the end of the day losses ranged from 1 to 24/32nds. The average decline was about 15/32nds for Treasury bonds.

Treasury notes were only moderately active, closing 1 to 3/32nds lower.

The same policy as that followed since last Tuesday (the 16th) was used again today in making purchases in support of the market. Combined purchases amounted to \$5,928,000. Of this amount, \$2,964,000 was taken by the Postal Savings System, in accordance with the agreement between the Treasury and the Federal Reserve System.

49

MEMORANDUM

March 22, 1937

To: Secretary Morgenthau
From: Dr. Burgess

Government bonds declined further today in an active market. Ease developed shortly after the opening and quotations receded more or less steadily. Treasury bonds finished at their lows with the short bonds several thirty-seconds down and the intermediate and long maturities generally 8/32 to 22/32 down. Guaranteed bonds showed losses of up to 10/32. Sales of government bonds on the board totaled \$9,954,000 compared with \$4,943,000 last Saturday, and \$5,727,000 on Friday. Note market was relatively steady, quotations easing 1/32 to 3/32.

Domestic bonds were dull and firm in the forenoon, moving lower thereafter, with moderate activity in the final hour. In the high grade section, the lower coupon refunding issues were off on the average about 1/2 point; seasoned issues declined small fractions. Second grade market was off fractionally to about 1 point. Convertible bonds were weak.

Foreign market remained rather quiet and mostly steady. Japanese and some South American bonds showed fractional losses.

Purchased today \$5,928,000 miscellaneous Treasury bonds, one-half of this amount being for the account of the Treasury.

MEMORANDUM

March 23, 1937

To: Secretary Morgenthau

From: Dr. Burgess

Improvement appeared in the government bond market soon after the opening, and prices rose fairly steadily thereafter on moderate but general buying. Treasury bonds closed at their highs of the day, gains ranging up to about one-half point. The guaranteed bonds were up $5/32$ to $11/32$. Total sales of government bonds on the board were \$9,130,000. The note market was slightly easier at the beginning of the day but subsequently turned firmer with the bonds and at the close the 1939 to 1941 maturities were $1/32$ to $4/32$ better than yesterday; other maturities were unchanged to $1/32$ off, except the 3s of 1938, off $2/32$.

Domestic bonds declined fractionally in the forenoon on small volume. The market subsequently recovered and there was an increase in activity in the final hour as some buying interest appeared. Trading in the Philadelphia Electric $3\ 1/2$ s began at $99\ 1/4$ to $5/8$ this morning, following the dissolution of the syndicate, and 100 was bid around closing time. Other low coupon refunding bonds which were off about $1/2$ point at their worst, finished the day slightly under last night's closing levels. Second grade bonds also recovered somewhat but were slightly mixed at the close.

Foreigns were steady for the most part and moderately active. Germans and Norwegians and some South American issues were small fractions off from yesterday.

No purchases for Treasury today.

Tuesday, March 23, 1937

Before the opening of the market Mr. Taylor informed Mr. Burgess that the balance available in the Postal Savings Account which might be utilized for the support of the market is now only \$2,500,000.

The market opened steady and improved throughout the day in active trading, to close from 2 to 16/32nds better.

No purchases were made.

March 23, 1937

MEMORANDUM FOR THE FILESCARRIERS TAXING ACT - - CONFERENCE WITH MR. ALTMAYER

Mr. Altmeyer advised me at lunch time that his actuary, Mr. Williamson, had computed the cost of the proposed railroad retirement allowances and had found that the cost would run between 8 and 9 percent of the railroad payrolls. Williamson felt that Mr. Latimer's estimated retirement age of an average of seventy was entirely too high. The Social Security program is formulated on the theory of increasing pressure for men to retire after the age of sixty-five. He believes that this pressure will result in earlier retirements among railroad employees as well, due to the pressure by the younger men for more rapid advancement. He also urges that the rates of tax be made sufficiently high to prevent serious deficits in the event of a subsequent depression with consequent cuts in the railroad payroll. Mr. Altmeyer also sees no reason why the Government should have taken over the railroads' private pension systems, particularly with a reduced rate of tax.

Mr. Williamson had apparently told Mr. Altmeyer that the so-called differential is correct. I told Altmeyer that our computations show that it was without basis, since it was figured on the basis of allowances to existing employees and payments by existing employees, whereas if one took into account present and future employees, the Government would actually lose money by the elimination of the railroad employees from the Social Security program. Mr. Altmeyer said he did not understand this; that he thought that Latimer had figured on the basis of 40 years, but not merely on the basis of present employees. I told Altmeyer I thought Mr. Reagh and Mr. Williamson should get together to work out this discrepancy. I have since called Mr. Reagh and he will discuss the question with Mr. Williamson this afternoon.

Mr. Altmeyer said he thought that Mr. Latimer was a wholly sincere and honest individual, but that he was rather easily persuaded and that in this case he had not made a good negotiator for the Government.

Mr. Altmeyer thought that we should have our actuaries available tomorrow. I told him I thought it would be better not to take them into the conference, but to have them at hand in case questions needed to be referred to them.

Mr. Altmeyer inquired whether it might not be worth while for him to have a talk with Latimer and George Harrison of the brotherhoods this afternoon. He said Latimer had been seeking such a conference and that he would like to tell Latimer that Mr. Williamson had determined that the proposed agreement was founded on much too low rates of tax. He thought there was some likelihood he could persuade Latimer to agree and that he might also persuade Harrison that it was undesirable from the brotherhoods' point of view to start out with a plan that is financially shaky. I told him I saw no objection to his discussing Mr. Williamson's findings with the two men, but I thought he ought not to bring the Treasury into the discussion.

RM

RM/cgh

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

March 23, 1937

TO Secretary Morgenthau
FROM Mr. Haas 

This morning you telephoned me and requested that Mr. Lindow make up a book which will include two sheets for each housing project of the Public Works Administration, of which there are 53 in number, and two sheets for each housing project of the Resettlement Administration. One of the sheets is to be a drawing of the project, and the other is to show pertinent economic data. The book is also to contain a key summary sheet.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

54

DATE

March 23, 1937.

TO Secretary Morgenthau

FROM Mr. Haas 

You requested by telephone today that we secure a tabulation of A.A.A. benefit payments by crops, disbursements of which remain to be made as of March 15, 1937; and also an analysis of the 1937 program by crops, estimated benefit disbursements, and what a farmer is required to do in order to secure a benefit check. You asked to have this material by Monday, March 29, 1937.

U

GRAY

Paris

Dated March 23, 1937

Rec'd 2 p.m.

Secretary of State

Washington

399, March 23, 5 p.m. (SECTION ONE)

FROM COCHRAN.

Paris exchange trading slightly more active today with Bank of France having most favorable day acquiring sterling and dollars since Clichy riot. Bank of England reported to have been selling dollars and Soviet Government to have sold gold. Market sentiment much improved over yesterday's disastrous session with Government rentes and French shares both up.

In discussing repercussions of American monetary policy on Europe, Lombard, Editor of the FINANCIAL NEWS, wrote today in part:

"The outcome of the struggle on the United States Government with the rising trend of prices will be of first rate international importance. Should it be successful in checking the rise or even in moderating it to a large extent it would inevitably intensify the pressure on European currencies, in particular on sterling and the franc. For having embarked upon rearmament on a large scale neither Great Britain nor France is in a position to resist the upward trend prices very

HPD

WILSON

RB

GRAY

Paris

Dated March 23, 1937

Rec'd 3:05 p. m.

Secretary of State
Washington.

399, March 23, 5 p. m. (SECTION TWO)

effectively. As a result successful resistance on the part of the United States would merely accentuate the overvaluation of sterling and franc in relation to the dollar. The result would be a further flow of gold to New York and a weakening of the technical defenses of sterling and the franc.

"Sooner or later the British and French monetary authorities would have to decide to seek to restore equilibrium by a downward adjustment of their currencies in relation to the dollar within the framework of the tripartite agreement if possible or outside it if necessary. It is only with the utmost reluctance that London and Paris would decide to break the tripartite agreement but in the face of strong and persistent pressure due to an increasing undervaluation of the dollar there would probably be no way of avoiding it in the long run.

It is

RB

-2-#399, March 23, 5 p. m. from
Paris SECTION TWO

It is of course premature as yet to envisage such possibilities for quite possibly the Washington administration may be unable to prevent American prices from keeping pace with the rise in world prices. But it is to be hoped that the American authorities fully realize that should they be successful they cannot eat their cake and have it. The widening of the existing disequilibrium between American prices on the one hand and British and French prices on the other would be bound to render the existing parities untenable in the long run. The Washington (END SECTION TWO)

WILSON

CSB

LMS

GRAY

Paris

Dated March 23, 1937

Rec'd 2:40 p. m.

Secretary of State,
Washington.

399, March 23, 5 p. m. (SECTION THREE)
administration would have to choose between swimming
with the tide of world prices or allowing Great Britain
and France to adjust their exchanges to a new equilibrium
level in relation to the dollar.

"It is of course hardly possible to expect the
American authorities to refrain from trying to check the
rise in prices since rightly or wrongly they consider this
important from an internal point of view. But Washington
cannot expect London and Paris on the other hand to be
prepared to be bled white in defense of their over-
valued currencies. She will have to inure herself to
the idea of lower sterling - dollar and franc - dollar
rates as a national logical and inevitable consequence
of any successful efforts at checking the rise in American
prices". (END MESSAGE)

WILSON

HFD

LMS

GRAY

Paris

Dated March 24, 1937

Rec'd 6:32 p. m.

Secretary of State,
Washington.

403, March 24, 4 p. m. (SECTION ONE)
FROM COCHRAN.

Exchange trading slow in anticipation of Easter holidays. Bank of France acquired some sterling and dollars before noon but receipts slackened this afternoon. Weakness of dollar is believed to come partly from European liquidation of American stocks and partly from the fact that gold is being offered on the London market by the Bank of England. Belga continues to be offered as some French capital is being withdrawn from Belgium and certain Belgian firms are filling their French franc requirements. One Paris-American bank has \$2,000,000 gold awaiting shipment from Antwerp to New York on the PENNLAND. Although Blum Government gained vote of confidence by 362 to 215 early this morning after debate on Clichy riot and general strike, French rentes are down 30 to 90 centimes. International shares are strong again following the upward trend of metals. Payments on the first tranche of the national defense loan are due to be made at the Treasury today and

on

LMS 2-No. 403, March 24, 4 p. m., Sec. 1, from Paris.

on the second tranche March 30. It is understood, however, that because of the pressure to meet end of the month requirements subscribers are being extended facilities to delay payments until April 5.

AGENCE ECONOMIQUE reports from Tokyo that Japanese Minister of Finance has declared that he does not consider necessary the creation of an exchange equalization fund or the adherence of Japan to the tripartite monetary agreement. Nevertheless, Japan would gladly take part in an international monetary conference which he hopes to see called at the earliest possible moment.

The financial editor of LA JOURNEE INDUSTRIELLE today expresses the opinion that American officials are totally incapable of controlling prices and above all of preventing American prices from following the world price trend.

The Paris financial paper, LE CAPITAL, carries an article today recommends that if France wishes to see its bank deposits grow the best step to take would be to eliminate tax inquisition into private bank accounts.

WILSON

SMS:TMB

PARAPHRASE OF SECTION TWO OF NO. 403 of March 24,
1937, from PARIS.

This afternoon I learned at the Bank of France that since the recent change in French financial policy, approximately four billion francs gold has been acquired by the French stabilization fund. Most of this amount came through the acquisition by the fund of sterling and dollars which were converted into gold in turn. Such gold as the fund has acquired has been entirely of domestic origin and has been for the most part in small coins. The daily intake of gold is at present not running over twenty million francs.

Each day since the change in policy (except for the day after the Clichy affair) the fund has been able to acquire some sterling or dollars. The fund converted into gold on the London market the dollars which it obtained. The French have particular exceptions to gold on the London market in connection with the London banking credit they received recently. Two and three-quarter billion francs remain clear of the four billion francs regained by the fund. The Bank of France received the other one and a quarter billion in repayment for gold which the Bank advanced to the fund during the severe strain upon the franc just before French financial policy was changed. Almost immediately after the change in policy it was possible to repay this advance from foreign exchange and gold received, before it became necessary to show such an advance on the published statement of the Bank of France.

- 2 -

The officials of the Bank of France are rather well-satisfied with the reflux of funds to date, considering everything and particularly the set-back which the Clichy riot caused. These officials will not predict how important the reflux may be after the date on which payments due on account of the new issue of national defense bonds. The greater part of the foreign exchange has come back to France for the purpose of investment in the new securities. However, there has also been considerable short covering, and transactions required for commercial purposes have also been carried out. The point to be determined is whether the situation may yet inspire enough confidence for capital to be brought back to build up French franc deposits. It was stated by certain Bank officials that French citizens owned the capital which has come from abroad for investment in the national defense bonds, and that there was no important amount of foreign-owned funds remitted for subscription to the bond issue.

END MESSAGE.

WILSON.

EA:LWW



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FE 893.51/6337

March 24, 1937

CONFIDENTIAL

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and, with reference to previous correspondence in regard to matters relating to the financial and economic situation in China, encloses, for the information of the Secretary of the Treasury, a copy of telegram No. 127 of March 22, 11 a.m., from the American Embassy at Nanking.

Enclosure:

From Embassy Nanking
No. 127, March 22, 11 a.m.

RECEIVED
MAR 25 1937
TRANSMITTED TO
MAR 25 1937
MAR 25 1937

DEPARTMENT OF STATE

DIVISION (FE
BUREAU (.....

ENCLOSURE

TO

LETTER DRAFTED

ADDRESSED TO

Treasury.
.....

U

Nanking via N.R;

Dated March 22, 1937

Rec'd 9:30 a.m.

Secretary of State

Washington

127, March 22, 11 a.m.

One. Government mandate March 20 appoints Kung special envoy to attend British coronation and Minister of Navy as deputy envoy. For some weeks Kung was mentioned for this mission but recently has not been well and there has been considerable friendly opposition to his undertaking it on the ground that he cannot be spared here. We have received no (repeat no) intimation that Kung's selection is connected with the prospects of additional British financial assistance to China, but this would be logical assumption in view of recently increased British efforts to consolidate British position in Tientsin.

Two. Unconfirmed reports state that T. V. Soong may accompany Kung to London. If this is true it would indicate that conversations in London on financial matters may be in view.

Three. By mail to Peiping, Shanghai, Tokyo, London.

JOHNSON

CSB

MEMORANDUM

March 24, 1937

To: Secretary Morgenthau

From: Dr. Burgess

Treasury bond prices advanced rapidly in the forenoon, gains ranging up to $3/4$ of a point. The market reacted from this higher level around mid-day and quotations tended lower thereafter until the close. The long Treasury bonds finished generally unchanged to $5/32$ higher than yesterday; intermediate issues showed gains of up to $13/32$ and the shortest bonds were several thirty-seconds higher. Guaranteed bonds closed $1/32$ to $4/32$ better than yesterday. Total sales of government bonds on the board were fairly large at \$6,970,000. Note market was steady to firm all day and closing quotations were slightly down from their best levels. The 1939 through 1941 issues finished generally $1/32$ to $3/32$ higher than yesterday; other maturities were generally unchanged.

In the high grade domestic bond market which advanced last night after the board closing, the low coupon refunding issues showed opening gains of up to $3/4$ of a point relative to yesterday's three o'clock market. Second grades were also fractionally better. Volume attained moderate proportions in the course of the morning and gains in both high and second grades measured up to 1 point. Prices tended lower in the afternoon and market closed generally fractionally better. Philadelphia Electric $3\ 1/2$ s were quoted above par all day and were $100\ 3/8-5/8$ at the close. Issue of \$15,000,000 New York State bonds maturing 1 to 52 years sold against bids at average yield basis of about 2.95%.

Foreigns were rather dull and mostly unchanged. Canadian and Japanese

bonds were fractionally higher; Italians fractionally lower.

No purchases for Treasury today.

Wednesday, March 24, 1937

For the second day no purchases were made as the market rose sharply during the morning and the easing of prices during the afternoon was not sufficient to offset the earlier gains. Closing prices for Treasury bonds were up from 1 to 16/32nds while Treasury notes finished unchanged to 3/32nds better.

A BILL

To amend an Act entitled "An Act to establish a retirement system for employees of carriers subject to the Interstate Commerce Act, and for other purposes," approved August 29, 1935.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled:

PART I

That the Act of August 29, 1935, entitled "An Act to establish a retirement system for employees of carriers subject to the Interstate Commerce Act, and for other purposes," be, and it is hereby, amended to read as follows:

DEFINITIONS

Sec. 1. For the purpose of this Act -

(a) The term "employer" means any express company, sleeping-car company, or carrier by railroad, subject to Part I of the Interstate Commerce Act, and any company which may be directly or indirectly owned or controlled thereby or under common control therewith, and which operates any equipment or facilities or performs any service (other than trucking service) in connection with the transportation of passengers or property by railroad, or the receipt, delivery, elevation, transfer in transit, refrigeration or icing, storage or handling of property transported by railroad, and any receiver, trustee, or other individual or body, judicial or otherwise, when in the possession of the property or operating all or any part of the business of any such "employer": Provided, however, that the term

1435-9
"employer" shall not include any street, interurban, or suburban electric railway, unless such railway is operating as a part of a general steam-railroad system of transportation, but shall not exclude any part of the general steam-railroad system of transportation now or hereafter operated by any other motive power.

69
The Interstate Commerce Commission is hereby authorized and directed upon request of the Board or upon complaint of any party interested to determine after hearing whether any line operated by electric power falls within the terms of this proviso. The term "employer" shall also include railroad associations, traffic associations, tariff bureaus, demurrage bureaus, weighing and inspection bureaus, collection agencies and other associations, bureaus, agencies or organizations controlled and maintained wholly or principally by two or more employers as hereinbefore defined and engaged in the performance of services in connection with or incidental to railroad transportation and railway labor organizations of employees, national in scope, as have been or may be organized in accordance with the provisions of the Railway Labor Act as amended, including their state and national legislative and general committees.

(b) The term "employee" means any person in the service of one or more employers for compensation and any person who is in the employment relation to one or more employers. The term "employee" shall also include any officer or official representative of an organization of employees other than a labor organization included in the term "employer" as defined in Section 1(a), who before or after the enactment date was in the service of an employer as defined in Section 1(a), who is duly authorized and designated to represent employees in accordance with the Railway Labor Act, as amended, and any person who is regularly assigned to or regularly employed by such officer or official representative in connection with the duties of his office, and such employees are hereinafter sometimes called "employee representatives."

(c) A person is in the service of an employer wherever his service is rendered if he is subject to the continuing authority of the employer to supervise and direct the manner of rendition of his service, which service he renders for compensation: Provided, however, That a person shall be deemed to be in the service of an employer not conducting the principal part of its business in the United States only when he is rendering service to it in the United States.

(d) A person is in the employment relation to an employer if he is on furlough, subject to call for service within or outside the United States and ready and willing to serve, or on leave of absence, or absent on account of sickness or disability; all in accordance with the established rules and practices in effect on the employer: Provided, however, That a person is not on the enactment date in the employment relation to an employer not conducting the principal part of its business in the United States unless, during the last payroll period in which he rendered service to it prior to the enactment date, he did not render service to it outside the United States: And Provided, further, That a person is not, on the date he became eligible to receive an annuity under this Act, in the employment relation to an employer not conducting the principal part of its business in the United States unless, during the last payroll period in which he rendered service to it prior to that date, he did not render service to it outside the United States.

(e) The term "United States," when used in a geographical sense, means the States, Alaska, Hawaii, and the District of Columbia.

(f) The term "years of service" shall mean the number of years a person as an employee has rendered service to one or more employers for compensation or received wages for time lost, computed in accordance with the provisions of Section 3 (b): Provided, however, That where service prior to the enactment

16359-4

date may be included in the computation of years of service as provided in subdivision 1 of Section 3(b), it may be included as to service rendered to an employer subject to this Act on the enactment date, irrespective of whether at the time such service was rendered the employer was an employer as defined in Section 1(a). Twelve calendar months, consecutive or otherwise, in each of which an employee has rendered such service or received such wages for time lost shall constitute a year of service. An ultimate fraction of six months or more shall be taken as one year. An ultimate fraction of less than six months shall be taken at its actual value.

(g) The term "annuity" means a monthly sum which is payable on the first day of each calendar month for the accrual during the preceding calendar month.

(h) The term "compensation" means any form of money remuneration earned by a person for services rendered as an employee to one or more employers, and wages for time lost as an employee but wages for time lost shall be deemed earned in the month in which such time is lost.

(i) The term "Board" means the Railroad Retirement Board.

(j) The term "enactment date" means the 29th day of August, 1935.

ANNUITIES

Sec. 2(a) The following-described persons, if they shall have been employees on or after the enactment date, shall be eligible for annuities after they shall have ceased to engage in regular gainful employment and relinquished all rights to return to employer service, irrespective of when they shall have relinquished such rights, except that the requirement of relinquishment of rights to return to employer service shall not apply to the persons mentioned in subdivision 3 of this subsection prior to attaining age 65:

1. Persons who on or after the enactment date shall be sixty-five years of age or over.

2. Persons who on or after the enactment date shall be sixty years of age or over and either have completed thirty years of service or have become totally and permanently disabled for regular gainful employment, but the annuity of such a person shall be reduced at the rate of one-fifteenth for each year or monthly fraction thereof that he is under age sixty-five when his annuity begins to accrue.

3. Persons who on or after the enactment date are totally and permanently disabled for regular gainful employment and have completed thirty years of service. Such satisfactory proof of the permanent total disability and of the continuance of such disability until age sixty-five shall be made from time to time as may be proscribed by the Board. If the person fails to comply with the requirements proscribed by the Board as to proof of the disability or the continuance of the disability until age sixty-five, his right to an annuity under this subdivision by reason of such disability shall, except for good cause shown to the Board, cease, but without prejudice to his rights under subdivision 1 or 2 of this subsection. If, prior to attaining age sixty-five, such a person recovers and is no longer disabled for regular gainful employment, his annuity shall cease upon the last day of the month in which he so recovers and if after such recovery the person is granted an annuity under subdivision 1 or 2 of this subsection, the amount of such annuity shall

be reduced on an actuarial basis to be determined by the Board so as to compensate for the annuity previously received under this subdivision.

(b) An annuity shall begin to accrue as of a date to be specified in a written application to be signed by the person entitled thereto, and approved by the Board, which date shall not be more than sixty days before the filing of the application.

COMPUTATION OF ANNUITIES

Sec. 3 (a). The annuity shall be computed by multiplying a person's "years of service" by the following percentages of his "monthly compensation": 2 per centum of the first \$50; $1\frac{1}{2}$ per centum of the next \$100; and 1 per centum of the next \$150.

(b) The "years of service" of a person shall be determined as follows:

(1) In the case of a person who was an employee on the enactment date and on the date he became eligible to receive an annuity under this Act, and also in the case of a person who was an employee on the enactment date, but prior to the date he became eligible to receive an annuity under this Act had ceased active service for an employer because of a permanent physical or mental disability, the years of service shall include all his service subsequent to December 31, 1936, and if the total number of such years is less than thirty, then the years of service shall also include his service prior to January 1, 1937, but not so as to make his total years of service exceed thirty:

Provided, however, That if any such person was not on the enactment date an employee of an employer conducting the principal part of its business in the United States, his "years of service" shall include only such proportion of his service prior to the enactment date as his total compensation (including compensation in any month in excess of \$300) for services rendered anywhere to an employer conducting the principal part of its business within the United States or rendered in the United States to any other employer as defined in Section 1 (a) bears to his total compensation (including compensation in any month in excess of \$300) for services rendered to one or more employers on or after January 1, 1937, both within and outside the United States.

(2) In all other cases, the years of service shall include only the service subsequent to December 31, 1936.

(3) When the years of service include only part of the service prior to January 1, 1937, the part so included shall be taken in reverse order beginning with the last calendar month of such service.

(4) In no case, shall the years of service include any service rendered after June 30, 1937, by a person who is sixty-five years of age or over.

*16359-8

(c) The "monthly compensation" shall be the average of the monthly compensation earned by an employee, except (1) that with respect to service prior to January 1, 1937, the monthly compensation shall be the average of the monthly compensation earned by an employee in calendar months included in his years of service in the years 1924-1931, and (2) that where service in the period 1924-1931 is insufficient to constitute a fair and equitable basis for determining the monthly compensation for service prior to January 1, 1937, the Board may determine the monthly compensation for such service in such manner as in its judgment shall be just and equitable. If the employee earned compensation after June 30, 1937, and after the last day of the month in which he attained age sixty-five, such compensation shall be disregarded if the result of taking such compensation into account would be to diminish his annuity. In computing the monthly compensation, no part of any month's compensation in excess of \$300 shall be recognized.

(d) The annuity of an employee representative shall be determined in the same manner and with the same effect as if the employee organization by which he is employed were an employer as defined in Section 1 (a) of this Act.

(e) If the person was an employee when he attained age sixty-five and has completed twenty years of service, the minimum annuity payable to him shall be \$40 per month: Provided, however, that if the monthly compensation on which his annuity is based is less than \$50, his annuity shall be 80 percent of such monthly compensation, except that if such 80 percent is less than \$20, the annuity shall be \$20 or the same amount as the monthly compensation, whichever is less. In no case shall the value of the annuity be less than the value of the additional old-age benefit he would receive under Title II of the Social Security Act if his service as an employee after December 31, 1936, were included in the term "employment" as defined therein.

16359-9

(f) An annuity shall not be paid in respect of any calendar month during which an annuitant engaged in regular gainful employment.

(g) Annuity payments due a person but not yet paid at death shall be paid to a surviving spouse if such spouse is entitled to an annuity under an election made pursuant to the provisions of Section 4 of this Act: otherwise, they shall be paid to the same person or persons who may be entitled to receive any death benefit that may be payable under the provisions of Section 5 of this Act.

(h) No annuity shall accrue in respect of the calendar month in which an annuitant dies.

(i) After an annuity has begun to accrue, it shall not be subject to recomputation on account of service rendered thereafter to an employer, except as provided in subdivision 3 of Section 2(a).

(j) Any person who shall be entitled to an annuity with a commuted value determined by the Board of less than \$300 shall be paid such value in a lump sum.

JOINT AND SURVIVOR ANNUITY

Sec. 4. A person whose annuity has not begun to accrue may elect prior to January 1, 1938, or at least five years before the date on which his annuity begins to accrue, or upon furnishing proof of health satisfactory to the Board, to have the value of his annuity apply to the payment of a reduced annuity to him during life and an annuity after his death, to his spouse during life equal to, or seventy-five per centum of, or fifty per centum of, such reduced

16353-10

annuity. The amounts of the two annuities shall be such that their combined actuarial value as determined by the Board shall be the same as the actuarial value of the single life annuity to which the person would otherwise be entitled. Such election shall be irrevocable, except that it shall become inoperative, if the person or the spouse dies before the annuity begins to accrue or if the person's marriage is dissolved or if the person is granted an annuity under sub-division (3) of Section 2(a): Provided, however, that the person may, if his marriage is dissolved before the date his annuity begins to accrue, or if his annuity under sub-division (3) of Section 2(a) ceases because of failure to make the required proof of disability, make a new election under the conditions stated in the first sentence of this subsection. The annuity of a spouse under this subsection shall begin to accrue on the first day of the calendar month in which the death of the person occurs.

DEATH BENEFITS

Sec. 5. The following benefits shall be paid in respect of the deaths of persons who were employees after December 31, 1936:

- (a) If the deceased is not survived by a widow or widower who is entitled to an annuity under an election made pursuant to the provisions of Sec. 4 of this Act, there shall be paid to such person or persons as the deceased may have designated by a writing filed with the Board prior to his death, or if there be no designation, to the legal representative of

the deceased, the amount, if any, by which four per centum of the aggregate compensation earned by the deceased after December 31, 1936, exceeds the sum of the total of the annuity payments actually made to the deceased plus the total of the annuity payments due the deceased but not yet paid at death. If the person or persons designated to receive the death benefit do not survive the deceased, the death benefit shall be paid to the legal representative of the deceased.

(b) If the deceased is survived by a widow or widower who is entitled to an annuity under an election made pursuant to the provisions of Section 4, there shall, on the death of the widow or widower, be paid to such person as the deceased may have designated by a writing filed with the Board prior to his death, or if there be no designation, to the legal representative of the deceased, the amount, if any, by which four per centum of the aggregate compensation earned by the deceased after December 31, 1936, exceeds the sum of the total of the annuity payments actually made to the deceased plus the total of the annuity payments actually made to the widow or widower under an election made pursuant to the provisions of Section 4 of this Act and under the provisions of Section 3(g) of this Act plus the total of the annuity payments due the widow or widower but not yet paid at death. If the person or persons designated to receive the death benefit do not survive the widow or widower, the death benefit shall be paid to the legal representative of the deceased.

In computing the aggregate compensation for the purpose of this section, no part of any month's earnings in excess of \$300 shall be recognized.

PENSIONS TO PERSONS ON PENSION OR GRATUITY ROLLS OF EMPLOYERS

Sec. 6. Beginning July 1, 1937, each person then on the pension or gratuity roll of an employer, who was on such roll on March 1, 1937, and who was not eligible for an annuity under Section 2 of this Act on the enactment date, shall be paid on July 1, 1937, and on the first day of each calendar month thereafter during his life in substitution for the pension or gratuity from his employer, a pension equal in amount to the pension granted to him by the employer without diminution by reason of a general reduction or readjustment made subsequent to January 1, 1931, and applicable to pensioners of the employer: Provided, however, That no pension payable under this section shall exceed \$120 monthly and that no pension shall be paid in respect of any calendar month during which a pensioner engages in regular gainful employment. and: Provided, further, that no person on the pension or gratuity roll of an employer not conducting the principal part of its business in the United States shall be paid a pension under this section unless in the judgment of the Board he was, on March 1, 1937, carried on the pension or gratuity roll as a United States pensioner. No person shall be entitled to receive both a pension under this section and an annuity under Section 2 of this Act.

Sec. 7. Nothing in this Act shall be taken as restricting or discouraging payment by employers to retired employees of pensions or gratuities in addition to the annuities or pensions paid to such employees under this Act, nor shall the Act be taken as terminating any trust heretofore created for the payment of such pensions or gratuities.

CONCLUSIVENESS OF RETURNS OF COMPENSATION AND OF
FAILURE TO MAKE RETURNS OF COMPENSATION

Sec. 8.(a) Returns of compensation required by the Board to be filed with it shall be under oath and shall be conclusive as to the amount of compensation earned by a person during a particular calendar month and the fact that no return was made of the compensation claimed to be earned by a person during a particular calendar month shall be taken as conclusive that no compensation was earned by that person during that month, unless the error in the amount of compensation returned, in the one case, or in the failure to make return of the compensation, in the other case, is called to the attention of the Board within four years after the last date on which return of the compensation was required to be made.

(b) The Board shall adopt such rules and regulations in connection with its requirement of returns of compensation as, in its judgment, may be necessary and proper to prevent the application of subsection (a) of this section from defeating the purpose of this Act.

RECOVERY OF ERRONEOUS PAYMENTS

Sec. 9. There shall be no recovery of payments of annuities, death benefits or pensions from any person who, in the judgment of the Board, is without fault and where, in the judgment of the Board, such recovery would defeat the purpose of the benefits otherwise authorized or would be against equity and good conscience. No disbursing officer shall be held liable for any amount paid by him to any person where the recovery of such amount is waived under this section.

RETIREMENT BOARD

PERSONNEL

Sec. 10.(a) There is hereby established as an independent agency

in the executive branch of the Government a Railroad Retirement Board, to be composed of three members appointed by the President, by and with the advice and consent of the Senate. Each member shall hold office for a term of five years, except that any member appointed to fill a vacancy occurring prior to the expiration of the term for which his predecessor was appointed shall be appointed for the remainder of the term and the terms of office of the members first taking office after the date of enactment of this Act shall expire, as designated by the President, one at the end of two years, one at the end of three years, and one at the end of four years, after the date of enactment of this Act. One member shall be appointed from recommendations made by representatives of the employees and one member shall be appointed from recommendations made by representatives of carriers by railroad subject to this Act, in both cases as the President shall direct, so as to provide representation on the Board satisfactory to the largest number, respectively, of employees and carriers concerned. One member, who shall be the chairman of the Board, shall be appointed initially, for a term of two years without recommendation by either carriers or employees and shall not be in the employment of or be pecuniarily or otherwise interested in any employer or organization of employees. Vacancies in the Board shall not impair the powers nor affect the duties of the Board nor of the remaining members of the Board of whom a majority of those in office shall constitute a quorum for the transaction of business. Each of said members shall receive a salary of \$10,000 per year, together with necessary traveling expenses and subsistence expenses, or per diem allowance in lieu thereof, while away from the principal office of the Board on duties required by this Act.

DUTIES

- (b) 1. The Board shall have and exercise all the duties and powers necessary to administer this Act. The Board shall take such steps as may be necessary to enforce this Act and make

orders and certify payments. Decisions by the Board upon issues of law and fact relating to applications for annuities or death benefits shall not be subject to review by any other administrative or accounting officer, agent or employee of the United States.

2. The Board shall from time to time certify to the Secretary of the Treasury the name and address of each person entitled to receive a payment under this Act, the amount of such payment, and the time at which it should be made, and the Secretary of the Treasury through the Division of Disbursements of the Treasury Department, and prior to audit by the General Accounting Office, shall make payment in accordance with the certification by the Board.

3. The Board shall establish and promulgate rules and regulations to provide for the adjustment of all controversial matters arising in the administration of this Act, with power as a Board or through any member or designated subordinate thereof, to require and compel the attendance of witnesses, administer oaths, take testimony, and make all necessary investigations in any matter involving annuities or other payments, and shall maintain such offices, provide such equipment, furnishings, supplies, services, and facilities, and employ such persons and provide for their compensation and expenses as may be necessary to the proper discharge of its functions. The Board shall have power to employ, without regard to the provisions of the civil-service law, such employees attorneys and special experts as may be necessary for the proper discharge of its duties and, without regard to the provisions of the Classification Act of 1923, as amended, to provide for their compensation and expenses. All rules, regulations or decisions of the Board shall require the approval of at least two members except as provided in subdivision 4 of this subsection and they shall be entered upon the records of the Board which

shall be a public record. Notice of a decision of the Board, or of an employee thereof, shall be communicated to the applicant in writing within thirty days after such decision shall have been made. The Board shall gather, keep, compile, and publish in convenient form such records and data as may be necessary to assure proper administration of the Act. The Board shall have power to require all employers and employees and any officer, board, commission, or other agency of the United States to furnish such information and records as shall be necessary for the administration of this Act. The several district courts of the United States and the District Court of the United States for the District of Columbia shall have jurisdiction upon suit by the Board to compel obedience to any order of the Board issued pursuant to this section. The orders, writs and processes of the District Court of the United States for the District of Columbia in such suits may run and be served anywhere in the United States. The Board shall make an annual report to the President of the United States to be submitted to Congress. Witnesses summoned before the Board shall be paid the same fees and mileage that are paid witnesses in the courts of the United States.

4. The Board is authorized to delegate to any of its employees the power to make decisions on applications for annuities or death benefits in accordance with rules and regulations prescribed by the Board; Provided, however, that any person aggrieved by a decision so made shall have the right to appeal to the Board.

COURT JURISDICTION

Sec. 11. The several district courts of the United States and the District Court of the United States for the District of Columbia, respectively, shall have jurisdiction to entertain an application and to

grant appropriate relief on an application by an employee or other person aggrieved in or to the district court of any district wherein the Board may have established an office, to compel the Board to set aside an action or decision claimed to be in violation of a legal right of the applicant, or to take action, or to make a decision necessary for the enforcement of a legal right of the applicant. The decision of the Board upon any application for annuity, pension, or death benefit shall not be subject to review by any court unless suit is commenced within one year after the decision has been entered upon the records of the Board and communicated to the applicant, and in any such suit, the findings of the Board as to facts, unless contrary to the weight of the evidence, shall be binding upon the court. The jurisdiction herein specifically conferred upon the Federal courts shall not be held exclusive of any jurisdiction otherwise possessed by such courts to entertain actions at law or suits in equity in aid of the enforcement of rights or obligations arising under the provisions of this Act.

EXEMPTION

Sec. 12. No annuity or pension payment shall be assignable or be subject to any tax or to garnishment, attachment, or other legal process under any circumstances whatsoever, nor shall the payment thereof be anticipated.

PENALTIES

Sec. 13. Any officer or agent of an employer, as the word "employer" is hereinbefore defined, or any employee acting in his own behalf, or any person whether or not of the character hereinbefore defined, who shall willfully fail or refuse to make any report or furnish any information required by the Board in the administration of this

Act, or who shall knowingly make or cause to be made any false or fraudulent statement or report in response to any report or statement required to be made for the purpose of this Act, or who shall knowingly make or aid in making any false or fraudulent statement or claim for the purpose of causing an award or payment under this Act, shall be punished by a fine of not less than \$100 nor more than \$10,000 or by imprisonment not exceeding one year.

SEPARABILITY

Sec. 14. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act or application of such provision to other persons or circumstances shall not be affected thereby.

APPROPRIATION TO OLD-AGE RESERVE ACCOUNT

Sec. 15. (a) There is hereby authorized to be appropriated to the "Old-Age Reserve Account" created by Section 201 of the Social Security Act for each fiscal year, beginning with the fiscal year ending June 30, 1938, an amount sufficient as an annual premium to provide for the payment of all annuities, pension and death benefits in accordance with the provisions of this Act. Such amount shall be determined on a reserve basis in accordance with accepted actuarial principles, and shall be based on such tables of mortality as the Board shall from time to time adopt, and on an interest rate of 3 per centum per annum compounded annually. The Board shall submit annually to the Bureau of the Budget an estimate of the appropriation to be made to the Account pursuant to this Section.

(b) The Board shall furnish to the Secretary of the Treasury a statement of the portion of the amounts credited to the "Old-Age Reserve Account" pursuant to this section which, in the judgment of the Board, is not immediately required for the payment of annuities, pensions and death benefits in accordance with the provisions of this Act. It shall be the duty of the Secretary of the

Treasurer to invest such portion in the same way as he is required to make investments of other amounts credited to the "Old-Age Reserve Account". The Board shall include in its annual report the status of so much of the Account as relates to the provisions of this Act. All amounts credited to the Account shall be available for the payment of all annuities, pensions and death benefits in accordance with the provisions of this Act.

APPROPRIATION FOR ADMINISTRATIVE EXPENSES

Sec. 16. There is hereby authorized to be appropriated from time to time such sums as may be necessary to provide for the expenses of the Board in administering the provisions of this Act.

SOCIAL SECURITY ACT

Sec. 17. The term "employment", as defined in subsection (b) of Section 210 of Title II of the Social Security Act, shall not include service performed by an employee of an employer as defined in Section 1(a) of this Act or service performed for an organization of employees by a representative who is an employee within the meaning of Section 1(b) of this Act.

Sec. 18. It shall not be unlawful for carriers by railroad subject to this Act to furnish free transportation to persons receiving annuities or pensions under this Act in the same manner as such transportation is furnished to employees in their service.

SHORT TITLE

Sec. 19. This Act may be cited as the "Railroad Retirement Act of 1935".

PART II

The claims of persons who, prior to the passage of this amendatory Act, shall have relinquished all rights to return to employer service and become eligible for annuities and the claims of the spouses and dependant next of kin of such persons shall be adjudicated by the Board in the same manner and with the same effect as if this amendatory Act had not been passed, except that (1) the annuity of a person who would not have qualified for an annuity except by virtue of the provisions of this amendatory Act may not begin prior to the date of passage of this Act and (2) no reduction shall be made in any annuity certified after the passage of this amendatory Act because of continuance in service after age seventy or after age sixty-five without filing with the Board an agreement to continue in employment and (3) service rendered prior to the day on which the Railroad Retirement Act of 1935 was enacted to an employer which was subject to that Act on the day it was enacted shall be included in the service period in connection with any annuity certified in whole or in part by the Board after the passage of this amendatory Act, irrespective of whether at the time such service was rendered the employer was an employer as defined in Section 1(a) of that Act. The present membership of the Railroad Retirement Board and their terms of office shall be unaffected by the provisions of this Act.

A BILL

To levy an excise tax upon carriers and certain other employers and an income tax upon their employees, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled.

DEFINITIONS

Section 1. That as used in this Act - -

(a) The term "employer" means any express company, sleeping-car company, or carrier by railroad, subject to Part I of the Interstate Commerce Act, and any company which may be directly or indirectly owned or controlled thereby or under common control therewith, and which operates any equipment or facilities or performs any service (other than trucking service) in connection with the transportation of passengers or property by railroad, or the receipt, delivery, elevation, transfer in transit, refrigeration or icing, storage, or handling of property transported by railroad, and any receiver, trustee, or other individual or body, judicial or otherwise, when in the possession of the property or operating all or any part of the business of any such "employer": Provided, however, That the term

"employer" shall not include any street, interurban, or suburban electric railway, unless such railway is operating as a part of a general steam-railroad system of transportation, but shall not exclude any part of the general steam-railroad system of transportation now or hereafter operated by any other motive power. The Interstate Commerce Commission is hereby authorized and directed upon request of the Commissioner of Internal Revenue or upon complaint of any party interested to determine after hearing whether any line operated by electric power falls within the terms of this proviso. The term "employer" shall also include railroad associations, traffic associations, tariff bureaus, demurrage bureaus, weighing and inspection bureaus, collection agencies and other associations, bureaus, agencies or organizations controlled and maintained wholly or principally by two or more employers as hereinbefore defined and engaged in the performance of services in connection with or incidental to railroad transportation; and railway labor organizations of employees, national in scope, as have been or may be organized in accordance with the provisions of the Railway Labor Act, as amended, including their state and national legislative and general committees.

(b) The term "employee" means any person in the service of one or more employers for compensation.

(c) The term "employee representative" means any officer or official representative of an organization of employees, other than a labor organization included in the term "employer" as defined in Section 1(a), who before or after the enactment date was in the service of an employer as defined in Section 1(a) who is duly authorized and designated to represent employees in accordance with the Railway Labor Act as amended and any person who is regularly assigned to or regularly employed by such officer or official representative in connection with the duties of his office.

(d) A person is in the service of an employer wherever his service is rendered if he is subject to the continuing authority of the employer to supervise and direct the manner of rendition of his service, which service he renders for compensation. Provided, however, that a person shall be deemed to be in the service of an employer not conducting the principal part of its business in the United States, Alaska, Hawaii or the District of Columbia only when he is rendering service to it in the United States, Alaska, Hawaii or the District of Columbia.

(e) The term "compensation" means any form of money remuneration earned by a person for services rendered as an employee to one or more employers, and wages for time lost as an employee, but wages for time lost shall be deemed earned in the month in which such time is lost.

INCOME TAX ON EMPLOYEES

Sec. 2. (a) In addition to other taxes, there shall be levied, collected, and paid upon the income of every employee a tax equal to the following percentages of the compensation of such employee not in excess of \$300 per month, earned by him after December 31, 1936:

1. With respect to compensation earned during the calendar years 1937, 1938, and 1939, the rate shall be $2\frac{1}{2}$ per centum;

2. With respect to compensation earned during the calendar years 1940, 1941, and 1942, the rate shall be $2\frac{3}{4}$ per centum;

3. With respect to compensation earned during the calendar years 1943, 1944, and 1945, the rate shall be 3 per centum.

4. With respect to compensation earned during the calendar years 1946, 1947, and 1948, the rate shall be $3\frac{1}{2}$ per centum;

5. With respect to compensation earned after December 31, 1948, the rate shall be $3\frac{1}{2}$ per centum.

(b) The tax imposed by this section shall be collected by the employer of the taxpayer by deducting the amount of the tax from the compensation of the employee as and when paid. Every employer required so to deduct the tax is hereby made liable for the payment of such tax and shall not be liable to any person for the amount of any such payment.

(c) If more or less than the correct amount of tax imposed by this section is paid with respect to any compensation payment, then, under regulations made under this Act by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, proper adjustments, with respect both to the tax and the amount to be deducted, shall be made, without interest, in connection with subsequent wage payments to the same employee by the same employer.

EXCISE TAX ON EMPLOYERS

Sec. 3. (a) In addition to other taxes, every employer shall pay an excise tax, with respect to having individuals in his employ, equal to the following percentages of the compensation not in excess of \$300 per month paid by him to any employee for services rendered to him after December 31, 1936:

1. With respect to compensation paid to employees for services rendered during the calendar years 1937, 1938 and 1939, the rate shall be 2½ per centum;

2. With respect to compensation paid to employees for services rendered during the calendar years 1940, 1941, and 1942, the rate shall be $2 \frac{3}{4}$ per centum;

3. With respect to compensation paid to employees for services rendered during the calendar years 1943, 1944, and 1945, the rate shall be 3 per centum;

4. With respect to compensation paid to employees for services rendered during the calendar years 1946, 1947, and 1948, the rate shall be $3 \frac{1}{4}$ per centum;

5. With respect to compensation paid to employees for services rendered after December 31, 1948, the rate shall be $3 \frac{1}{2}$ per centum.

(b) If more or less than the correct amount of the tax imposed by this section is paid with respect to any compensation payment, then, under regulations made by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, proper adjustments with respect to the tax shall be made, without interest, in connection with subsequent excise-tax payments made by the same employer.

REFUNDS AND DEFICIENCIES

Sec. 4. If more or less than the correct amount of the tax imposed by Section 2(a) or 3(a) of this Act is paid or deducted with respect to any compensation payment and the overpayment or underpayment of the tax cannot be adjusted under Section 2(c) or 3(b), the amount of the overpayment shall be refunded, or the amount of the underpayment shall be collected in such manner and at such times (subject to the statute of limitations properly applicable thereto) as may be

prescribed by regulations under this Act as made by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury.

INCOME TAX ON EMPLOYEE REPRESENTATIVES

Sec. 5. In addition to other taxes, there shall be levied, collected, and paid upon the income of each employee representative a tax equal to the following percentages of the compensation of such employee representative not in excess of \$300 per month, earned by him after December 31, 1936:

1. With respect to compensation earned during the calendar years 1937, 1938, and 1939, the rate shall be 5 per centum;
2. With respect to compensation earned during the calendar years 1940, 1941, and 1942, the rate shall be $5\frac{1}{2}$ per centum;
3. With respect to compensation earned during the calendar years 1943, 1944 and 1945, the rate shall be 6 per centum;
4. With respect to compensation earned during the calendar years 1946, 1947, and 1948, the rate shall be $6\frac{1}{2}$ per centum;
5. With respect to compensation earned after December 31, 1948, the rate shall be 7 per centum.

The compensation of an employee representative for the purpose of ascertaining the tax thereon shall be determined in the same manner and with the same effect as if the employee organization by which such employee representative is employed were an employer as defined in Section 1 (c) of this Act.

DEDUCTIBILITY FROM INCOME TAX

Sec. 6. For the purposes of the income tax imposed by Title I of the Revenue Act of 1934 or by any Act of Congress in substitution therefor, the taxes imposed by Sections 2 and 5 of this Act shall not be allowed as a deduction to the taxpayer in computing his net income.

COLLECTION AND PAYMENT OF TAXES

Sec. 7. (a) The taxes imposed by this Act shall be collected by the Commissioner of Internal Revenue and shall be paid into the Treasury of the United States, as internal-revenue collections.

(b) The taxes imposed by this Act shall be collected and paid quarterly or at such other times and in such manner and under such conditions not inconsistent with this Act as may be prescribed by the Commissioner of Internal Revenue with the approval of the Secretary of the Treasury. If a tax imposed by this Act is not paid when due, there shall be added as part of the tax (except in the case of adjustments made in accordance with the provisions of this Act) interest at the rate of 6 per centum per annum from the date the tax became due until paid.

(c) All provisions of law, including penalties, applicable with respect to any tax imposed by Section 600 or Section 800 of the Revenue Act of 1926, and the provisions of Section 607 of the Revenue Act of 1934, in so far as applicable and not inconsistent with the provisions of this Act, shall be applicable with respect to the taxes imposed by this Act.

(d) In the payment of any tax under this Act, a fractional part of a cent shall be disregarded unless it amounts to one-half cent or more, in which case it shall be increased to one cent.

COURT JURISDICTION

55

Sec. 8. The several District Courts of the United States and the District Court of the United States for the District of Columbia, respectively, shall have jurisdiction to entertain an application by the Commissioner of Internal Revenue to compel an employee or other person residing within the jurisdiction of the court or an employer subject to service of process within its jurisdiction, to comply with any obligations imposed on such employee, other person, or employer under the provisions of this Act. The jurisdiction herein specifically conferred upon such Federal courts shall not be held exclusive of any jurisdiction otherwise possessed by such courts to entertain actions at law or suits in equity in aid of the enforcement of rights or obligations arising under the provisions of this Act.

SOCIAL SECURITY ACT

Sec. 9. The term "employment," as defined in subsection (b) of Section 811 of Title VIII of the Social Security Act, shall not include service performed in the employ of an employer as defined in Section 1(a) of this Act or service performed for an organization of employees by an employee representative who is subject to the tax imposed by Section 5 of this Act or service rendered within the United States, Alaska or Hawaii for an employer as herein defined which does not conduct the principal part of its business within the United States, Alaska or Hawaii.

SEPARABILITY

Sec. 10. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances shall not be affected thereby.

REPEAL OF PRIOR TAX ACT

Sec. 11. The provisions of this Act are in substitution for the provisions of the Act of August 29, 1935, entitled "An Act to levy an excise tax upon carriers and an income tax upon their employees, and for other purposes," which is hereby repealed. All monies payable under the Tax Act which is repealed by this Act and not heretofore paid shall cease to be payable and all proceedings pending for the recovery of any such monies shall be terminated. All sums paid into the Treasury of the United States as and for taxes under the Tax Act which is repealed by this Act shall be refunded, except five-sevenths of the sums so paid as and for taxes in respect of compensation earned after December 31, 1936, and the sums not required to be refunded shall be retained in the Treasury of the United States and credited on taxes due and payable under this Act. All sums deducted by employers from the compensation of employees as and for taxes under the Tax Act which is repealed by this Act shall be refunded to such employees, except five-sevenths of the sums so deducted as and for taxes in respect of compensation earned after December 31, 1936, and the sums not required to be refunded shall be paid into the Treasury of the United States and thereupon shall be credited on taxes due and payable under this Act.

SHORT TITLE

Sec. 12. This Act may be cited as the "Carriers Taxing Act of 1937."

appra
3-24-37

Probable Cost of the Proposed Railroad Retirement Bill

1. Actuarial computations made by the Railroad Retirement Board indicate that it would be necessary to levy a tax of 7.11 percent on the railroad payrolls to support the benefits of the proposed bill. The tax rates provided in the bill are equivalent to a level percentage of only 6.60. Therefore the Board's computations show that to pay the costs about \$11.2 million would be required annually in addition to the tax revenues provided in the bill.

2. In a memorandum prepared by Mr. Murray T. Latimer, chairman of the Railroad Retirement Board, it was argued that a Federal subsidy equivalent to \$11,220,000 annually was justified because a slightly greater Federal subsidy would also have been necessary if the railroads had not been excluded from the provisions of the Social Security Act. However, figures supplied by the Railroad Retirement Board indicate that this exclusion of the railroads from the tax provisions of the Social Security Act deprived the Government of revenues having a present worth of about \$3,711 million, whereas the Social Security benefits which would have been payable to railroad employees have a present worth of only about \$2,868 million, a net cost to the Government of about \$843 million. In other words, it cost the Government the equivalent of about \$25.3 million a year (3 percent of \$843 million) to exclude the railroads from the provisions of the Social Security Act (see Exhibit A).

The Board's cost estimates were intended to show that the proposed bill would cost the Government no more than it would have cost

- 2 -

if the railroads had been included under the provisions of the Social Security Act. However, it is clearly evident, on the basis of the Board's own actuarial calculations, that the difference between the cost of the proposed bill and the cost of including the railroads under the Social Security Act is about \$36.5 million annually. To place the proposed bill on an equivalent cost basis would require that the tax rates be increased to a level rate of about 8.25 percent.

3. The Board's computations were based upon the assumption that employees retired under the proposed pension system, other than those retired on account of disability, would be retired at age 70. Since the bill would permit an employee to retire at his own option after attaining age 65, we believe that the average age of retirement is likely to be lower than age 70. Several insurance company actuaries have criticized the cost figures in respect to the Social Security Act on the grounds that age 67-1/2, the average age of retirement which they thought had been assumed in the calculations, was too high. As a matter of fact, the Treasury calculations were based upon an assumed average retirement age of about 66-1/2. The experience of the Civil Service Retirement and Disability Fund during the three fiscal years beginning July 1, 1930, indicates that civil service employees in those occupational groups having a normal optional retirement age of 65 years actually retire at about age 66. During this period employees were generally permitted to remain in the service until they wished to be retired.

- 3 -

The cost of a retirement system depends to a very important degree upon the age of retirement. If the cost estimates had been based upon an average retirement age of 67-1/2 for persons retired after attaining age 65, the cost of the proposed bill would have been found to be not less than 8.5 percent of the payroll. This seems to us to be a much more reasonable assumption and one which is far from over conservative in view of available experience which points "clearly to the fact that more and more employees are being retired before age 70."¹ The principal justification for many retirement plans, including the present Railroad Retirement Act, has been the claim that substantial savings would be effected by retiring the older and less efficient employees and at the same time bettering the morale of the younger employees by increasing their chances for advancement.

As previously stated, the cost of the proposed bill would be not less than 8.5 percent of the annual railroad payrolls if the average age of service retirement should prove to be 67-1/2 or less. On the basis of this assumption an annual Federal subsidy of about \$42 million would be required, in addition to the tax revenues provided in the bill, to pay the costs. In other words, the plan would start off with an initial deficit of about \$1.4 billion, on which the Federal Government would be required to pay 3 percent interest annually as a perpetual subsidy to the railroad retirement fund. (This does not include the cost of excluding the railroads from the provisions of the Social Security Act.)

¹ Industrial Pension Systems, Vol. II, Latimer, p. 926.

March 24, 1937

MEMORANDUM FOR THE FILE

CARRIERS TAXING ACT

Conference with Representatives Doughton, Cullen and Cooper at the Capitol - March 24th at 2:15 P.M.

Messrs. Vinson and McCormack had also been invited to this conference in the Ways and Means Committee room, but failed to attend.

I stated the Treasury's position to the three men, and all expressed complete agreement with the Treasury. They stated that since the Carriers Taxing Act had been extended, they saw no reason to reduce the rates while assuming an additional liability under the private pension plans. Mr. Cooper was very outspoken on the subject. Mr. Doughton stated that there was disagreement between the actuaries on the calculations and Mr. Cooper answered that the Ways and Means Committee had always accepted the Treasury's estimates. He further pointed out that the railroad men had expressly agreed that the rates of tax should be sufficient to carry the allowances and that although he had put through the Carriers Taxing Act of 1935, he would not be willing to support an Act which the Treasury calculated would not raise adequate revenue.

Mr. Doughton and I went from this meeting to the meeting in Senator Harrison's office held at three o'clock.

RM/egh

MEMORANDUM FOR THE FILES

March 24, 1937

CARRIERS TAXING ACT

Conference held in Senator Harrison's office, March 24th, at 3:00 o'clock, attended by

Senator Harrison, Representatives Doughton, Vinson, Cresser; Mr. Altmyer, Social Security; Mr. Latimer, Railroad Retirement Board; George Harrison, Chairman of Railway Labor Executives Association; Charles M. Ray, attorney for the association; J.J. Pelley, President of the Association of American Railroads; Judge R.V. Fletcher, counsel for the roads association; and myself.

At the request of Senator Harrison I explained the chief financial objections which the Treasury had to the proposed legislation, stating that the Treasury was in full accord with the general purposes of the agreement. I suggested that there were a number of defects in the proposed Bill from the administrative point of view which I thought could be ironed out in a conference between the legislative representatives of the Treasury, of the Railroad Retirement Board and of Congress. I suggested that we had made some of these suggestions to Mr. Latimer of the Railroad Retirement Board but he had expressed unwillingness to make any change in substance from the Bills as agreed upon. Senator Harrison stated, and the parties agreed, that the Bills should follow the usual course and that these changes in the interests of better administration ought to be made while the Bills are being considered by the Congressional committees. I also made the following statements:

(1) Our actuaries have advised us that under the proposed plan the Treasury will assume a liability of \$200 millions under the existing private pension plans of the railroads, necessitating an appropriation for next year of \$40 millions.

(2) We find no evidence of the existence of a differential in favor of the railroad employees under the Social Security Act, but find instead that the elimination of the railroad employees from that Act will result in a net loss of revenue.

(3) We find no satisfactory basis for the assumption that railroad employees will retire at an average age of 70. Our figures and those of the Social Security Board show that an average age of 67-1/2 is much more likely.

I went into each of these phases of the financial situation in considerable detail. Mr. George Harrison then urged that taking into account the employees retiring on account of disability as well as healthy employees, the average age of retirement would be 67-1/2. He urged that the common sense and experience of railroad

men should be accepted rather than the theoretical calculations of actuaries in a matter of this kind, and the railroad men felt sure that an average age of 70 for healthy employees was right. Mr. Lattimer pointed out that in any event the Treasury would receive more than it would be compelled to pay out for a number of years. That a deficit could not exist prior to 1947 assuming that the employees retired at an average age of only 66. He said their calculations indicated that there would be no deficit before the year 1980 or perhaps 2015. The parties agreed in recording Lattimer's contention that should a deficit appear in the future the tax rate could be raised to take care of it.

I then asked whether the parties would be willing to insert in the Bill a provision for periodic reports by the Secretary of the Treasury of the relation between tax receipts and benefit payments. The parties all agreed that such a provision might go in. There was then a good deal of general discussion to the effect that the parties had agreed on this plan and since there would be no deficit in the immediate future, the Treasury ought not to oppose its adoption. Mr. Doughton, who alone supported the Treasury throughout the discussion, said that he knew there would be strong opposition in his Committee to reporting any legislation which the Treasury opposed as financially unwise. Mr. George Harrison said in substance that the railroad employees were determined to have this legislation since they had placed in this field. He and Mr. Polley both stated in answer to a question by Mr. Doughton that the reason the Treasury had not been called in to the preliminary negotiations was because the President had directed that negotiations be conducted under the auspices of Mr. Lattimer. Mr. Harrison made the assertion that the agreement had the approval of the President, but in answer to my question admitted that the President had never passed on the rates.

Mr. Doughton then suggested that in view of the disagreement between the Treasury and Mr. Lattimer, that the principal questions at issue should be referred to the President and considered by him in a conference which could be attended by the interested parties. I expressed approval of this plan, but none of the other parties present at the conference were agreeable, the stated objection being that the President ought not to be burdened with the details of the computations.

Mr. Doughton then asked Judge Fletcher regarding the agreement of the railroads to withdraw their contest on the constitutionality of the present tax act and their further agreement not to contest the constitutionality of the proposed bill. He asked whether this agreement would hold in the event it were found necessary to raise the rates. Judge Fletcher said he could not answer this question in the affirmative. In response to my question whether the agreement would stand in the event that a Receiver

of one of the railroads in the future might want to attack the act Fletcher said merely that the present Recorders would agree to the validity of the act and that he felt that the fact that the great majority of the railroads approved of the legislation would prevent a successful attack on the constitutionality in the future.

Mr. George Harrison added that if any future Recorder contested the act, the brotherhood would immediately call a strike on that railroad.

Mr. Vinson wished to know what the disagreement between the Treasury and Mr. Lattimer meant in dollars during the present year. Mr. Lattimer said it meant \$10 1/2 millions a year. I said I understood the amount involved was greater than that and might amount to \$25 to \$50 millions per year.

It was finally agreed that the legislation should not be introduced before next week and that further conferences should be held. Mr. Lattimer and I therefore agreed to meet tomorrow afternoon at three o'clock to discuss the situation. Judge Fletcher expressed doubt whether any further conferences would do any good since he asserted that negotiations would have to be begun all over again in the event that the rates of tax of the retirement allowances specified in the agreement were not adopted exactly as they stand. Mr. George Harrison asserted that there would be the utmost confusion if the agreement were not put through as it stands. Senator Harrison stated that he had no doubt that if the Bills were reported to the House and Senate that both bodies would pass them immediately, irrespective of actuarial computations.

It was agreed that Senator Harrison should give out the only statement on the subject, to the effect that the conference had been held in order to discuss the various provisions of the proposed Bill with the Senators and Congressmen; that excellent progress had been made and that further conferences would be held next week since no agreement had yet been reached.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

n.c.
104

DATE March 24, 1937.

TO Secretary Morgenthau

FROM

Mr. Haas *HA*

Today you requested through Mr. Gaston that we supply
you with an analysis of the Farm Tenancy Bill.

Thursday, March 25, 1937

Again no purchases were made although prices moved considerably lower during the morning on limited volume. However, there was a better tone throughout the afternoon and prices improved to finish with small losses for the most part. Activity was principally in the long issues. Treasury notes were steady.

MEMORANDUM

March 25, 1937

To: Secretary Morgenthau

From: Dr. Burgess

The Treasury bond market opened slightly easier this morning and quotations on the board thereafter declined in quiet trading until around midday, several issues showing losses of about 1/2 point. Market improved in the afternoon, cancelling part of the losses and at the close the majority of issues were off 1/32 to 5/32 from yesterday. The 3 1/4s of 1943/45 and 3 1/4s of 1944/46 were off 8/32; three other intermediate issues were up about 5/32. Guaranteed bonds were unchanged to 6/32 down relative to yesterday. Today's market had a professional tone and volume of trading on the board was much smaller than on preceding days this week, or last week. Treasury note market showed an easier tendency and quotations declined 1/32 to 3/32.

Domestic bond market was quiet. In the high grade group both the new refunding and seasoned issues held firm at yesterday's level of prices. In the second grade group, there was fair activity in utilities which closed fractionally to about 1 point higher; industrials and rail bonds closed small fractions higher, off from their highs.

Foreigns were rather dull and practically unchanged as to price. Australians showed fractional gains.

No purchases for Treasury today.

March 25, 1937
9:32 A.M.

H.M.Jr:- Archie?
Archie
Lochhead: Yes, sir.

H.M.Jr: You got the loud speaker on?

L: I've got the loud speaker on, but now the group hasn't quite assembled yet. Mr. Magill is the only one here so far.

H.M.Jr: Let me talk to you awhile. Put on those recording machines.

L: All right. I have it all hooked up.

H.M.Jr: How're your foreign exchanges?

L: Well, the foreign exchanges are very quiet. Four eighty-eight and a half and four fifty nine and five-sixteenths, and they're inclined, of course, to keep - to get quiet now, we're running into the holidays. So they'll be very quiet.

H.M.Jr: Hello?

L: Yes.

H.M.Jr: Now, does - is London and Paris closed Friday and Saturday?

L: Well, the bullion markets will be closed, but the exchanges will not all be closed. The banks will not all be closed.

H.M.Jr: What have we got closed Friday.

L: Our stock exchange will be closed on Friday.

H.M.Jr: Well, you'd better stay home Friday.

L: Well, we're fixing up in here to spill out so we won't have a full force here.

H.M.Jr: Well, you'd -

L: Fine.

H.M.Jr: You'd better stay home yourself Friday.

L: All right, fine. I'll do that.

H.M.Jr: And - Saturday the markets are open, aren't they?

L: Saturday the markets will be open again, yes.

H.M.Jr: You stay home Friday - the others haven't had the wear and tear.

L: Right.

H.M.Jr: And is there anything in from Europe at all on this - anything at all?

L: There's been no - the cables have been very thin from - from London and Paris lately and there's really nothing - we're not getting anything special.

H.M.Jr: Now, what happened on the Chrysler strike?

L: On the Chrysler strike they agreed to evacuate the plant.

H.M.Jr: Did they? They said they'd do it at ten this morning.

L: They said they'd do it at ten and they have been taking votes in the various plants and apparently the votes are running all right and they still feel that they'll evacuate all the plants by about ten o'clock.

H.M.Jr: I see. All right.

L: Now, I - let's see - one, two other things. First of all on securities they were all on the purchase side yesterday -

H.M.Jr: Good.

L: Not very heavy, but about two and a half million dollars.

H.M.Jr: Good.

L: Now, one other thing - on our Chinese Silver Agreement - we've been running that on a monthly basis.

H.M.Jr: All right, one month more.

L: One month more, O.K. Now, everybody is here now.

H.M.Jr: Somebody ought to get a Chinese dinner out of that.

L: Well - (Laughs)

H.M.Jr:- I - I -

L: You had yours. (Laughs)

H.M.Jr: What?

L: You've had yours - so have I. (Laughs)

H.M.Jr: Yes, well, let's - let's let Magill take this one.

L: I think - I really think he should. (Laughs)

H.M.Jr: All right.

L: He said he needs one. Well, now, just a second. They're all here now and I'll - who do you wish to start with first?

H.M.Jr: Mr. Magill first.

L: Mr. Magill, right.

Roswell

Magill: Good morning, Henry.

H.M.Jr: Hello, Ros.

M: Well, we had our big party yesterday afternoon.

H.M.Jr: Yes.

M: And Daniel in the lion's den was just the historic parallel.

H.M.Jr: Yes.

M: Well, the way it worked out was this. They - the Railroads and Brotherhoods make essentially two propositions. First, that the plan will pay its own way; that the railroadmen's experience as to age of retirement and so forth is much better than Mr. Ray's whom they characterize as a young man who doesn't know his business, and secondly that - whether the plan is calculated correctly or not, why, we can take it and like it. Now, on that general proposition the - Senator Harrison is favorable and argued strongly for him all the way throughout. Mr. Doughton stood up in a very remarkable manner, on our side and really seemed --

H.M.Jr: I didn't get that. I'm sorry.

-4-

- H: I say Doughton stood up for the Treasury and - quite remarkably. He seemed to know what it was all about and did a very good job.
- H.M.Jr: Yes.
- H: And they made him mad in the course of the meeting by something that Mr. Pelly said and he was sort of breathing fire and smoke toward the end.
- H.M.Jr: Good. If you get Doughton mad, he's a pretty difficult gentleman to handle.
- H: Well, he was a very useful customer.
- H.M.Jr: He doesn't get mad very often.
- H: But, when we came down toward the end, Doughton suggested that we ought to put the whole thing up to the President and see what he wanted to do about it.
- H.M.Jr: Yes.
- H: They were all unfavorable to that throughout.
- H.M.Jr: Really?
- H: Yes.
- H.M.Jr: Well, that's a good sign.
- H: They didn't hold with that at all.
- H.M.Jr: Well, that's a good sign.
- H: So, they were - what they were trying to do was to bludgeon me into agreeing yesterday afternoon to go ahead, which of course I wouldn't do.
- H.M.Jr: Yes.
- H: So - they tried to make - they tried to get me to agree that future conferences wouldn't do any good and we might as well go ahead and so forth, and I said, no, I thought we'd better go on and confer. So, I'm seeing Latimer this afternoon. I don't know just what good it's going to do, but I'm going to see him.
- H.M.Jr: Well, how is our friend, Altmeyer?

H: Altmeyer kept entirely quiet. He said not a word.

H.M.Jr: Well, that wasn't very helpful.

H: Not very helpful. I think he kind of figured that well, this wasn't his party and why should he stick his neck out. He rode back with me afterwards and said he thought everything had been put up that could be put up and so forth, but - he was in just sort of passive agreement, I take it.

H.M.Jr: Yes.

H: I don't know the - of course, they make the point all the while that, as we expected, that they put this up to the President and have the President's approval. And when I asked them whether or not they'd ever put the rates up to the President, they say, oh no, we haven't gone into the details of it, but the President told us to negotiate with Mr. Latimer as representing the Government and he's satisfied so we - as far as we can see, we've done everything we should.

H.M.Jr: Well, if they have such confidence, why don't they - why aren't they willing to put it up to the President now?

H: They don't want to bother him again with the technical details.

H.M.Jr: Oh.

H: The Senators seem to feel pretty strongly on that point too.

H.M.Jr: Well -- well, where does it stand now?

H: Well, it stands now they were going to have these conferences and let them know next week as the essence and no bill would be introduced until then.

H.M.Jr: I see.

H: Summing it all up, I don't know ^{how} well the Ways and Means Committee will stand up. Vinson was there and as Vinson would view it, he took a more or less neutral position, but in fact about all he said was against us. He did not attend the meeting which we held before with a few members of the Ways and Means Committee.

H.M.Jr: I see.

M: And - I don't know why not, but he didn't. So, we got no help out of him.

H.M.Jr: From what you tell me, you've done all you can and that's all we can do in the Treasury - after all the final decision rests with Congress.

M: Well, that's the way it looks. I don't - I don't know anything else we can do. I did get them to agree to this, which is a small thing, but we can take it for what it's worth. They all agreed that the plan should be self-supporting and that they - they further agreed that in the event that it appeared in the future that the thing was not self-supporting they would agree that the rates should be increased to make it self-supporting, and by way of nailing them down on that I asked if they would agree to put a provision in the bill to the effect that you should report - the Secretary of the Treasury should report in the - periodically to Congress how the thing was coming along. And they agreed to that, which is not in the bill now.

H.M.Jr: Yes.

M: Now - of course, we can climb off if we want to by saying that - of course, no one can tell at what age these men are going to retire; that the calculations indicate that if they do retire at an average age of seventy the thing - the plan will stay in the black and that - they've agreed that it should be self-supporting.

H.M.Jr: Well, what do the statisticians at Social Security say?

M: They - they take a position sort of in-between. Their main proposition is, they don't - they don't - they agree with us that the railroads calculation - Latimer's calculation that these men will retire at an average age of seventy - that that's wet and that you should use an age of about sixty-seven and a half. However, they - their actuary approves this so-called differential of Latimer's which amounts to a lot of money and which is money to be diverted from the Social Security taxes to pay for this plan.

H.M.Jr: Oh.

M: - Ah -

H.M.Jr: They're going to take Social Security money for this?

-7-

- M: Yes, that's what it amounts to.
- H.M.Jr: Well, then the other workmen have to put up the difference.
- M: That's right.
- H.M.Jr: Oh, I wouldn't - I wouldn't.
- M: And, of course, we - Ray tells me all along it's been almost impossible to pin Latimer down as to where this differential comes from. I think he pulled it out of the air, but Ray says there isn't any such differential in fact; that actually the railroad men if they were under Social Security would pay more than what they take out in benefits.
- H.M.Jr: Well, I'd stick by it - I wouldn't do it. I'd rather get - well, I mean, I - if you honestly believe that the Treasury's going to lose money by it, I'd just stick by my guns, that's all.
- M: Well, that's certainly the way it looks.
- H.M.Jr: What?
- M: Now - that's the way it looks. I think the only thing for us to - the last thing for us to consider is whether - is what kind of conferences they're going to have with the President. They anticipate - they've got an agreement with the President, apparently, that he will send up a statement to the committees at the time the bill is introduced.
- H.M.Jr: Yes.
- M: Now - certainly the Brotherhoods are going to say that - "Mr. President, you approved this plan and we - we negotiated this plan under the Administrations of the men you named, using the experience and so forth that you said he had, and so we've reached an agreement and here we are!"
- H.M.Jr: Yes. Well, that's all right. Then - then we're going to say "what about the rates."
- M: Yes.
- H.M.Jr: Oh, I'd stick it through.

-8-

M: Well, all right, I stick -

H.M.Jr: We're not questioning the plan.

M: What's that?

H.M.Jr: We're not saying anything about the plan. All we -

M: Oh, no, we - we -

H.M.Jr: We don't want the Treasury stuck.

M: That's right.

H.M.Jr: Well, I'd stick by, that's our job, that's what we're hired for.

M: Good. Now - well, now I'll - then with Latimer today, I'll just - I'll simply stick by my guns and say I want to talk to you when you get back, I guess.

H.M.Jr: Yes, now, I'd like - love to get on something else for an instant, if you will.

M: Yes.

H.M.Jr: And that is, when I get back the first thing the President's going to ask me is to explain why our taxes didn't come up to estimate.

M: Yes.

H.M.Jr: And - is the Treasury going to have something for me when I get back?

M: Well, George is working at it right along. I think we will have, yes.

H.M.Jr: Well, now what about this story which I read this morning about Paul Mallon that due to loopholes that they're able to evade it.

M: Well, I haven't seen Paul Mallon's story, but I don't think there's much in that.

H.M.Jr: Well, I mean when they get the facts as to how - evidently they were able to evade it. Is Oliphant going to take a look at it?

M: Yes, he is. He - what we have in mind is this, we're

going over the figures - there's some indication that in two or three of the districts, Philadelphia and Boston in particular, there doesn't seem to have been as much increase in the receipts as in some of the other big districts and one - one notion that we have is whether or not we'd better not put some people in those districts and see what's happened up there, in the case of cash returns.

H.M.Jr: Well, I want to say again that when I get back I've got to take it on the chin and I want to be - I want to either be able to say here's an explanation or admit that we estimated wrong.

M: Well, we'll have something for you.

H.M.Jr: Or admit there was some method that these fellows were able to find to evade the tax.

M: We'll have something for you. We're getting - we've got the first batch of information from the various collections yesterday and George is working on that now.

H.M.Jr: And - well, it isn't only statistical. I think the General Counsel's Office should get in and see if there are any loopholes which these people were able to use.

M: Do you want to talk to Herman directly?

H.M.Jr: Sure.

M: All right.

Herman
Oliphant: Hello.

H.M.Jr: Hello, Herman.

O: My best information is this, Henry --

H.M.Jr: Yes.

O: - that there are no material loopholes by which they could avoid the tax legally. Now, there is a possibility that in certain areas a lot of taxpayers have followed the advice of tax lawyers who were just too sharp and who are going to get in trouble with us.

H.M.Jr: Are going to get what?

O: In trouble with us.

H.M.Jr: Yes.

O: So, it's not a question of if they've been able to avoid it.

H.M.Jr: Well, I mean -

O: The question is -

H.M.Jr: - on what practice they followed?

O: Well, now that's the reason I made the suggestion that when George identifies the areas, Philadelphia, Boston and so forth, where the percentage increase is not up to the country as a whole, then we just sweep into those districts a bunch of agents and find out exactly what they did.

H.M.Jr: Yes, well that sounds intelligent, but the point that I'm making is this that I want the whole Treasury on it, working as a team.

O: Yes.

H.M.Jr: So - and I'm not going to open my mouth when I get back until I've got something to say.

O: Yes.

H.M.Jr: Which will stand up.

O: Yes.

H.M.Jr: And -

O: Well, we're going over it again with a fine tooth comb but my information now is that there are no material loopholes by which they could legally escape. Now a different question is, have they followed the advice of tax lawyers who are just simply too smart?

H.M.Jr: And what - and what device did they use?

O: What devices did they use? That's the reason I'd like as soon as those areas are identified to sweep in there a large group of agents and identify the very devices they use and I think if that's done promptly enough there'll be a lot of taxpayers who might very well withdraw the returns and file amended returns in order to escape innocent penalties.

H.M.Jr: And then -

- Q: And that could be done before the end of this fiscal year.
- H.M.Jr: Well, when they do that they should watch for two things. One, the name of the lawyer that advised them and the other the accountant.
- Q: That's right.
- H.M.Jr: And then if they find there's one particular law firm or one accountant firm we could get all of their accounts, you see?
- Q: That's right.
- H.M.Jr: What?
- Q: That's right.
- H.M.Jr: But - I mean, there's no use kidding, I mean, until I've got the answer, I'm terribly worried about it.
- Q: Naturally. Everybody's worried about it.
- H.M.Jr: Because -
- Q: I'd like to ask George now. Do those differences still hold up between different areas? George says yes, there are material differences between areas. For instance, the collections are very high in the Pittsburgh area and very high - percentage increase is very high in Delaware, and there's nothing like as high in Boston and in Philadelphia and New York.
- H.M.Jr: Yes.
- Q: And I guess Chicago is about average.
- H.M.Jr: Well, you take a section like Philadelphia. I don't suppose they've got - in Philadelphia - a hundred companies over a million dollars capital.
- Q: Well, I think those three cities is where we pick up most of our money, in Philadelphia, Boston and New York.
- H.M.Jr: Well, now - the group - I mean I want Helvering in on this.
- Q: Yes.
- H.M.Jr: And -

-12-

O: Well, could - do we have your approval now if Helvering agrees and so forth to go ahead and put the men in there and look - and look into it?

H.M.Jr: Well, let me talk just one minute again to Magill, may I?

O: Well, that's right.

Roswell
Magill: Hello?

H.M.Jr: Ros?

M: Yes.

H.M.Jr: Well, what do you think?

M: Well, I - I think that's a good idea. Of course, you're not going to get any information as to exactly what devices they used for some little time.

H.M.Jr: Yes.

M: The returns, I suppose, are still in the Collectors Offices and the agents would get them later after they've come down/and had another audit and so forth.
here

H.M.Jr: Well, the only way we can get the information is to send men in the field.

M: That's right. That's right.

H.M.Jr: Let's put it this way. When you think that the time is right, send for Helvering and sit down with him and with Oliphant and Haas and work it out.

M: Well, I'd - it seems to me that we might as well get together right away and get our lines laid so that -

H.M.Jr: Well, will you do that for me?

M: I'll do that, yes.

H.M.Jr: And - I would say as far as the Treasury's - I got two problems when I come back. I got this one, see?

M: Yes.

H.M.Jr: then
And/the other one is and I want to talk to George about that is this question of interest rate? See?

M: Yes.

- H.M.Jr: And I'll talk to Taylor about it and I mean I want the figures to show what happened in the way of interest rates. The way I figure we're short 300 million dollars between now and June 15th and I've got to make up my mind where I'm going to get it from. But this other thing I've just been talking about - I think if you could get the men together and lay out a campaign - and the thing that I'm going to do is I'm not going to say anything until I've got something which will stand up.
- Magill: Yes - yes.
- H.M.Jr: And I don't think anybody in the Treasury ought to say anything - particularly to these letter-writers or anybody.
- M: No, that's - that's absolutely right.
- H.M.Jr: I mean to any of these letter-writers or anybody; I don't think anybody ought to say anything; I'd much rather take the attack; let Paul Mallon and Kiplinger and the rest of them attack us and keep quiet until we have an answer; some kind of an answer. Does anybody disagree with me on that?
- M: No I -
- H.M.Jr: What?
- M: Everybody agrees.
- H.M.Jr: I mean everybody is going to run around and buttonhole everybody and try to get some kind of an explanation and I don't think we ought to give any explanation until we have one that is all right.
- M: Yes. Yes as you know there - there are several possible explanations. Ah....
- H.M.Jr: I'm going to be patient and I'm going to wait until I've got one which - either I can explain it or I can't explain it.
- M: Well we can certainly eliminate one or two of the possibilities before you get here.
- H.M.Jr: Fine. Well if it isn't by Monday I'm just going to wait but I wanted to say to the whole group that I don't think we ought to give out any half-baked explanation until we've exhaustively studied this thing.

- 14 -

M: I think that's absolutely right.

H.M.Jr: And that's the only thing that I was worried about; that somebody might in order to try to buck up the Treasury's reputation might say something which later wouldn't stand up.

M: Well we'll all keep mum. Now do you want to talk to Wayne?

H.M.Jr: Yes.

Taylor: Hello

H.M.Jr: Hello Wayne.

T: How are you?

H.M.Jr: Would you and George do something for me?

T: Right.

H.M.Jr: I'd like to have a study made. Now I read in the paper here; its very brief, that the City of New York had to pay two and nine tenths percent for the same money it cost them, I think, one and a half in September. I mean it was just a short - I mean the papers - the local papers aren't very good, see?

T: Yes.

H.M.Jr: What I want is various examples to show how much interest rate has gone up in the last six months, you see?

T: Six months.

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

T: Just a chart to show.....

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

T:that there has been quite a fluctuation in that.

H.M.Jr: Well if you want to - go back to the first of July when they first started to increase the excess reserves.

T: He has it - George says he has it half done.

H.M.Jr: Well good for George.

T: The other one you were mentioning we also have half done.

H.M.Jr: What's that?

T: Ah - amount of money.

H.M.Jr: Well I know what the amount of money is. Its about 300 million.

T: Ah - well we're - we're working on that.

H.M.Jr: It may be a little more or a little less.....

T: Yes.

H.M.Jr:but it'll run around 300 million.

T: Well we've - ah - we do have to go to the money - ah - to the market between now and June; there's no question about it.

H.M.Jr: Well, of course, there's a way that we don't have to.

T: Yes.

H.M.Jr: And maybe we'll accept Marriner's suggestion that he gave the fellows.

T: Well that's part of the but as far as our working balances we either have to go to the market or feed in some gold.

H.M.Jr: That's right.

T: Yes.

H.M.Jr: When does Marriner get back?

T: Ah - Tuesday or Wednesday.

H.M.Jr: Of next week?

T: Yes.

- 16 -

H.M.Jr: Ah-ha - well....

T: Do you want him away for longer than that?

H.M.Jr: Pardon me?

T: Do you want him away for longer than that? (Laughs)

H.M.Jr: No I'd like him back because - oh - ah - when I get back - I mean I'm going to look after the Treasury's interest and the Federal Reserve will just have to - ah - they'll have to watch me that's all.

(Laughter by the group)

T: I suspect they've got a man on you now.

H.M.Jr: What?

T: I suspect they've got a man on you now.

H.M.Jr: Who is that?

T: No, I was just being imaginary.

H.M.Jr: Oh well they'll have to - we cleared the decks for them; now they'll have to clear the decks for us and its been pretty expensive too.

T: Well let's put it this way; its a very delicate situation.

H.M.Jr: Its a what?

T: Its a delicate situation.

H.M.Jr: Ah - I don't know whether Miss Roche is present or not. I could.....

T: No she isn't.

H.M.Jr: What?

T: She isn't.

H.M.Jr: She's not (laughs) well I don't feel quite as virtuous as I did last fall.

(Hearty laughter by the group)

H.M.Jr: What?

- 17 -

Group: (Still laughing)

T: Well after the first time you don't mind it as much.
(Laughs)

H.M.Jr: If - ah - if you disconnect that recording machine
I'll make one more remark. Hello

T: What?

H.M.Jr: Is the machine still recording because I haven't
lost my sense of humor.

T: Its perfectly apparent.

H.M.Jr: No, I'm all right. This is serious business and
we've been in damn sight tougher spots than this.

T: Right.

H.M.Jr: But I want all the intelligence we've got con-
centrated on these problems. I'll do the best I
can with your help when I get back.

T: Well we're still working on the other one.

H.M.Jr: Yes.

T: And - well on all the ones you've been mentioning
here - ah - we ought to have something for you.

H.M.Jr: Right. Now I asked George if he'd give me something.
Its raining like hell and I can't play golf so I
don't care how long I talk.

Note: (Laughter by the group).

T: Ah - do you want to talk to George?

H.M.Jr : If you please.

Haas: Good morning, Mr. Secretary.

H.M.Jr: That unemployment or re-employment report?

H: Oh yes, I've looked that over.....

H.M.Jr: Yes.

- 18 -

H:and I - here's about what it is. They have ah - what appears to be very good statistics on the number registered in these offices.

H.M.Jr: Yes.

H: Then they classify them by their previous occupation; how long they were without a job and geographical classification and some other classification. Ah - the statistics themselves I think should be put out as a statistical publication but what they've done is in the front of it put out a sales organ for the reemployment service.

H.M.Jr: Yes.

H: Ah - well that's just a matter of policy whether they wanted to leave that on or not. I talked to Lubin about it and I asked why it was held up.....

H.M.Jr: Yes.

H:and he hesitated for a while and then he said that the - these figures - that it took so long to make the survey and the figures now apply to June 30, 1936.....

H.M.Jr: Oh for heaven's sakes.

H:and they're making a - bringing them up to date as of February the 15th.

H.M.Jr: I see.

H: And will have that completed very soon.

H.M.Jr: I see.

H: And he assumed that they were going to release that.

H.M.Jr: I see.

H: So in view of that I think probably you'd better sit tight on it.

H.M.Jr: All right. What else?

-19-

H: I - you know, Crum is down here.

H.M.Jr: No.

H: Yes, he's been down here for - oh, since the first of February or about the middle - he's been down here steady.

H.M.Jr: Yes.

H: And I've got him working on this problem of the estimates too.

H.M.Jr: Good.

H: I mean when you come to pick a man around the country he's probably an outstanding one.

H.M.Jr: Good.

H: And - let's see if there's anything else. On those returns that came in - those wires that Helvering received yesterday -

H.M.Jr: What did you say?

H: On those wires which Helvering received yesterday -

H.M.Jr: Yes.

H: They show that corporations this year are ^amuch larger number as for extensions.

H.M.Jr: I see.

H: About forty-thou/sand more than last year. I haven't been able to figure out just what that means in terms of money, but - but it's - it's towards more money, you see, than was reported.

H.M.Jr: Yes. Just a minute. Ask Archie to go out and see on the ticker whether the Chrysler strike is off at ten o'clock, will you?

H: Yes. Let's see. We'll have something, I think, pretty soon for you on the estimates.

H.M.Jr: I see.

H: Crum thinks they're looking it over. He says that the -

he thinks statisticalwise it's a very good job. Even when terms are results he thinks the results are well within the statistical area. He said what we've been previous that we'd also done a good statistical job and have been very lucky. But, as I feel - I feel pretty bad when I'm not lucky and good at statistics too. (Laughs).

H.M.Jr: Well, is Crum on to this - seriousness of this thing, I wonder if he needs any more assistance?

H: Well, we've given him - you mean outside?

H.M.Jr: Well, yes.

H: Oh, I don't - he didn't ask for any. You see, he's got a staff over there - two or three people working on his problem.

H.M.Jr: I see.

H: That are people that he's brought in from the outside.

H.M.Jr: I see.

H: He can put those on if he wants to.

H.M.Jr: All right.

H: Yes.

H.M.Jr: Well, this is about the most important thing that we got -

H: Yes.

H.M.Jr: - we're all in it together.

H: Yes. Well, we're just doing all we can on it to find out - if there is anything wrong, to find out what it is.

H.M.Jr: All right, George.

H: Do you want - who else -

H.M.Jr: Anybody want to talk to me?

Gaston: Hello.

H.M.Jr: Yes.

G: You were speaking about the - that Paul Mallon thing.

H.M.Jr: Yes.

G: Paul Mallon talked to me; he came in with that hunch that what he noticed right away was the discrepancy in the big districts and he's simply pursuing his own theory there.

H.M.Jr: Yes. What's that, Herbert?

G: Well, his own theory was that there was a lot of evasion of the undistributed profits tax in the big districts.

H.M.Jr: I see. You mean under the new bill?

G: Yes.

H.M.Jr: Under the 1936 bill?

G: Yes, yes.

H.M.Jr: Well -

G: - Ah -

H.M.Jr: I didn't consider his - considering who wrote it, I did not consider it unfriendly.

G: Yes, yes.

H.M.Jr: So, I mean -

G: I don't think any of this stuff has been - has been very bad. Of course, they're all -

H.M.Jr: Well, for Paul Mallon, I thought it was surprisingly mild.

G: Yes, yes.

H.M.Jr: I did - my papers carry Westbrook Pegler right next to it.

G: You what?

H.M.Jr: Westbrook Pegler and Paul Mallon write side by side down here.

G: Oh.

H.M.Jr: And Pegler took another crack at it on the agents - Internal Revenue.

G: On the Internal Revenue?

H.M.Jr: Yes.

G: Well, you know that story he told was true -

H.M.Jr: Yes.

G: - that story about Lee Wood.

H.M.Jr: It was true?

G: It was true according to what I hear from ^{the} Internal Revenue.

H.M.Jr: Yes, well that's nice.

G: Yes. Eccles' has an article in Fortune.

H.M.Jr: By himself?

G: Yes. Very much along the line of his - of the statement - his most recent statement that he gave out.

H.M.Jr: Oh, really?

G: Yes.

H.M.Jr: Is it just out?

G: Yes, just out yesterday. The newspapers are paying some attention to it.

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

G: Archie's just handed me a bulletin from Detroit on the strike. It said that unanimous votes to evacuate were taken at the Plymouth, Dodge truck Dodge Fords Plants. It is now assured, Martin said, that the plants will be evacuated.

H.M.Jr: Good. All right, the bond market will be fine today then tell Wayne.

G: The bond market what?

H.M.Jr: Tell Wayne that the bond market --

-23-

G: Oh the - oh, yes that the bond market will be good. Yes, yes.

H.M.Jr: Yes.

G: Yes.

H.M.Jr: All right.

G: Anybody else now?

H.M.Jr: No, thank you.

G: Yes.

H.M.Jr: All right.

G: Right. Goodbye.

H.M.Jr: Hello?

G: Yes.

H.M.Jr: I just wanted to make sure we had our little joke after Archie had the machine turned off.

G: That's right. The worst of it the machine was turned off. (Laughter from several voices) The best of it.

H.M.Jr: Not the best of it?

G: To the best of it, yes.

H.M.Jr: All right. (Laughs)

G: (Laughs)

H.M.Jr: Goodbye.

G: Goodbye.

Excerpt from record of telephone conversation with
Roswell Magill March 25, 1937 at 9:32 a.m.

Roswell

Magill: Good-morning, Henry.

HM,Jr: Hello, Ros.

M: Well, we had our big party yesterday afternoon.

HM,Jr: Yes.

M: And Daniel in the lion's den was just the
historic parallel.

HM,Jr: Yes.

M: Well, the way it worked out was this. They -
the Railroads and Brotherhoods make essentially
two propositions. First, that the plan will
pay its own way; that the railroadmen's experience
as to age of retirement and so forth is much
better than Mr. Ray's whom they characterize as
a young man who doesn't know his business, and
secondly that - whether the plan is calculated
correctly or not, why, we can take it and like it.
Now, on that general proposition the - Senator
Harrison is favorable and argued strongly for him
all the way throughout. Mr. Doughton stood up in
a very remarkable manner, on our side and really
seemed - -

HM,Jr: I didn't get that. I'm sorry.

M: I say Doughton stood up for the Treasury and -
quite remarkably. He seemed to know what it was
all about and did a very good job.

HM,Jr: Yes

M: And they made him mad in the course of the meeting
by something that Mr. Pelly said and he was sort
of breathing fire and smoke toward the end.

HM,Jr: Good. If you get Doughton mad, he's a pretty
difficult gentleman to handle.

-2-

M: Well, he was a very useful customer.

HM,Jr: He doesn't get mad very often.

M: But, when we came down toward the end, Doughton suggested that we ought to put the whole thing up to the President and see what he wanted to do about it.

HM,Jr: Yes.

M: They were all unfavorable to that throughout.

HM,Jr: Really?

M: Yes

HM,Jr: Well, that's a good sign.

M: They didn't hold with that at all.

HM,Jr: Well, that's a good sign.

M: So, they were - what they were trying to do was to bludgeon me into agreeing yesterday afternoon to go ahead, which of course I wouldn't do.

HM,Jr: Yes

M: So - they tried to make - they tried to get me to agree that future conferences wouldn't do any good and we might as well go ahead and so forth, and I said, no, I thought we'd better go on and confer. So, I'm seeing Latimer this afternoon. I don't know just what good it's going to do, but I'm going to see him.

HM,Jr: Well, how is our friend, Altmeyer?

M: Altmeyer kept entirely quiet. He said not a word.

HM,Jr: Well, that wasn't very helpful.

M: Not very helpful. I think he kind of figured that well, this wasn't his party and why should he stick his neck out. He rode back with me afterwards and said he thought everything had

-3-

been put up that could be put up and so forth, but - he was in just sort of passive agreement, I take it.

HM,Jr: Yes.

M: I don't know the - of course, they make the point all the while that, as we expected, that they put this up to the President and have the President's approval. And when I asked them whether or not they'd ever put the rates up to the President, they say, oh no, we haven't gone into the details of it, but the President told us to negotiate with Mr. Latimer as representing the Government and he's satisfied so we - as far as we can see, we've done everything we should.

HM,Jr: Well, if they have such confidence, why don't they - why aren't they willing to put it up to the President now?

M: They don't want to bother him again with the technical details.

HM,Jr: Oh.

M: The Senators seem to feel pretty strongly on that point too.

HM,Jr: Well -- well, where does it stand now?

M: Well, it stands now they were going to have these conferences and let them know next week as the essence and no bill would be introduced until then.

HM,Jr: I see.

M: Summing it all up, I don't know how well the Ways and Means Committee will stand up. Vinson was there and as Vinson would view it, he took a more or less neutral position, but in fact about all he said was against us. He did not attend the meeting which we held before with a few members of the Ways and Means Committee.

HM,Jr: I see.

-4-

M: And - I don't know why not, but he didn't. So, we got no help out of him.

HM, Jr: From what you tell me, you've done all you can and that's all we can do in the Treasury - after all the final decision rests with Congress.

M: Well, that's the way it looks. I don't - I don't know anything else we can do. I did get them to agree to this, which is a small thing, but we can take it for what it's worth. They all agreed that the plan should be self-supporting and that they - they further agreed that in the event that it appeared in the future that the thing was not self-supporting they would agree that the rates should be increased to make it self-supporting, and by way of nailing them down on that I asked if they would agree to put a provision in the bill to the effect that you should report - the Secretary of the Treasury should report in the - periodically to Congress how the thing was coming along. And they agreed to that, which is not in the bill now.

HM, Jr: Yes.

M: Now - of course, we can climb off if we want to by saying that - of course, no one can tell at what age these men are going to retire; that the calculations indicate that if they do retire at an average age of seventy the thing - the plan will stay in the black and that - they've agreed that it should be self-supporting.

HM, Jr: Well, what do the statisticians at Social Security say?

M: They - they take a position sort of in-between. Their main proposition is, they don't - they don't - they agree with us that the railroads calculation - Latimer's calculation that these men will retire at an average age of seventy - that that's wet and that you should use an age of about sixty-seven and a half. However, they - their actuary approves this so-called differential of Latimer's which amounts to a lot of money and which is money to be diverted from the Social Security taxes to pay for this plan.

-5-

HM, Jr: Oh.

M: - Ah -

HM, Jr: They're going to take Social Security money for this?

M: Yes, that's what it amounts to.

HM, Jr: Well, then the other workmen have to put up the difference.

M: That's right.

HM, Jr: Oh, I wouldn't - I wouldn't

M: And, of course, we - Ray tells me all along it's been almost impossible to pin Latimer down as to where this differential comes from. I think he pulled it out of the air, but Ray says there isn't any such differential in fact; that actually the railroad men if they were under Social Security would pay more than what they take out in benefits.

HM, Jr: Well, I'd stick by it - I wouldn't do it. I'd rather get - well, I mean, I - if you honestly believe that the Treasury's going to lose money by it, I'd just stick by my guns, that's all.

M: Well, that's certainly the way it looks.

HM, Jr: What?

M: Now - that's the way it looks. I think the only thing for us to - the last thing for us to consider is whether - is what kind of conferences they're going to have with the President. They anticipate - they've got an agreement with the President, apparently, that he will send up a statement to the committees at the time the bill is introduced.

HM, Jr: Yes.

M: Now - certainly the Brotherhoods are going to say that - "Mr. President, you approved this plan and we - we negotiated this plan under the Administrations of the man you named, using the experience and so forth that you said he had, and so we've reached an agreement and here we are".

HM,Jr: Yes. Well, that's all right. Then - then we're going to say "What about the rates?"

M: Yes.

HM,Jr: Oh, I'd stick it through.

M: Well, all right, I stick -

HM,Jr: We're not questioning the plan.

M: What's that?

HM,Jr: We're not saying anything about the plan. All we -

M: Oh, no, we - we -

HM,Jr: We don't want the Treasury stuck.

M: That's right.

HM,Jr: Well, I'd stick by, that's our job, that's what we're hired for.

M: Good. Now - well, now I'll - then with Latimer today, I'll just - I'll simply stick by my guns and say I want to talk to you when you get back, I guess.

HM,Jr: Yes, now, I'd like - love to get on something else for an instant, if you will.

M: Yes

* * * * *

March 25, 1937

CARRIERS TAXING ACT

Mr. Letimer came in to discuss his calculations of the requisite tax. He had a friendly discussion which did not develop any new points, the following being the substance.

As to the average age of retirement Letimer feels that his figure is sound on the basis of such experience as they have. Since the amounts which the railway men are to receive are only one-half, or less, of their compensation, he thinks that it is likely that the man will want to stay on so long as they are not disabled. His main point is that he is quite sure that his plan will be self-supporting until 1962. He urges that any number of things may operate to change the calculations thereafter, such as possible surges for senior or heart disease, increases in the railway payroll, changes in the value of the dollar, etc. etc. He feels that it is not sensible policy to attempt to compute the requisite payments in perpetuity, but that it is enough if the scheme balances for a period of 25 to 40 years.

Letimer did not have much to say about his differential. He said that it was based upon a comparison of the present worth of the obligation to pay annuities under the Social Security Program, as compared to the actual tax receipts. I pointed out that the same differential might exist as to other employees under the Social Security program and he agreed. He said Mr. Clem did not commit himself to any differential figure but that Clem conceded that there might be a differential in the period between the present and 1960. Letimer further urged that the calculations shown on his table as to the prospective receipts and disbursements are conservative at least for the next few years, since the retirements so far have by no means kept up to the estimates.

In response to my question Letimer stated that he thought there should be a provision for covering the tax receipts into a reserve similar to the old age reserve under the Social Security Act. He asserted that in 7 or 8 years it could be definitely determined whether the system would be self-supporting. He entirely agreed to the desirability of annual reports of the status of the retirement allowances and the tax receipts. He apparently contemplates a report by the Retirement Board. So far as tax receipts and completion of the reserve are concerned, I think the reports should be made by the Secretary of the Treasury, and the reserves yesterday so agreed.

Letimer said there was a great deal of pressure for immediate action particularly since railroad employees not included under the scheme were now sending in complaints to Mr. Cresser and George P. Harrison. I told him that I wanted to talk to the Secretary who would be back Monday. Letimer said that Mr. Clem was making a computation of the differential which would not be done before Monday or Tuesday, and I said I thought we would have to wait for it. I told him that I hoped to see the Secretary Monday and hoped to give him an answer Tuesday.

Carriers Taxing Act - 3/23/37 - 2

As he was about to leave Latimer stated that he was much disturbed by the situation as it had developed, since he had not expected the details of the plan to be given publicity, but had hoped to have a month in which to work on them. He said he also was worried about possible criticism from Government sources; that he had tried to serve the Government's interests and he realized that there was a good deal of feeling that he had "let the Government down." He said finally that Mr. George Harrison had told him privately that the President had called him in to ask some favor which Harrison did not disclose, and in response to Harrison's inquiry the President had agreed to support the railroad pension plan on the present basis. I asked Latimer whether the President had considered the figures and Latimer said he did not know, - but Harrison gave him the impression that the President approved of the agreement in the form in which it had been made.

I later called Mr. Doughton (pursuant to a telephone conversation with the Secretary) and told him we greatly appreciated his good work yesterday afternoon. He said he wanted to stand by the Treasury and that it was hard work to buck the brotherhoods. He said he could not understand how Senator Harrison and Mr. Vinson could take the position which they did, yielding everything to the railroads and the brotherhoods as soon as they asked it. I told Mr. Doughton we would keep him fully advised of future developments. He particularly wanted us to let him know the results of any conferences which the Secretary may have with the President.

EW/agh

FEDERAL RESERVE BANK
OF NEW YORK

W. Lockhart 138

OFFICE CORRESPONDENCE

DATE March 25, 1937.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF FRANCE.

Mr. Cariguel called at 12:14 today to inquire whether we would object to receiving an order from him on Saturday good for both Saturday and Monday since they were closing in Paris during the holidays. I replied that we would be very glad to handle such orders and inquired how the market was. Cariguel answered that it was still in their favor although, naturally, they were not getting as much foreign exchange now as they were a while ago. Nevertheless, he was in a position to increase his holdings every day, and the market continued entirely satisfactory. I asked about the new bond issue and whether he was satisfied with that also. He replied that the bonds were now quoted at a discount of 22 francs, that the offering had been a pretty large one for the present market but that the bonds were gradually being digested; generally speaking, he said, he was pleased even though the bonds might have done a little better.

We talked briefly about conditions here. I mentioned that the strike situation in Detroit seemed to look somewhat improved; that this seemed to be the market's opinion as evidenced by a rise in quotations. I continued that foreign sales of our securities for the week ended last night very probably exceeded purchases, for the first time since last December, which Cariguel thought was very satisfactory.

LWK:EMC

LMS

GRAY

Paris

Dated March 25, 1937

Rec'd 3:12 p. m.

Secretary of State,
Washington.

410, March 25, 5 p. m. (SECTION ONE)

FROM COCHRAN.

French ^{fund} continued to obtain sterling and some dollars on an exchange market that was active but without big turnover. Belga remains weak. Guaranty and Lazard are still financing gold exports from Antwerp to New York. French rentes slightly better and general market atmosphere fairly good as Easter holidays and Parliamentary adjournment approach. Bank of France statement as of March 19 showed no changes in gold stock or in advances to the Government. With discounts and circulation down coverage (*) for 54.57 to 55.08.

Financial editor of JOURNAL INDUSTRIEL Paris wrote today in part:

"Our stabilization fund has recovered in a short time an important (*) of exchange that is to say, of metal. This recovery has resulted from a psychological as well as a technical

LMS 2-No. 410, March 25, 5 p. m., Sec. 1, from Paris.

technical reaction produced by the loan with guaranteed
exchange opinions in the United States cabled to London
yesterday pointed out (END SECTION ONE)

WILSON

RR:CSB

(*) Apparent omissions.

RECEIVED

MAR 26 1941

TRUMPETER YOUNG

1000 1000 1000

LMS

GRAY

Paris

Dated March 25, 1937

Rec'd 4:09 p. m.

Secretary of State,
Washington.

410, March 25, 5 p. m. (SECTION TWO)

that Wall Street weakened in part at the beginning of the week under pressure of continental sales. It is likely that these sales emanated from the French portfolio which chose to realize very large profits on American bonds in order to apply them to a loan whose payment is guaranteed in dollars.

Repatriation of French capital from New York to Paris has therefore resulted. At Paris liquidation of English securities resulted in the entry of funds from the London market. It is therefore necessary that from now on this capital definitely become rooted in our market.

The tripartite pact is not only a material guarantee that the franc market will be more easily defendable from the technical point of view but also a sort of moral assurance which comes from a collaboration on equal footing between the French stabilization fund and the two most powerful funds in the world. But in spite of these advantages it remains for us to assume our own defense
conjointly

LMS 2-No. 410, March 25, 5 p. m., Sec. 2, from Paris.

conjointly with the action of London and New York. These two centers cannot prevent French ceremonials from choosing to return to Paris or to leave again for New York.

Therefore for the proper functioning of the tripartite pact the two primary conditions are essential; financial equilibrium and protection of capital".

Press reports that at meeting of Swiss Association

WILSON

CSB

LMS

GRAY

Paris

Dated March 25, 1937

Rec'd 4:15 p. m.

Secretary of State,
Washington.

410, March 25, 5 p. m. (SECTION THREE)
of Accountants at Geneva last week President Bachmann of Swiss National Bank talked on capital exports. The speaker reviewing the history of Switzerland's international relations in the capital market analyzed the part played by the banks and stressed the great importance attached by the National Bank to Switzerland's international investments and the extent to which this problem came within its province. After demonstrating that Switzerland was one of the countries that had to invest their surplus capital abroad he discussed the resultant advantages and disadvantages. At present capital exports were taking the form of purchases of securities or foreign stock exchange in the absence of international issues on the Swiss market. With a view to "canalization" of these exports it was now proposed that trades foreign securities should be introduced on the Swiss stock exchanges. A Stock Exchange Commission would be created whose task it would be to
select

LMS 2-No. 410, March 25, 5 p. m., Sec. 3, from Paris.

select the new securities to be introduced and to advise the investing public. At the same time the Swiss National Bank must have the right of approving or vetoing the introduction of the various securities from the point of view of its own monetary and exchange policy. (END MESSAGE)

WILSON

CSB

02713320

02713320

1917-1918

1917-1918

JS

Gray

LONDON

Dated March 25, 1937

Rec'd 8 p.m.

Secretary of State,
Washington, D.C.

172, March 25, 9 p.m.

FOR TREASURY FROM BUTTERWORTH.

In the course of a luncheon conversation with Clay, Economic Adviser to the Bank of England, I received the very definite impression that in the circumstances the Bank of England regarded a rise in long term interest rates as both inevitable ^(and?) an desirable and expected Government securities to bear a rate of interest nearer three and one half than three per cent in the ensuing months.

In this connection, Clay mentioned that the forces working toward higher interest rates had been making themselves felt for some time and that therefore it was misleading to stress the abruptness of the adjustment occasioned by the public reaction to Chamberlain's armament announcement. The banks which had made practically no purchases of long dated Government securities during the last year would, given the rising trend of advances, have to dispose of about 100,000,000 pounds of Government securities during the current year.

Clay took the view that a moderate rise would not have an adverse effect on normal business and industrial

activity
FILE COPY.

A. LOCHHEAD

Regraded Unclassified

-2-

From London #172.

activity but it would gradually have a dampening effect on building; this Clay welcomed since it would tend to prevent an abrupt decline in the future, the peak of the building boom being well past.

Clay said that he had been informed that recent weakness in American Government bonds was mainly due to technical causes; he could not but believe that the forces making for higher interest rates would in due course make themselves felt in the United States as well; that given the control which the American authorities had it was entirely possible for them to preserve the present interest levels but a rigid preservation of a cheap money policy in such circumstances would in his opinion run counter to a policy of checking inflationary influences.

In the course of a discussion of the prospects of an inflationary boom, Clay said that several thoughtful continentals had inquired whether any consideration had been given in London to the possibility of using a reduction in the price of gold as an instrument of control. He said in fact there had been some informal consideration of it here and he wondered whether similarly it had been considered in Washington for, of course, under the tripartite monetary arrangement no action could be taken individually. Clay said personally he thought the possibility of say a five per cent reduction in the value of gold deserved serious consideration. In

the first

-3-
London, #172.

the first place, it was hard to believe that Great Britain and the United States would continue indefinitely to absorb the world's now enormous gold production which was increasing all the time and that a five per cent reduction in price would no doubt be a salutary check to the gold boom. Secondly, it should be a check to the type of boom activity which might need such attention; it was, of course difficult to prejudge the effect any such action would have for the whole world had become slump and boom conscious and nearly everyone was attempting to beat the market in one way or another with the result that fluctuations occasioned by actions or events were accentuated; it was therefore possible to engineer a depression in attempting to avoid a boom. Clay said that for this reason he mentioned a reduction by such a moderate amount as five ~~per cent.~~

BINGHAM

S.S

U

GRAY

Paris

Dated March 26, 1937

Rec'd 9:25 a.m.

Secretary of State

Washington

413, March 26, 1 p.m.

FROM COCHRAN.

With half holiday this afternoon and only unofficial trading between banks this forenoon turnover in foreign exchange very light. Market understands French Treasury is operating through the Banque de L' Union Parisienne and Banque Transatlantique to buy at discount of 24 francs per thousand the national defense bonds which some subscribers are not able to finance.

Paris financial and market review LA SITUATION today says in part:

"The Bourse suffered at the beginning of the week a technical reaction which had the double effect of easing the topheavy speculative position and of bringing back the market to more moderate level.

Moreover, an impartial examination shows that fears to which this downward movement has given rise were unjustified or exaggerated. An upswing of the market seems therefore reasonable to the extent that the capital drained by the loan of 8 billion will be thrown back into circulation.

However,

U -2- #413, Mar. 26, 1 p.m. from Paris

However, actual conditions in France—and notably the maintenance of the Popular Front Government supported by the Communists—are not of a nature to favor the return of confidence to capitalists and must again cause capital to seek "refuge securities". After the setback of this week we believe therefore that it is to the interest of available capital to take advantage of the real "bargains" offered amongst the raw material securities and gold mines".

WILSON

CSB



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FE 893.51/6339

March 26, 1937

CONFIDENTIAL

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and, with reference to this Department's letter of March 24, 1937, and to previous correspondence in regard to matters relating to the financial and economic situation in China, encloses, for the information of the Secretary of the Treasury, a copy of telegram No. 133 of March 24, 3 p.m., from the American Embassy at Nanking.

Enclosure:

From Embassy Nanking
No. 133, March 24, 3 p.m.

RECEIVED

MAR 27 1937

TREASURY DEPARTMENT
Office of the Secretary
Technical Assistant to the Secretary.

DEPARTMENT OF STATE

DIVISION (FE
BUREAU (

ENCLOSURE

TO

LETTER DRAFTED

ADDRESSED TO

Treasury.

U

Nanking via H.R.

Dated March 24, 1937

Rec'd 9:15 a.m.

Secretary of State

Washington

133, March 24, 3 p.m. (SECTION ONE)

My 127, March 22, 11 a.m.

One. Kung and Admiral Chen, Minister of the Interior, are leaving for London April 2 and Quo Tai Chi has been appointed "ex officio deputy envoy". ^{According to} ~~accompanied by~~ an official of the Ministry of Finance (1) Chiang Kai Shek will nominally head the Finance Ministry as acting Minister during Kung's absence (2) if T. V. Soong goes to London he will not accompany the envoys (3) reports that Tsai Yee Pei, Director of the Central Bank of China, will accompany Kung and Chen are merely "rumors". (SECTION TWO FOLLOWS) March 24, 6 p.m.

JOHNSON

RR:WYC

U

Nanking via N.R.

Dated March 24, 1937

Rec'd 11:05 a.m.

Secretary of State

Washington

133, March 24, 3 p.m. (SECTION TWO)

Two. Informant also stated that while financial conversations would be held in London the result would probably be that China would merely receive large credits and a quantity of "war junk" as in the case of the Sino-German barter trade Agreement of May, 1936, which had resulted in the dumping upon Chinese by Germany of considerable amounts of old and "rejected" machine guns, artillery, et cetera. Admiral Chen, he said, might return with a worn out British battleship to add to the Chinese Navy but little useful financial assistance was expected from the British.

Three. By mail to Peiping, Shanghai, Tokyo, London.

JOHNSON

CSB. 42071738



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

26 March, 1937

From: Spagent, Shanghai, China.
To : Secretary of the Treasury.

SECRET

Message from Nicholson.

Regulations for organization of Central Reserve Bank were approved March 24th by Central Political Council in meeting at Nanking. Council has adopted Central Reserve Bank plan. Final details to be completed shortly by Legislative Yuan and plan thereupon to be placed in effect. Plan fundamentally similar to that prepared by expert committee last year of which you were informed at the time and copies of which were submitted with our letter of February 24th with certain proposed amendments. Their report has been studied by government committees in Nanking and revised drafts prepared of which we were kept informed. Although that finally approved not yet available understand principal changes are first, not including governor and deputy governor, three directors will be appointed by government, three each by banks (or bonds) shareholders instead of one, four and four respectively. In general somewhat more government participation than expert committee recommended. Second, normal working minimum reserve against issue and other demand liabilities 35 instead of 40% with lowered allowed limit 25 instead of 30%. Third, centralization of reserves and note issues expected to take place soon thereby giving new institution substantial control however period for substituting new notes for other notes four years instead of eighteen months in view of practical difficulties.

Understand confidentially Farmers Bank management changed which will give effective control to finance ministry. Have obtained confidentially following estimates in millions of Chinese dollars: Total note issue approximately 1616 including Canton as of February 27 and 192 million note issue of Farmers Bank. Estimated other net sight liabilities new Reserve Bank, 400, including 200 reserve deposits, total sight liabilities 2016. Cash reserve 1--silver taken at 45 cents, 573 or over 35% of notes; 2--gold and foreign exchange 323. Total estimated reserve of new institution based on February 27 figures 896 or about 45%. Measure requires new institution to stabilize exchange value of currency but not affect currency basis. Informed financial circles feel new measure most important constructive step toward maintaining solid monetary situation.

SECRET

March 26, 1937

154

MEMORANDUM FOR THE FILES:

CARRIERS TAXING ACT.

Mr. Altmeyer called to say that his Actuary had reported to him that after conference with Mr. Glenn, the Actuary for the Retirement Board, both men agreed that there was no evidence to show any tangible differential in favor of the railroad employees prior to the year 1980. Mr. Altmeyer said that in his opinion, therefore, Mr. Latimer's contention for a differential of .53 percent of the railroad payrolls was without foundation and, on this basis alone, he felt that the present tax rate of 7 percent should be retained by all means, since Mr. Latimer's calculations showed that on his own assumptions a level rate of 7.11 percent would be required to pay the railroad benefits.

Mr. Altmeyer said further that his Actuary was still of the opinion that the average retirement age used by Mr. Latimer was unsound and, hence, he was still of the view that a tax of 8½ to 9 percent of the railroad payroll would be required to pay the benefits.

In view of his Actuary's statement on the differential, Mr. Altmeyer said that Social Security was no longer affected by the railroad retirement program, but that he hoped the Treasury would maintain its expressed position since he hated to see the Government raided for money in this way. He said his Actuary said that it was quite possible that the railroad retirement fund would be in the red in a little over ten years.

I told Mr. Altmeyer I would give the information to the Secretary on Monday, and that he might call him at that time.

EA/drg

TREASURY DEPARTMENT

156

INTER OFFICE COMMUNICATION

DATE March 26, 1937

TO Secretary Morgenthau
FROM Mr. Magill

I have been receiving regular semi-weekly reports from our committee on Internal Revenue forms. The committee has not as yet made any final report but its preliminary recommendations include the elimination of some of the detailed items on the return which the committee regards as unnecessary; provision for the use of the simpler income tax return No. 1040A by a larger number of taxpayers; and a simpler method of computation of the earned income credits, which seems to be the item that actually causes the most difficulty at present.

Mr. Gaston has a man working on a revision of the instructions on the form. Two men designated by Mr. Wagoner of the Underwood-Elliott-Fisher Company are working independently upon the simplification of the form.

I shall report to you twice a week on the subject as you requested earlier. I think we ought to have something pretty definite worked out in another two weeks.

Rm

~~174~~
155A

April 1, 1937

When Bewley called on me at Sea Island, March 26, I told him that I had certain thoughts in my mind which had not yet crystallized and that I might, before he went back home, want him to take a message back. One was the question of the possibility of dropping the price of gold. That I did not feel that there was anything in the Tripartite Agreement which called on us to consult with our partners in regard to dropping the price of gold, but I felt that if any member of the Tripartite Agreement was considering dropping the price of gold that we should consult with one another. Furthermore, that the only reason that any country would want to drop the price of gold would be because their internal price level was rising too rapidly and that that country was getting out of equilibrium with the rest of the world.

Bewley did not react favorably to this suggestion, and I then told him that I felt that the shoe would pinch in England before we would feel it here, and that, therefore, I believed that England would grab at my suggestion. I did not tell him, although I knew it at the time, that Clay had already sounded out Butterworth on this subject.

I then gave him another idea which I have been thinking about and I told him that it seems as though Russia was selling gold in increasing quantities at this time in order to use the money to buy war materials. That I was thinking along the following lines, namely: that we should only buy gold in the future from designated agents of Governments, such as central banks. He immediately snapped back at me, "Would this not mean a slowing up of free exchange of gold in the world?" I said, Not necessarily, but it would permit us to find out the origin of the gold and then also the disposition made of the money received for the sale of the gold. I said, Using Russia as an example, if we insisted that we only would buy gold if the Russian State Bank would sell it directly to us and then deposit the money received for it with the Federal Reserve, as other Governments do, we would have some knowledge of the use to which this money was put. I went on further and talked about the possibility of war and the use of money for buying war materials by certain countries seizing securities of their Nationals in this country.

-2-

He then told me that the British High Commission during the World War "borrowed" the American securities held by Englishmen in this country and used these securities as collateral against loans from American banks.

I emphasized to Bewley that these were simply ideas that I had in my mind and that they had not sufficiently crystallized and that I did not want him to pass them along to his Government.

I said to Bewley in connection with hot money that we only would buy that gold which could be identified as being used in legitimate channels of trade. This seemed to alarm him particularly because he said, "For example, our insurance companies doing business in the United States have large sums to invest. If your plan went into effect, it would keep them from doing so."

March 27, 1937

Secretary Hargensham

Mr. Howe

Subject: Causes and Character of Recent Rise in Interest Rates

1

1. The recent sharp increase in long-term and short-term interest rates is most directly attributable to a combination of governmental actions, concentrated in the space of a few months, which was reasonably interpreted by the market to mean that the Government was taking precipitate action to tighten credit conditions.

(a) On July 15, 1936, the Board of Governors of the Federal Reserve System announced a 50 percent increase in required reserves, to take effect a month later.

(b) Commencing on November 21, wide publicity was given to an officially inspired intimation that a further increase in reserve requirements would be made shortly.

(c) On December 22, 1936, the Treasury announced its gold sterilization program.

(d) On January 31, 1937, the Reserve Board officials announced further increases in reserve requirements, to the maximum permitted by law, to take effect in two installments, on March 1 and May 1.

(e) Both preceding and following the discussions and announcements concerning the reserve increase and the gold sterilization program, wide publicity was given governmental efforts to devise practicable methods of discouraging further inflows of "hot money."

2. All of these actions tended in only one direction: to tighten the money and investment markets. The Treasury, through its sterilization program and its efforts to find a tax formula to discourage further inflows of foreign funds, was telling the market that bank reserves would be no longer increased as a result of gold inflows. And the official purpose of the Reserve Board actions was to eliminate some \$5,000 millions of excess reserves, as well as to cut in two the credit-maintaining power of the member bank reserves.

~~FILE COPY~~*Delayed mail
- Howe - 3/27*

Secretary Morgenthau - 3/27/37 - 2

3. These actions and the official and unofficial statements issued in connection therewith appeared very strikingly to confirm the widely circulated and exceedingly influential predictions of Major L. L. B. Angus. In a pamphlet entitled "Slump Ahead in Bonds," issued in February 1937, Major Angus argued that, the pump having been primed, the Administration was prepared to take stringently restrictive measures to prevent an inflationary boom; and that such measures were imminent. Whether such measures succeeded or failed, that is, whether the money markets were sufficiently tightened to discourage a boom or whether inflation took hold, a rise in interest rates was inevitable. Recent public utterances by Mr. Hoopes, Mr. Wallace, and other Administration officials, intimating that a disorderly boom might be imminent, likewise appeared to confirm the views of Major Angus and his followers.

4. The actions actually taken have influenced other investment consultants whose forecasts of interest rates are based upon technical considerations. Felt, Kip and Skinner, Inc., for example, use a money-supply measure as a forecaster of prospective bond yields. Each of the actions taken had the effect of reducing the "money-supply measure" or at least of preventing further increases in it. Moody's Investment Service, which has consistently been most optimistic respecting high-grade bond prices, bases its forecasts most largely upon the net volume of unborrowed bank reserves. The gold sterilization program, by removing the largest source of additional bank reserves, eliminated the chief technical factor making for further rises in high-grade bond prices, on Moody's basis.

5. Insurance companies and other important non-banking institutional investors, as well as banks, were finally persuaded, in the light of the influences cited above, to go on a "sit-down" strike, in effect, so far as fresh long-term investments are concerned — until more generous yields become obtainable. They could see nothing in the immediate situation that was making for lower interest rates, while all the influences cited in the foregoing appeared to be making for higher interest rates. The movement of bond yields in England, where the British Consols had declined in price from a 2.95 to a 3.26 basis between September 4, 1936 and February 25, 1937 (on March 25, 1937, the basis was 3.28), provided strong moral support for the position of such investors, despite the far more advanced stage of the recovery movement in Great Britain and her new armament program.

6. Of all the factors, psychological and other, that have been operating in recent weeks to boost interest rates, the actions of the Reserve authorities, in my opinion, have been the most potent. The Treasury gold sterilization program and the official concern over "hot money" would not, by themselves, have exerted depressing effects

FILE COPY

upon the prices of short- and long-term obligations, because they related altogether to external influences which they were designed merely to cancel, counterbalance, or equalize. The Reserve Board actions, on the other hand, were definitely restrictive upon the domestic situation. They definitely contracted both the quantity of free reserves, and the power of every dollar of reserves, excess or required, to support credit expansion. And, despite the verbal assurances of a continued easy-money policy, they provided the strongest kind of evidence that the Reserve Board was prepared, at the cost of higher interest rates, to keep a tight control over credit expansion.

7. In 1936, between January 8 and December 9 (the latter date was one day after long-term Treasury bond prices reached their high), the "other loans" of weekly reporting member banks increased by \$129 millions. Between December 9, 1936 and March 17, 1937 these loans have increased by an additional \$295 millions. These substantial increases in commercial loans have been the natural results of the rising level of business activity. In view of the relatively large volume of excess reserves existing throughout this period, it cannot be said that the loan expansion forced banks to liquidate high-grade bonds. Nevertheless, the increased demand for commercial loans, coupled with the scheduled further increase in reserve requirements on May 1 probably induced some banks to liquidate investments to provide for future requirements. Such selling was doubtless intensified because, once the decline in bond prices was definitely under way, many banks naturally sought to realize upon their paper profits while such remained.

It is important to note that the aggregate volume of "other loans" is still at a very depressed level as compared with the pre-depression period. The aggregate amount of "other loans" of weekly reporting member banks on March 17, 1937 was only \$5,879 millions as compared with \$8,173 millions in March 1925, \$8,526 millions in March 1926, \$8,697 millions in March 1927, \$8,793 millions in March 1928, and \$8,910 millions in March 1929. Although short-term interest rates were substantially higher in the pre-depression period than they are now, it must be emphasized that the net un borrowed reserves of member banks were then much smaller than they are now — \$1,553 millions at the end of 1926, for example, as compared with \$6,825 millions on March 17, 1937.

FILE COPY

Secretary Kogentha - 3/27/37 - 4

8. The increased reserve requirements have exerted an especially pronounced influence upon the New York banks because of the large balances carried with them by other banks. The raising of reserve requirements therefore affects the New York banks in two ways: First, their cash resources are reduced by withdrawals of bankers' balances needed to meet the increased reserve requirements of their correspondents; and second, their own reserve requirements are increased. During the three weeks ended on March 10, 17, and 24, New York City member banks reduced their holdings of Federal obligations by \$45 millions, \$112 millions, and \$83 millions, respectively; and their holdings of Federal obligations on March 24 were smaller by \$510 millions than on July 1, 1936. A large part of this reduction doubtless took the form of allowing portions of their bill holdings to run off. Since New York is the primary money market of the United States, the restrictive effects upon New York City banks of the increase in reserve requirements go far to explain the recent increases in short-term money rates, and, through the latter, some, at least, of the recent weakness in the bond market.

II

Character of recent increases in interest rates

1. Long-term Governments

Since the beginning of 1933, there have been five important declines in the market for long-term Governments. The decline between December 8, 1936 and March 22, 1937, however, was the most pronounced of the five, representing an increase of 20.7 percent in the average yield obtainable on long-term Governments. Even in the bank holiday crisis of February-March 1933, the average yield on long-term Governments increased by only 17.3 percent. The slump in the fall of 1933 raised the average yield by 14.8 percent; that of the late summer and fall of 1934, by 16.6 percent; and that of the same period of 1935, by 10.5 percent — all on the basis of the immediately preceding high.

The average yield of long-term Governments of 2.68 percent on March 22, 1937 may be compared with the yield of 2.22 percent obtaining on December 8, 1936, 2.42 percent obtaining on November 2, 1936 (just prior to the marked post-election rise), and 2.38 percent obtaining on September 4, 1936. The March decline in the average yield on long-term Governments has cancelled all the gain that took place since February 1937.

FILE COPY

Secretary Morgenthau - 3/27/37 - 5

It is significant that the longest-term Governments have held up in this decline far better than the medium-term bonds. The yield on our longest-term issue, for example, the 2-7/8ths of 1955-60, increased by only 9.5 percent between December 8 and March 22, as compared with the 20.7 percent increase in the average yield of all long-term Governments.

2. High-grade corporate bonds

The yield obtainable on our average of high-grade corporate bonds rose from 3.07 to 3.41 percent between December 8 and March 22, an increase of 11.1 percent. Our average of high-grade corporates is more comparable with the longest-term Governments, such as the 2-7/8ths, than with our average of all long-term Treasury bonds, because the latter includes a number of bonds of medium-term maturity, whereas most of the corporate bonds contained in our index are of very long maturity.

The Norfolk and Western 4's of 1996 increased in yield from 3.14 to 3.49 percent between December 8 and March 22; the Pennsylvania 4 1/2's of 1960, from 3.04 to 3.50 percent; the Edison Electric Illuminating of Boston 3 1/2's of 1965, from 3.03 to 3.37 percent.

3. State and municipal bonds

Notable declines have taken place in the prices of State and municipal bonds. The yield on the New York State 4's of 1961 increased from 2.41 to 2.89 percent between December 8 and March 22; the yield on New York City 4's of 1980, from 3.02 to 3.50 percent.

4. Shorter-term obligations

Substantial increases in yields have taken place among all classes of short-term obligations. The yield on the Treasury 1-3/8 percent notes, due June 15, 1941, rose from 1.00 to 1.54 percent between December 8 and March 22; that on 90-day bankers' acceptances from .22 to .47 percent; that on New York Telephone 4 1/2's of 1939 from 1.08 to 1.60 percent; and the average discount on 273-day Treasury bills issued on the Wednesdays nearest those dates, from .09 to .71 percent. The rate on 4-6 months prime commercial paper remained at .75 percent until March 23, when it was raised to 1 percent.

The table on the following page contains the yields prevailing at selected dates on the various classes of issues cited above.

FILE COPY

Yields at Selected Dates of High-Grade Obligations

	September: 4, 1936	November: 2, 1936	December: 8, 1936	February: 29, 1937	March 22, 1937	March 23, 1937
Treasuries			(Percent)			
Long-term Treasuries, average	2.38	2.42	2.22	2.31	2.60	2.65
2-7/8% Bonds, due 1955-60	2.64	2.69	2.52	2.53	2.82	2.79
1-3/8% Notes, due 6-15-41	1.13	1.20	1.00	1.31	1.54	1.51
273-day Bills (average discount)	.13	.12	.09	.40	.71	—
High-grade Corporates						
Average	3.15	3.14	3.07	3.26	3.41	3.39
Berfolk & Western, 4's, due 1936	3.27	3.21	3.14	3.30	3.49	3.42
Pennsylvania, 4 1/2's, due 1960	3.16	3.15	3.04	3.26	3.50	3.50
Edison Electric Illuminating - Boston, 3 1/2's, due 1965	3.13	3.10	3.03	3.22	3.37	3.36
New York Telephone, 4 1/2's, due 1939	1.24	1.19	1.08	1.41	1.60	1.41
High-grade State and Municipals						
New York City, 4's, due 1960	3.34	3.38	3.02	3.26	3.50	3.51
New York State, 4's, due 1961	2.49	2.45	2.41	2.69	2.89	2.92
Short-Market Paper						
4-5 Months Prime Commercial Paper	.75	.75	.75	.75	.75	1.00
Bankers' Acceptances, 90-day	.22	.22	.22	.34	.47	.59
British Consols, 2 1/4's	2.95	2.93	2.98	3.26	3.28	3.28

Secretary Morgenthau - 3/27/37 - 6

Secretary Horgantham - 3/27/37 - 7

III

The recent sharp increases in all classes of interest rates may mean considerably more than a mere increase in the cost of borrowed funds to the Treasury and to the borrowers. It has already caused the indefinite suspension of a number of previously scheduled corporate financing programs, and, probably, substantial changes in the financing plans of a far larger number of corporations whose programs had not crystallized prior to the break. These plans include both new money and refunding issues of securities.

Outside of the Federal, State, and local governments, the largest long-term borrowers in the country comprise the railroads and the public utilities. Their rates are publicly regulated, and, apart from technological improvements, their principal opportunity for cost reduction — and therefore rate reductions to the public — lies in refunding their existing high-coupon debt issues and preferred stocks with lower-yielding securities. Until the recent break, the railroads faced the brightest prospects in several decades of effecting very large economies through refundings. Less than a year ago, the Great Northern Railroad Company refunded 7 percent bonds by 4 percent convertible bonds with an RFC underwriting. Since that time, this road had been able to refund other high-coupon bonds by 3½ percent non-convertible issues sold on a straight investment basis without RFC underwriting. With increasing traffic and improving earnings prospects, a continuance of low long-term interest rates would permit the refunding at favorable rates of hundreds of millions of dollars of railroad bond issues.

The same is true of the public utility industry generally. It is doubtful whether much more than half of the volume of public utility refunding that was possible and profitable prior to the recent break has been completed. The electric utilities, in addition, can use millions of dollars of additional capital for the expansion of generating, transmission, and distributing systems, and it is in the public interest that these capital funds be provided at low cost.

The same is true in varying degree of our main industrial groups. The steel industry is now operating at practical capacity. Considerable complaint has been raised against the recent increases in steel prices. Low long-term interest rates provide a very powerful inducement for the expansion of productive capacity, and such expansion, assuming enforcement of our anti-trust laws, would provide the most effective check against undue further price increases. In the current

FILE COPY

Secretary Morgenthau - 3/29/37 - 8

discussion of commodity price increases, too little attention is given to the checks upon such price increases that can be provided by increased productive capacity. Low long-term interest rates, through their effect upon the attractiveness of equity securities, no less than through their effect upon the cost of borrowed funds, provide a positive and powerful stimulus to the expansion of productive capacity.

Although our capital goods industries are now enjoying a pronounced revival, their level of activity is still far short of that required for the full absorption of the employable unemployed. Low long-term interest rates are desirable in this connection. They could contribute vitally to a large but sound expansion in residential building.

The sharp break in bond prices has been a blow to the confidence of both underwriters and investors. The former have found their shelves full of sticky issues which can be liquidated only at a sacrifice, and this fact may lead to an increase in underwriting charges. Investors have found that many of their purchases of recent high-grade issues have suffered substantial price declines. The table on the next page gives half a dozen examples of such issues.

183:etm/ta

FILE COPY

**Price Experience of Some High-Grade Corporation Bond Issues
Offered During the Past Six Months**

Offering date	Issue	Amount : (millions of dollars)	Price			Yield		
			At offer-	March 25,	Net at offer-	March 25,	Net	
			per	1957	1957	per	1957	1957
Sept. 15	Union Pacific 3 1/8%, due 1970	20	99 1/2	96 1/8	-3 3/8	3.53	3.70	+.17
" 21	Detroit Edison 3 1/8%, due 1966	20	105	101 3/4	-3 1/4	3.24	3.41	+.17
Oct. 15	American Telephone & Telegraph 3 1/8%, due 1961	175	101	98	-3	3.19	3.37	+.18
" 22	Pacific Gas & Electric 3 1/8%, due 1966	35	102 3/4	97 1/4	-5 1/2	3.35	3.65	+.30
Dec. 3	Consumers Power 3 1/8%, due 1966	12	102 1/2	97 1/2	-5	3.12	3.38	+.26
" 17	Pacific Telephone & Telegraph 3 1/8%, due 1966	25	105	99 7/8	-5 1/8	2.99	3.26	+.27

Secretary Hargraves - 3/27/57 - 9

Saturday, March 27, 1937

No purchases were made Saturday by the Federal Reserve Bank of New York in support of the government bond market as there was a good tone all morning. However, \$1,000,000 2-3/4s of 1956/59 were purchased for the account of the Government Life Insurance Fund.

Treasury bonds closed from 1 to 7/32nds better and Treasury notes from unchanged to 1/32nd better.

The Government Security Market
Week ending March 27, 1937
- - - - -

After declining sharply on Monday of the past week, the Treasury bond market steadied and on three of the four remaining days recorded gains. The average price for Treasury bonds (those not due or callable in five years) was at a low of 104.13 at the close Monday but at the end of the week was 104.64 compared to 104.58 at the close of the previous week, practically unchanged. Volume decreased each day and at times there was a scarcity of bonds in the market. Net changes in prices range from off 13/32nds to up 13/32nds; the largest losses and gains may be contributed to the evening out of these issues as the sharp decline in the past two weeks had left some issues considerably out of line. As an example, the 2 1/2s of 1949/53 are currently selling at a price to yield 2.60% to maturity whereas the 3 1/9s of 1949/52 are yielding 2.69% and the 3 3/4s of 1948/51 are yielding 2.68% to the first call date. The 3s of 1951/55 and the 2 3/4s of 1956/59 are selling at a price that yields the same, 2.74%. In the average, Treasury bonds lost about 2/32nds during the week.

Guaranteed issues, on the average, advanced about 4/32nds with changes ranging from off 2/32nds to up 14/32nds.

Treasury notes were steady and only moderately active. Prices moved within a very narrow range as losses or gains on any day did not exceed 3/32nds. The four longest maturities finished the week from 1 to 4/32nds better, while other maturities finished from unchanged to off 4/32nds.

Prepared by: Lawrence H. Seltzer,
Assistant Director of
Research and Statistics,
Assisted by: Sidney G. Tickton.

167

DATE March 27, 1937

TO Secretary Morgenthau
FROM Mr. Egan
Subject: Cash balance and financing requirements

1. The following table shows (1) the estimated net cash balances at month-ends, on the basis of estimates of receipts and expenditures agreed upon with Mr. Bartelt, exclusive of the proceeds of any additional bill financing beyond April 7, and exclusive of estimated Unemployment Trust Fund receipts; (2) the estimated amounts of the latter; (3) the effects of additional bill issues of \$50 millions weekly on the nine Wednesdays between April 14 and June 9, inclusive; and (4) the estimated net month-end cash balances if these bill issues are made:

	March	April	May	June 1/
	(In millions of dollars)			
(1) Net balance - end of month	718	401	116	- 88
(2) Add: Cumulative Unemployment Trust Fund receipts	0	35	72	110
(3) Add: Cumulative additional bill issues with September and December maturities	0	150	350	450
(4) Net balance - end of month, including new bills and Trust Fund receipts	718	586	538	472

1/ Exclusive of proceeds of possible mid-June financing.

2. It appears, therefore, that an effective cash balance in excess of \$500 millions can be maintained between now and mid-June without additional financing other than weekly bill issues. The maturities of these additional bills could be divided between the mid-September and mid-December income-tax payment periods — \$150 millions in September and \$200 millions in December. (There is a September note maturity of \$817 millions.) These additional bill issues would bring the aggregate volume of bills outstanding to \$2,700 millions immediately prior to the mid-June maturities and to \$2,400 millions immediately thereafter.

Secretary Morgenthau - 3/27/37 - 2

3. The month-end cash balances are those obtained after allowing for acquisition and sterilisation of gold in the amount of \$135 millions in March, \$85 millions in April, \$70 millions in May, and \$60 millions in June. It is entirely possible that gold acquisitions will exceed these amounts. The following methods are available for absorbing additional gold without reducing the effective cash balance (each of these methods involves an increase in bank reserves):

(1) Silver certificates for silver in the General Fund, amounting to \$92 millions, may be deposited with the Federal Reserve banks.

(2) Gold certificates for gold in the Working Balance of the General Fund, amounting to \$187 millions, may be deposited with the Federal Reserve banks.

(3) Gold certificates for inactive gold in the General Fund, amounting to \$310 millions, may be deposited with the Federal Reserve banks.

(4) Gold certificates for newly acquired gold may be deposited with the Federal Reserve banks.

4. It is obvious, of course, that any or all of these methods could also be used in lieu of additional bill issues, or, if a larger cash balance is desired, in addition thereto. There is much to be said in favor of employing these methods for the double purpose of increasing the Treasury's effective cash balance and increasing member bank reserves. If, as seems likely, we must look forward to the necessity of raising between \$750 millions and \$1,000 millions of new money in mid-June, it would be particularly desirable to ease the present situation in the money markets, a situation which may possibly get worse around May 1, when the remaining 16-2/3 percent increase in reserve requirements goes into effect.

The principal consideration against using these idle Treasury resources, aggregating \$589 millions, is the psychological one that the public may interpret such use as motivated by the Treasury's cash needs. It may be observed on this point that the Treasury's effective cash balance today is larger than it is likely to be at any other time prior to mid-June. It is also to be observed that the Federal Reserve Board may be persuaded to join with the Treasury in a statement explaining such use as motivated primarily by the desire to maintain low interest rates.

Prepared by: Lawrence H. Selster,
Assistant Director of
Research and Statistics;
Ass and by: Henry C. Murphy, and
Virginia L. Eyre.

169

DATE March 27, 1937

TO: Secretary Morgenthau
FROM: Mr. Haas
Subject: Causes and Character of Recent Rise in Interest Rates

I

1. The recent sharp increase in long-term and short-term interest rates is most directly attributable to a combination of governmental actions, concentrated in the space of a few months, which was reasonably interpreted by the market to mean that the Government was taking precipitate action to tighten credit conditions.

(a) On July 15, 1936, the Board of Governors of the Federal Reserve System announced a 50 percent increase in required reserves, to take effect a month later.

(b) Commencing on November 21, wide publicity was given to an officially inspired intimation that a further increase in reserve requirements would be made shortly.

(c) On December 22, 1936, the Treasury announced its gold sterilization program.

(d) On January 31, 1937, the Reserve Board officials announced further increases in reserve requirements, to the maximum permitted by law, to take effect in two instalments, on March 1 and May 1.

(e) Both preceding and following the discussions and announcements concerning the reserve increase and the gold sterilization program, wide publicity was given governmental efforts to devise practicable methods of discouraging further inflows of "hot money."

2. All of these actions tended in only one direction: To tighten the money and investment markets. The Treasury, through its sterilization program and its efforts to find a tax formula to discourage further inflows of foreign funds, was telling the market that bank reserves would be no longer increased as a result of gold inflows. And the official purpose of the Reserve Board actions was to eliminate some \$3,000 millions of excess reserves, as well as to cut in two the credit-sustaining power of the member bank reserves.

Secretary Morgenthau - 3/27/37 - 2

3. These actions and the official and unofficial statements issued in connection therewith appeared very strikingly to confirm the widely circulated and exceedingly influential predictions of Major L. L. B. Angas. In a pamphlet entitled "Slump Ahead in Bonds," issued in February 1937, Major Angas argued that, the pump having been primed, the Administration was prepared to take stringently restrictive measures to prevent an inflationary boom; and that such measures were imminent. Whether such measures succeeded or failed, that is, whether the money markets were sufficiently tightened to discourage a boom or whether inflation took hold, a rise in interest rates was inevitable. Recent public utterances by Mr. Eccles, Mr. Wallace, and other Administration officials, intimating that a disorderly boom might be imminent, likewise appeared to confirm the views of Major Angas and his followers.

4. The actions actually taken have influenced other investment consultants whose forecasts of interest rates are based upon technical considerations. Pell, Kip and Skinner, Inc., for example, use a money-supply measure as a forecaster of prospective bond yields. Each of the actions taken had the effect of reducing the "money-supply measure" or at least of preventing further increases in it. Moody's Investment Service, which has consistently been most optimistic respecting high-grade bond prices, bases its forecasts most largely upon the net volume of unborrowed bank reserves. The gold sterilization program, by removing the largest source of additional bank reserves, eliminated the chief technical factor making for further rises in high-grade bond prices, on Moody's basis.

5. Insurance companies and other important non-banking institutional investors, as well as banks, were finally persuaded, in the light of the influences cited above, to go on a "sit-down" strike, in effect, so far as fresh long-term investments are concerned — until more generous yields become obtainable. They could see nothing in the immediate situation that was making for lower interest rates, while all the influences cited in the foregoing appeared to be making for higher interest rates. The movement of bond yields in England, where the British Console had declined in price from a 2.95 to a 3.26 basis between September 4, 1936 and February 25, 1937 (on March 25, 1937, the basis was 3.28), provided strong moral support for the position of such investors, despite the far more advanced stage of the recovery movement in Great Britain and her new armament program.

6. Of all the factors, psychological and other, that have been operating in recent weeks to boost interest rates, the actions of the Reserve authorities, in my opinion, have been the most potent. The Treasury gold sterilization program and the official concern over "hot money" would not, by themselves, have exerted depressing effects

Secretary Morgenthau - 3/27/37 - 3

upon the prices of short- and long-term obligations, because they related altogether to external influences which they were designed merely to cancel, counterbalance, or equalize. The Reserve Board actions, on the other hand, were definitely restrictive upon the domestic situation. They definitely contracted both the quantity of free reserves, and the power of every dollar of reserves, excess or required, to support credit expansion. And, despite the verbal assurances of a continued easy-money policy, they provided the strongest kind of evidence that the Reserve Board was prepared, at the cost of higher interest rates, to keep a tight control over credit expansion.

7. In 1936, between January 8 and December 9 (the latter date was one day after long-term Treasury bond prices reached their high), the "other loans" of weekly reporting member banks increased by \$729 millions. Between December 9, 1936 and March 17, 1937 these loans have increased by an additional \$295 millions. These substantial increases in commercial loans have been the natural results of the rising level of business activity. In view of the relatively large volume of excess reserves existing throughout this period, it cannot be said that the loan expansion forced banks to liquidate high-grade bonds. Nevertheless, the increased demand for commercial loans, coupled with the scheduled further increase in reserve requirements on May 1 probably induced some banks to liquidate investments to provide for future requirements. Such selling was doubtless intensified because, once the decline in bond prices was definitely under way, many banks naturally sought to realize upon their paper profits while such remained.

It is important to note that the aggregate volume of "other loans" is still at a very depressed level as compared with the pre-depression period. The aggregate amount of "other loans" of weekly reporting member banks on March 17, 1937 was only \$5,879 millions as compared with \$8,173 millions in March 1925, \$8,521 millions in March 1926, \$8,697 millions in March 1927, \$8,793 millions in March 1928, and \$8,910 millions in March 1929. Although short-term interest rates were substantially higher in the pre-depression period than they are now, it must be emphasized that the net unborrowed reserves of member banks were then much smaller than they are now — \$1,553 millions at the end of 1926, for example, as compared with \$6,825 millions on March 17, 1937.

Secretary Morgenthau - 3/27/37 - 4

8. The increased reserve requirements have exerted an especially pronounced influence upon the New York banks because of the large balances carried with them by other banks. The raising of reserve requirements therefore affects the New York banks in two ways: First, their cash resources are reduced by withdrawals of bankers' balances needed to meet the increased reserve requirements of their correspondents; and second, their own reserve requirements are increased. During the three weeks ended on March 10, 17, and 24, New York City member banks reduced their holdings of Federal obligations by \$45 millions, \$112 millions, and \$83 millions, respectively; and their holdings of Federal obligations on March 24 were smaller by \$310 millions than on July 1, 1936. A large part of this reduction doubtless took the form of allowing portions of their bill holdings to run off. Since New York is the primary money market of the United States, the restrictive effects upon New York City banks of the increase in reserve requirements go far to explain the recent increases in short-term money rates, and, through the latter, some, at least, of the recent weakness in the bond market.

II

Character of recent increases in interest rates

1. Long-term Governments

Since the beginning of 1933, there have been five important declines in the market for long-term Governments. The decline between December 8, 1936 and March 22, 1937, however, was the most pronounced of the five, representing an increase of 20.7 percent in the average yield obtainable on long-term Governments. Even in the bank holiday crisis of February-March 1933, the average yield on long-term Governments increased by only 17.3 percent. The slump in the fall of 1933 raised the average yield by 14.8 percent; that of the late summer and fall of 1934, by 16.6 percent; and that of the same period of 1935, by 10.5 percent — all on the basis of the immediately preceding high.

The average yield of long-term Governments of 2.68 percent on March 22, 1937 may be compared with the yield of 2.22 percent obtaining on December 8, 1936, 2.42 percent obtaining on November 2, 1936 (just prior to the marked post-election rise), and 2.38 percent obtaining on September 4, 1936. The March decline in the average yield on long-term Governments has cancelled all the gain that took place since February 1937.

Secretary Morgenthau - 3/27/37 - 5

It is significant that the longest-term Governments have held up in this decline far better than the medium-term bonds. The yield on our longest-term issue, for example, the 2-7/8ths of 1955-60, increased by only 9.5 percent between December 8 and March 22, as compared with the 20.7 percent increase in the average yield of all long-term Governments.

2. High-grade corporate bonds

The yield obtainable on our average of high-grade corporate bonds rose from 3.07 to 3.41 percent between December 8 and March 22, an increase of 11.1 percent. Our average of high-grade corporates is more comparable with the longest-term Governments, such as the 2-7/8ths, than with our average of all long-term Treasury bonds, because the latter includes a number of bonds of medium-term maturity, whereas most of the corporate bonds contained in our index are of very long maturity.

The Norfolk and Western 4's of 1996 increased in yield from 3.14 to 3.49 percent between December 8 and March 22; the Pennsylvania 4 1/2's of 1960, from 3.04 to 3.50 percent; the Edison Electric Illuminating of Boston 3 1/2's of 1965, from 3.03 to 3.37 percent.

3. State and municipal bonds

Notable declines have taken place in the prices of State and municipal bonds. The yield on the New York State 4's of 1961 increased from 2.41 to 2.89 percent between December 8 and March 22; the yield on New York City 4's of 1980, from 3.02 to 3.50 percent.

4. Shorter-term obligations

Substantial increases in yields have taken place among all classes of short-term obligations. The yield on the Treasury 1-3/8 percent notes, due June 15, 1941, rose from 1.00 to 1.54 percent between December 8 and March 22; that on 90-day bankers' acceptances from .22 to .47 percent; that on New York Telephone 4 1/2's of 1939 from .08 to 1.60 percent; and the average discount on 273-day Treasury bills issued on the Wednesdays nearest these dates, from .09 to .71 percent. The rate on 4-6 months prime commercial paper remained at .75 percent until March 23, when it was raised to 1 percent.

The table on the following page contains the yields prevailing at selected dates on the various classes of issues cited above.

Secretary Morgenthau - 3/27/37 - 7

III

The recent sharp increases in all classes of interest rates may mean considerably more than a mere increase in the cost of borrowed funds to the Treasury and to the borrowers. It has already caused the indefinite suspension of a number of previously scheduled corporate financing programs, and, probably, substantial changes in the financing plans of a far larger number of corporations whose programs had not crystallized prior to the break. These plans include both new money and refunding issues of securities.

Outside of the Federal, State, and local governments, the largest long-term borrowers in the country comprise the railroads and the public utilities. Their rates are publicly regulated, and, apart from technological improvements, their principal opportunity for cost reduction -- and therefore rate reductions to the public -- lies in refunding their existing high-coupon debt issues and preferred stocks with lower-yielding securities. Until the recent break, the railroads faced the brightest prospects in several decades of effecting very large economies through refundings. Less than a year ago, the Great Northern Railroad Company refunded 7 percent bonds by 4 percent convertible bonds with an RFC underwriting. Since that time, this road had been able to refund other high-coupon bonds by $3\frac{1}{4}$ percent non-convertible issues sold on a straight investment basis without RFC underwriting. With increasing traffic and improving earnings prospects, a continuance of low long-term interest rates would permit the refunding at favorable rates of hundreds of millions of dollars of railroad bond issues.

The same is true of the public utility industry generally. It is doubtful whether much more than half of the volume of public utility refunding that was possible and profitable prior to the recent break has been completed. The electric utilities, in addition, can use millions of dollars of additional capital for the expansion of generating, transmission, and distributing systems, and it is in the public interest that these capital funds be provided at low cost.

The same is true in varying degree of our main industrial groups. The steel industry is now operating at practical capacity. Considerable complaint has been raised against the recent increases in steel prices. Low long-term interest rates provide a very powerful inducement for the expansion of productive capacity, and such expansion, assuming enforcement of our anti-trust laws, would provide the most effective check against undue further price increases. In the current

Secretary Morgenthau - 3/27/37 - 8

discussion of commodity price increases, too little attention is given to the checks upon such price increases that can be provided by increased productive capacity. Low long-term interest rates, through their effect upon the attractiveness of equity securities, no less than through their effect upon the cost of borrowed funds, provide a positive and powerful stimulus to the expansion of productive capacity.

Although our capital goods industries are now enjoying a pronounced revival, their level of activity is still far short of that required for the full absorption of the employable unemployed. Low long-term interest rates are desirable in this connection. They could contribute vitally to a large but sound expansion in residential building.

The sharp break in bond prices has been a blow to the confidence of both underwriters and investors. The former have found their shelves full of sticky issues which can be liquidated only at a sacrifice, and this fact may lead to an increase in underwriting charges. Investors have found that many of their purchases of recent high-grade issues have suffered substantial price declines. The table on the next page gives half a dozen examples of such issues.

Price Experience of Some High-Grade Corporation Bond Issues
Offered During the Past Six Months

Secretary Morgenthau - 3/27/37 - 9

Offering date	Issue	Amount (millions of dollars)	Price			Yield		
			At offer- ing	March 25, 1937	Net change	At offer- ing	March 25, 1937	Net change
Sept. 18	Union Pacific 3½'s, due 1970	20	99 1/2	96 1/8	-3 3/8	3.53	3.70	+.17
" 21	Detroit Edison 3½'s, due 1966	20	105	101 3/4	-3 1/4	3.24	3.41	+.17
Oct. 15	American Telephone & Telegraph 3½'s, due 1961	175	101	98	-3	3.19	3.37	+.18
" 22	Pacific Gas & Electric 3½'s, due 1966	35	102 3/4	97 1/4	-5 1/2	3.35	3.65	+.30
Dec. 3	Consumers Power 3½'s, due 1966	12	102 1/2	97 1/2	-5	3.12	3.38	+.26
" 17	Pacific Telephone & Telegraph 3½'s, due 1966	25	105	99 7/8	-5 1/8	2.99	3.26	+.27

MEMORANDUM

March 29, 1937.

To: Secretary Morgenthau

From: Dr. Burgess

Government bonds were quiet but firm today. Closing quotations were down slightly from the highs of the morning. Treasury and guaranteed bonds finished unchanged to 4/32 higher, relative to last Saturday's close. Total Government bond sales on the Board were \$1,200,000. The note market was also quiet and steady to firm. Scattered long maturities were up 1/32. Two of the 1939s were off 1/32; others were unchanged.

Most high and second grade domestic bonds were dull and quotations fluctuated little during the day. Closing prices were generally small fractions to 1/2 point better than last Saturday.

Foreigns were quiet and mostly unchanged. Canadian bonds eased slightly from last Saturday's levels; Italian 7s were fractionally lower and German issues showed fractional gains.

No purchases for Treasury today.

Prepared by: Lawrence H. Seltzer,
Assistant Director of
Research and Statistics;
Assisted by: Frances Snyder.

INTER OFFICE COMMUNICATION

DATE March 29, 1937

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Decline in Aggregate Amount of Direct Government
Securities Held by Weekly Reporting Member Banks

1. Between December 30, 1936 and March 17, 1937, the aggregate amount of direct Government securities held by weekly reporting member banks of the Federal Reserve System declined from \$9,241 millions to \$8,828 millions, or by \$413 millions.

2. Of the aggregate decline, New York City reporting banks accounted for \$293 millions, and reporting banks outside of New York City, for \$120 millions.

3. The changes in the aggregate amounts of direct Treasury obligations held by weekly reporting member banks between these two dates are presented, by Federal Reserve districts, below:

Aggregate Amount of Direct Federal Obligations Held by
Weekly Reporting Member Banks on December 30, 1936
and March 17, 1937, and Amount of Change

(In millions of dollars)

Federal Reserve District	Amount held		Change
	December 30, 1936	March 17, 1937	
Boston	391	401	+ 10
New York	3,818	3,525	- 293
Philadelphia	344	346	+ 2
Cleveland	940	886	- 54
Richmond	295	282	- 13
Atlanta	210	197	- 13
Chicago	1,644	1,616	- 28
St. Louis	238	243	+ 5
Minneapolis	177	183	+ 6
Kansas City	275	263	- 12
Dallas	197	187	- 10
San Francisco	712	699	- 13
Net change			- 413



TREASURY DEPARTMENT

WASHINGTON

March 29, 1937.

MEMORANDUM FOR THE SECRETARY:

You asked me several days ago to have for you to-day a memorandum, to serve as a basis for a discussion with Ambassador Bullitt, on the general subject of the relations of the State and Treasury Departments with regard to narcotics.

In this connection, you will be interested to know that after a number of conferences, carried on in accordance with the understanding between yourself and Secretary Hull, Dr. Hornbeck and I have reached an agreement on this subject. This is represented by the attached memorandum, dated March 25, and entitled "Arrangement for Facilitating Cooperation Between the State Department and the Treasury Department for the Purpose of Discharging the International Obligations of the United States Concerning the Traffic in Narcotic Drugs."

It is my opinion that should the arrangements described in the attached memorandum meet with the approval of yourself and Secretary Hull, we will have a basis which should be entirely satisfactory to both departments for carrying on the work which you desire to have done in foreign countries with relation to the illicit narcotics traffic, and in a way which will conform to the policy which you established for this Department last September.

Should you approve the arrangements outlined in the attached memorandum, it is my further opinion that it will be unnecessary for you to ask the good offices of Mr. Bullitt in helping to overcome our difficulties with the State Department. I believe, however, that it would be advisable for you to show the attached memorandum to Mr. Bullitt, and suggest to him that he could be of assistance by urging upon the officers of the State Department that they give to the Treasury Department their unreserved cooperation along the lines indicated in the memorandum.

There are, moreover, two matters which you might call specially to Mr. Bullitt's attention, as follows:

- (a) The annual meeting of the Opium Advisory Committee will occur at Geneva late in May. It has always been the

practice for the State Department to invite the Secretary of the Treasury to have a representative accompany the State Department's representative attending the meeting of this Committee. As you know, Mr. Anslinger has usually been our representative. So far, the State Department has not invited us to send a representative to this year's meeting of the Committee, and I am afraid that possibly they do not intend to do so. I believe that both Mr. Anslinger and Mr. Wait should attend the Geneva conference this year. Mr. Bullitt's attention might well be called to this matter, with a view to having the usual invitation extended by the Secretary of State, so that we may have the benefit of representation at the Committee's sessions by Mr. Anslinger and Mr. Wait, or such other representatives as you may decide to select.

(b) We have in recent months secured substantial evidence that the principal European sources of narcotics-smuggling operations directed at the United States include Paris, Marseilles, and Havre. It would be of the greatest assistance to us in meeting our problems if the French Surêté could be induced to assign a special squad of approximately six men at each of these cities for the purpose of concentrating on narcotics. It would be extremely helpful if Mr. Bullitt, upon his return to his post at Paris, would confer about this matter with Wait, and, should he see no impropriety in doing so, pass this suggestion along to the French authorities.

I might say that I have discussed freely with Dr. Hornbeck the matter of our assigning Customs men to specialize on narcotics work in both Japan and Mexico, as had been previously recommended to you, and that, while we reached no definite conclusion with regard to these proposed assignments, I anticipate that when we are ready to send men to these countries, we will have no difficulty in securing the approval of the State Department for doing so. There would of course be no objection to your mentioning this matter also to Mr. Bullitt.

GRAVES.

March 25, 1937.

ARRANGEMENT FOR FACILITATING COOPERATION BETWEEN
THE STATE DEPARTMENT AND THE TREASURY DEPARTMENT FOR THE PURPOSE
OF DISCHARGING THE INTERNATIONAL OBLIGATIONS OF
THE UNITED STATES CONCERNING THE TRAFFIC IN NARCOTIC DRUGS.

1. The Bureau of Narcotics will remain the Special Administration of the United States under the Narcotics Limitation Convention of 1931.

2. The Bureau of Narcotics will continue to be the agency in the United States responsible for the direct exchange with corresponding foreign administrations of information and evidence with reference to the illicit traffic in narcotic drugs. This will not, however, be considered as excluding the exchange of information and evidence directly between Treasury representatives abroad and the police and other governmental authorities of foreign countries, as outlined in paragraph 5.

3. The Bureau of Narcotics will continue to prepare the annual report required of the American Government under the terms of the Narcotics Limitation Convention of 1931, as well as other formal reports relating to narcotics which may be required under treaty obligation or other international agreement to be submitted by, or on behalf of, the American Government to any foreign nation or nations. It is understood that before any such formal reports (not including routine reports of seizures or other reports of the classification referred to in paragraph 2) are put in final form, the preliminary drafts will be submitted for review and comment by the State Department.

4. With reference to the present arrangements whereunder all contacts by the State Department with the Treasury Department on the subject

of narcotics are required to be made through the office of Assistant Secretary Taylor, these arrangements will be understood hereafter to apply only to matters of policy; and officers of the State Department will be at liberty, in their discretion, to make direct informal contact (1) with appropriate officers of Customs in any case where they may desire information with regard to the smuggling of drugs into the United States, (2) with appropriate officers of the Bureau of Narcotics in any case where they may desire information with regard to any aspect of the narcotics traffic other than the smuggling of drugs into the United States, and (3) with appropriate officers of the Public Health Service in any case where they may desire information regarding any matter relating to narcotics which comes within the jurisdiction of that Service.

5. The Treasury Department will be free to station representatives in such foreign countries as it may consider to be important sources of supply for drug-smuggling operations directed at the United States, (1) for the purpose of conducting investigations with regard to such smuggling operations with the help of, and through contacts with, the appropriate police and other governmental authorities of such countries, or (2) for the purpose of effectuating with governmental authorities informal exchanges of information with regard to the smuggling of narcotics, or (3) for both these purposes. The Treasury representatives will usually, though not always, be officers of Customs, and when permanently stationed abroad will be known as Treasury Attaches or as Treasury Representatives. It is understood that when the Treasury Department wishes to send representatives abroad for the purposes indicated, the Department of State

shall be consulted and, through the Department of State, the assent of such other governments as may be concerned shall be sought.

6. The State Department will authorize its diplomatic and consular representatives in Europe and in the Far East to transmit to the Treasury representatives at Paris and at Shanghai, respectively, in the form of strictly confidential memoranda, all information of immediate importance with relation to the smuggling of narcotic drugs into the United States which such diplomatic and consular officers send by telegraph or mail to the Department of State, it being understood that under no circumstances will the source from which such information has reached Treasury representatives be disclosed. The State Department will also instruct its diplomatic and consular representatives in countries where Treasury representatives are stationed to extend to said Treasury representatives such assistance and cooperation as those representatives may properly request in the conduct of drug-smuggling investigations abroad.

HNG/mff

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 29, 1937

TO Secretary Morgenthau
FROM Herman Oliphant

For your information -

I have been intending for some time to give you an abstract of what the Mellon brief shows about the character of Mr. Mellon's activities in relation to his Federal taxes. The attached ten pages are the result of a very large amount of time which Manning spent in digesting, condensing, and recondensing the material in question. It could scarcely be made shorter without defeating the purpose to disclose the quality of his conduct.



Enclosures

An analysis of the brief submitted in the Mellon case before the Board of Tax Appeals pictures in glaring reality the activities of Mr. Mellon in connection with his evasion of Federal taxation.

Mr. A. W. Mellon developed a well-planned scheme to avoid the imposition of inheritance, estate, and gift taxes, by passing on to his son and daughter during his life the greater part of his fortune, while still retaining to himself the income thereon during his expectancy of life.

In the course of the execution of this general plan, Mr. Mellon, by means of fictitious sales and gifts to charity, claimed deductions for losses upon these sales and for the gifts, and thereby was able to make his own determination of the amount of his income tax liability.

The various phases of this plan were fully developed in the brief submitted by the Government, each transaction constituting a separate and distinct act of tax avoidance. The various transactions will be briefly summarized.

ASCALOT COMPANY TRANSACTION

On July 11, 1930, Ascalot Company was formed, all of its incorporators and directors being members of Mr. Mellon's family or his employees. With negligible exceptions, the entire holdings of Ascalot Company were the result of gifts from Mr. Mellon to his daughter who in turn transferred them to the Ascalot Company. During the years 1931 and 1933 Mr. Mellon made alleged sales of securities to Ascalot Company and claimed a loss for income tax purposes of \$508,505.00. At the same time, Ascalot Company made alleged sales of securities to Mr. Mellon

upon which it claimed a loss of \$99,808.37. Ailsa Mellon Bruce, Mr. Mellon's daughter, during the years 1932 and 1933 claimed that she had received no taxable income from Ascalot Company, although she had been paid dividends by that company totaling \$313,000. She asserted that these losses had eaten up all of the income of Ascalot Company and therefore the dividends paid to her were paid out of capital.

When the alleged sales were made by Mr. Mellon and Ascalot Company there was no delivery of the purchase price, but the payment thereof was made by book entries in connection with the proceeds received by Mr. Mellon on the sale of other stocks owned by Ascalot Company. The Ascalot Company was for all purposes controlled by Mellon and he used his funds whenever he saw fit, and juggled its accounts in order to reflect its losses. The creation of Ascalot Company and the various transactions had with it were for no other purpose but tax evasion. The tax-free gifts made to Ascalot Company and the fictitious sales constituted the first phase in Mellon's general plan.

WESTERN PUBLIC SERVICE CORPORATION STOCK TRANSACTION

In 1931 Mr. Mellon was the owner of a large block of stock of the Western Public Service Corporation which had been accumulated over a period of years. In December of that year, he made an alleged sale of the stock to the Union Trust Company of Pittsburgh upon which he claimed a loss of \$400,000 for income tax purposes. Thirty-six days later he repurchased the same stock in the name of his nominees at the same price at which it was allegedly sold, plus the expenses of the sale including 7 $\frac{1}{2}$ % per share as commission. The transaction on

the part of the Union Trust Company was approved by the executive committee which was made up primarily of members of Mr. Mellon's family or directors of his corporation. The Union Trust Company did not treat this transaction as a purchase for Mr. Mellon and did not carry the stock on its records as its own asset. The stock was not printed on the daily investment sheet as were other securities owned by it but was typewritten thereon at the end of the page. No attempt was made by either Mr. Mellon or Union Trust Company to obtain a better price from any other persons. At the trial, Mr. Mellon denied knowledge of any facts in connection with the original purchase of the stock by him, the sale to the Union Trust Company and the repurchase by his nominees and even disclaimed knowledge of the loss for income tax purposes. In this transaction we see another phase of the general plan, and a fictitious sale for income tax purposes. In fact, Mr. Mellon himself admitted that the only purpose accomplished by this transaction was the tax purpose.

PITTSBURGH COAL COMPANY STOCK

Mr. Mellon in 1931 was also the owner of 123,622 shares of common stock of the Pittsburgh Coal Company which carried with it the control of that company. On December 30, 1931, he sold this stock to the Union Trust Company for \$500,000. One hundred and eighteen days later his family owned company — Coalesced Company — repurchased this stock from the Union Trust Company at the same cost of \$500,000 plus expenses, and 6% interest for the number of days that the stock was held by the Union Trust Company. In 1929 or 1930, Mr. Mellon had received an offer for the sale of 100,000 shares of this stock for

\$10,000,000.00 which he had rejected. Upon the trial of the case before the Board of Tax Appeals he denied that he had ever received any such offer until he was confronted with his own affidavit made in connection with other litigation. As in the case of Western Public Service Corporation stock it had been accumulated over a period of years. Mr. Mellon testified that the company was a very important factor in the coal industry which was one of the fundamental bases of the industries of Pittsburgh and of great importance to all the railroad companies which had Pittsburgh terminals, one of which, the Pennsylvania Railroad, did a large part of its banking business with the Union Trust Company and the Mellon National Bank. Mr. Mellon had used the Pittsburgh Coal Company as a financial agent and the Coal Company had a twenty-five year contract to sell 5,000,000 tons of coal annually to the United States Steel Corporation. Nevertheless, he was willing to sell it on an outright sale for \$500,000.

The same fictitious transactions were reported in 1932 and 1933 in connection with other stocks except that in connection with the 1933 transaction, after Congress had inquired into the transactions of 1931 and 1932, the plan was changed and was accomplished through the medium of a massed order transaction in a brokerage house in Pittsburgh.

The stock was purchased by the Union Trust Company in the name of Alcy Company which was an account in which the Trust Company held stock for the benefit of its customers. While it was so held by the Union Trust Company, Paul Mellon, the son of A. W. Mellon was elected to the Board of Directors of Pittsburgh Coal Company and there was no

change in the control, management, or policy.

Prior to this alleged sale, the Union Trust Company had never purchased securities of any corporation which was not earning or paying a dividend. The transaction was not disclosed on either Mr. Mellon's or Coalesced Company's books. At the time of the alleged sale, by Mr. Mellon, there was no attempt made by him to attain a better price for the stock. The only offer was made to the Union Trust Company. In connection with both the purchase and sale of stock by the Union Trust Company, there was no detailed negotiations but the same was conducted without any formality or detail. The sales memorandum of the Union Trust Company was made out in the name of A. W. Mellon. The Union Trust Company had engaged in similar practices for other clients and in fact in 1930 had engaged in the same for its own benefit. The stock was not printed on the daily printed investment sheet of stock owned by the Union Trust Company.

This transaction was carried on at a time when Mr. Mellon was Secretary of the Treasury and although he had issued an appeal to the taxpayers of the country to cooperate with the Government in making higher income tax rates effective, he testified that this could not have been a reason why he should have changed his own feeling or his own affairs.

As a justification for the sale of the stock he testified that he felt it was worthless even though he had previously testified as to the value of the company to the industries of Pittsburgh, and when asked whether he considered the fact that he was transferring to a

bank under the jurisdiction of the Federal Reserve Board of which he was ex-officio the chairman, an asset which he thought to be intrinsically worthless, he replied that he did not have any obligation to the Federal Reserve system to base any transactions upon and did not see the bearing on it.

As a result of this phase of the scheme, Mr. Mellon was able to determine his own income tax.

Again we find the same fictitious transactions as another integral general plan of tax avoidance. The sole result of this transaction and similar transactions carried on in 1931, 1932 and 1933 was the creation of fictitious losses for income tax purposes and the transfer of his securities to his son and daughter to avoid future inheritance, gift, and estate taxes.

BANK STOCK HOLDINGS

Before Mr. Mellon became Secretary of the Treasury he was the owner of a large block of bank stocks which had to be disposed of before he could accept the appointment as Secretary. He testified before the Board of Tax Appeals, the Senate and House Committees, and made an affidavit to the Bureau of Internal Revenue to the effect that he had made an outright disposal and sale of all his bank stocks.

At about the time he became Secretary of the Treasury he entered into an agreement with his brother, R. B. Mellon, by which he purported to sell all the stocks for the sum of \$10,520,495. The preparation of this agreement was left entirely in the hands of an attorney representing both parties. The agreement contained clauses for its cancellation on the death of either one of the brothers,

which Mr. Mellon described as a natural protection in the case of death. No cash was delivered at the time of the agreement and the purchase price was to be payable in six months after demand. No demand was ever made and no payment on account of principal had ever been made.

Even though Mr. Mellon knew he was to become Secretary of the Treasury, and allegedly was disposing of all his bank stocks outright, he nevertheless purchased additional bank stocks in his own name. The stocks were transferred to and were carried on R. B. Mellon's books in a separate and segregated manner. The rate of interest as fixed by the agreement — $5 \frac{1}{3}$ per cent — was almost exactly the rate of annual dividends at the time of the agreement — 5.309 per cent. The dividend rates on the stock were increased from 35 to 50 per cent, and simultaneously the interest rate under the agreement was increased from $5 \frac{1}{3}$ to 7 per cent. When the amount of dividends received by R. B. Mellon were still in excess of the interest the dividend rate was increased from 7 to 8 per cent. The result of these changes was that from the period 1921 to 1929 the difference between the interest paid to A. W. Mellon and the dividends received by R. B. Mellon was only \$236.90. The interest payment dates also were changed so as to coincide with the dividend payment dates. Although R. B. Mellon was paying 8 per cent on this money he, and also A. W. Mellon, were borrowing large sums all during this time at $4 \frac{1}{2}$ and 5 per cent.

During the whole life of the agreement A. W. Mellon was constantly delivering monies to his brother for the purchase of additional stocks

and proceeds of the sales of stock or stock dividends were either paid to A. W. Mellon or were credited on account of the amount due. During the life of the agreement R. B. Mellon had purchased certain stocks. Upon the final account R. B. Mellon was credited with the amount of cash he had expended for these purchases and was charged with the amount of cash he had received in addition to any ordinary dividends.

In June, 1930, Paul Mellon, A. W. Mellon's son, was substituted under the agreement instead of R. B. Mellon. The obligation of R. B. Mellon under the contract was still only \$10,791,355, but as a condition of cancelling the obligation he turned over to Paul Mellon stocks whose value had increased to \$22,375,944.25.

There was a final adjustment of dividends and interest in connection with the transaction which, according to the terms of the contract, should have been paid to Paul Mellon. This net adjustment was paid to A. W. Mellon. After Paul Mellon was substituted under the agreement certain dividends were received on account of the stocks by R. B. Mellon. Instead of paying the same over to Paul, the alleged owner under the agreement, they were paid directly to A. W. Mellon, and while Paul Mellon was the alleged owner of the stock he also adjusted the difference between the dividends received and the interest paid by the payment to A. W. Mellon of \$250,000. During the life of the agreement of sale by the payment of interest and the adjustments, A. W. Mellon received all the dividends upon the stock.

Paul Mellon never got possession of the stocks. They were left on deposit with the Union Trust Company and where any of them were

transferred it was always with the signed consent of A. W. Mellon.

On March 1, 1932, Paul Mellon and A. W. Mellon began to terminate the agreement by the exchange of formal documents. A. W. Mellon forgave Paul Mellon all obligations excepting two million dollars, and this two million dollars was evidenced by notes due at three month intervals beginning July 1, 1932 and ending April 1, 1942. All the stocks were transferred to Smithfield Securities Corporation, the stock of which was owned by Coalesced Corporation. The common stock of Coalesced Corporation was owned in its entirety by A. W. Mellon's son and daughter, but all the preferred stock was owned by A. W. Mellon, and all dividends were payable to him. In this transaction we see the realization of the general plan coupled with a circumvention of the law prohibiting the Secretary of the Treasury from owning bank stocks by means of additional fictitious sales and transfers.

CONTRIBUTIONS

In 1931 he created a trust designated "The A. W. Mellon Educational and Charitable Trust" and by certain instruments in writing purported to make a gift of paintings to that trust during that year of the value of \$3,241,250. In his original return for 1931 no deduction was made on account of this gift, but when certain losses claimed on the sale of securities were disallowed then, for the first time, Mr. Mellon claimed these purported gifts as deductions in his income tax.

Up to the time of the trial on this issue he had taken no steps to build or endow any gallery; the paintings had remained in Mellon's

exclusive control and custody and hung either in his own or his families apartments, or were stored in his own personal room in the Corcoran Gallery. The public at no time had had an opportunity to view these paintings. The insurance policies covering the same was never changed so that at the time of the reply in the proceeding before the Board of Tax Appeals the beneficiary of these policies was still Mr. Mellon. When the trust was in contemplation he did not hire an attorney who had a knowledge of art or of art galleries to prepare the plan of the trust, but retained an attorney from the Bureau of Internal Revenue who specialized in tax work. The trustees were all members of his family or his employees. Finally, in 1933, three days after the change in Administration had taken place, the facts in connection with the organization and operation of the trust were submitted to the Bureau of Internal Revenue for a ruling as to the exemption of gifts made thereto. No reference was made as to the conditions of the gifts, and upon this misrepresentation Mr. Mellon obtained a ruling from the Bureau that gifts made to the trust were proper deductions in his income tax return.

Prepared by: Gertrude N. Stanley,
Assistant Economist,
Division of Research and Statistics.

195
W

DATE March 29, 1937

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Analysis of the Farm Tenancy Bills

An analysis at this time of the proposed farm tenancy legislation must be prefaced by the statement that none of the bills introduced in either House, to date, is likely to be adopted in its present form. Seven farm tenancy bills, embodying more or less similar plans, have thus far been introduced in the present session of Congress, and a subcommittee of the House Committee on Agriculture is working on another such bill which is expected to be reported out some time this week. It is expected to be a modification of the Farmers' Home Act, of which Senator Bankhead (Alabama) and Representative Jones (Texas), Chairman of the Committee on Agriculture, are co-authors, and to correspond more closely than the other bills to the recommendations of the President's Special Committee on Farm Tenancy. According to recent press comment, Senator Bankhead himself believes that several amendments to his bill are necessary in order to make it conform substantially with the proposals of the President's Committee.

Under the Jones and Bankhead Bills, as they now stand, a Farmers' Home Corporation would be established with a capital stock of \$50,000,000, subscribed for by the United States. In addition, a sum not in excess of \$50,000,000 would be appropriated in each of the ten succeeding fiscal years.

Both bills empower the corporation to borrow money, provided that no indebtedness shall have maturities in excess of one year, and at no time shall the aggregate amount of such indebtedness exceed one-fifth of the paid-in capital of the corporation. The corporation, including its property, franchise, capital, reserves, loans, income, et cetera, shall be tax exempt, except that real property of the corporation shall be subject to local real estate taxation.

The Bankhead Bill provides for management by three directors, namely, the Secretary of Agriculture, the Under Secretary of Agriculture, and the Assistant Secretary of Agriculture. The Jones Bill, however, provides for the appointment by the President of three directors, one each from the Treasury Department, Department

Secretary Morgenthau - 3/29/37 - 2

of Agriculture, and the Farm Credit Administration. Under the Jones and Bankhead Bills, it would be the duty of the Farmers' Home Corporation, which would absorb the Resettlement Administration, "to establish, and to assist in the establishment of, farms and farm homes, for the purpose of encouraging the ownership of farm homes and improving the situation of farm tenants." This would be done, in general, by purchasing land, buildings, livestock, equipment, and the like, to be leased for not more than ten years, or to be leased with the option of purchase.

At least 25 percent of the purchase price of the farm must have been paid, in the form of rent or otherwise, before title to the property shall be transferred to the purchaser by the corporation. Recent press comment indicates that this may be amended to read "50 percent of the purchase price." The interest rate to be charged on the unpaid principal, after option to purchase has been exercised, shall be the rate charged on that date for direct loans by the Federal land bank in the district where the property is located; and the principal must be paid in full not later than forty years from the date on which the title is transferred to the purchaser.

Much of the controversy over the farm tenant question in the House Committee on Agriculture, according to press comment, is concerned with such questions as the length of time in which a lessee can obtain title to land, what portion of the purchase price needs to be paid before title may be transferred to the purchaser, whether the tenant is to be permitted to select the farm he desires or is to be restricted to an area selected by the Government, et cetera. The House Committee on Agriculture may recommend far-reaching changes in the Jones and Bankhead Bills, and the plan to be set up cannot as yet be predicted.

The salient points of each of the seven farm tenancy bills introduced to date in the present session of Congress, especially as they might affect Treasury operations, are outlined in the attached schedule.

Attachment

Analysis of Farm Tenant Bills introduced to date in the present Session of Congress

Bill	Authorization for appropriation	Administrative agency and capital stock	Tax exemption provision	Issuance of special obligations	Interest rate to purchaser	Period of amortization of loan	Period in which purchaser can obtain title to land
S. 101 - Farmers Home Act - Backlund.	Not in excess of \$50,000,000 annually for 11 years.	A corporation managed by three persons - Sec'y. of Agriculture, Undersecretary of Agriculture, and Assistant Sec'y. of Agriculture. \$50,000,000 capital stock subscribed by United States.	Corporation exempt from all taxation except that any real estate of the corporation is subject to local real estate taxes.	Can borrow money, provided that no indebtedness shall have matured in excess of one year, and that the aggregate amount of the indebtedness shall not exceed 1/5 of the paid-in capital of the corporation.	Same as charged on direct loans by Federal land bank of district where property is located.	Not in excess of 40 years from the date upon which the title has been transferred to the purchaser.	Not until at least 75 percent of the purchase price has been paid, in form of rental payments or otherwise.
H.R. 3 - Farmers Home Act - Jones (Texas)	Same as preceding bill.	A corporation managed by three persons named by President, one each from Treasury Dept., Agriculture, and Farm Credit Adm. \$50,000,000 capital stock subscribed by United States.	Same as in preceding bill.	Same as in preceding bill.	Same as in preceding bill.	Same as in preceding bill.	Same as in preceding bill.
S. 5340 - Farmers Home Act - Walshaw (Georgia)	Same as in preceding bill.	A corporation managed by three persons - Sec'y. of Treasury, Sec'y. of Agriculture, and Governor of the Farm Credit Adm. \$50,000,000 capital stock subscribed by United States.	Mortgages, notes and other lien and credit instruments held by or executed to the corp. shall be declared to be instrumentalities of the U.S. and as such exempt from all taxation, Federal, State or local.	Same as in preceding bill.	Same as in preceding bill.	Same as in preceding bill.	Same as in preceding bill.
H.R. 3076 - Farmers Home Act - Vinson (Georgia)	Same as in preceding bill.	Secretary of Agriculture. No capital stock. Federal Reserve banks, with approval of Sec'y. of Treasury, to act as depositories, custodians and fiscal agents to carry out provisions of the Act.	Same as in preceding bill.	Not authorization to borrow money.	Same as in preceding bill.	Same as in preceding bill.	Same as in preceding bill.
S. 103 - Farm Tenant Home Purchase Act - Connolly.	\$1,000,000,000	Corporation - Management by Board of Directors of 5 members - Sec'y. of Agriculture, Governor of Farm Credit Adm., as members ex-officio and 3 others appointed by President with consent of Senate. \$1,000,000,000 capital stock subscribed by United States.	Corporation exempt from taxation but can pay State and local governments for such services as are customarily provided for from taxes.	--	Shall not exceed 2 percent per annum.	Not to exceed 60 years.	--
H.R. 3990 - Farm Tenant Home Purchase Act - Johnson (Texas)	\$1,000,000,000	Corporation - Management by Board of Directors of 5 members - Sec'y. of Agriculture and Governor of Farm Credit Adm., as members ex-officio, and 3 members to be appointed by the President with advice and consent of Senate. \$1,000,000,000 capital stock subscribed by United States.	Corporation exempt from taxation but can pay State and local governments for such services as are customarily provided for out of taxes.	--	Shall not exceed 2 percent per annum.	Not to exceed 60 years.	--
S. 796 - McCallister	\$75,000,000 annually (or as much thereof as necessary). No time limit.	Secretary of Agriculture - authorized to make a loan or loans to any persons selected to receive the benefits of the Act. Not to exceed \$2,000 in the aggregate. No capital stock.	--	--	Not to exceed 4 percent	Not to exceed 24 years.	--

Brief Analysis of H. R. 6240, Farm Tenancy Bill

TITLE I.

1. Authorizes Secretary of Agriculture to make loans for the acquisition of farms in such amounts, as may be certified by County Committees, as may be necessary to acquire the property, subject to approval of the Secretary of Agriculture. All loans to be secured by a first mortgage or deed of trust on the farm.
2. Loans are to be repaid in installments within an agreed period of not more than 30 years. Interest to be 3%. Borrower to pay taxes and assessments on the farm and for insurance on farm buildings.
3. Authorizes the appropriation of \$50,000,000, *for each of the fiscal years ending prior to July 1, 1942*.

TITLE II. (Rehabilitation Loans.)

1. Authorizes the Secretary of Agriculture to make loans for purchase of livestock, farm equipment, supplies, and other farm needs, and for refinancing indebtedness, and for family subsistence. Loans to bear 3% interest and have maturities not in excess of 5 years, and to be repayable in installments.
2. Loans to be secured by chattel mortgages, liens on crops, and assignments of proceeds from sales of agricultural products, or by any one or more of these.
3. Authorizes appropriations of \$75,000,000, each, for fiscal years ending June 30, 1938 and June 30, 1939.
4. In addition to 3, authorizes the appropriation for the fiscal year ending June 30, 1938, the balances of funds available to the Secretary of Agriculture for loans and relief to farmers under Executive Order No. 7530, Dec. 31, 1936, as amended by Executive Order No. 7557, Feb. 19, 1937, which are unexpended on June 30, 1937.
5. Authorizes the President to allot, out of appropriations hereafter made for relief or work relief for any fiscal year ending prior to July 1, 1939, such sums as he determines to be necessary to carry out the provisions of Title II.

TITLE III.

1. Authorizes and directs the Secretary of Agriculture to develop a program of land conservation and land utilization.
2. To effectuate such a program, the Secretary is authorized to acquire submarginal land and land not primarily suitable for cultivation; to protect, improve, develop, and administer lands acquired, or to sell, exchange, lease, or otherwise dispose them, with or without a consideration, to public authorities and agencies for public purposes. Also, to cooperate with Federal, State, Territorial, and other public agencies in developing plans for a program of land conservation and utilization.
3. As soon as practicable after the end of each calendar year the Secretary of Agriculture shall pay to the county in which any land is held under this Title III 2% of the net revenues from such land.
4. Authorizes appropriation of \$10,000,000 for fiscal year ending June 30, 1938, and \$20,000,000 for each of the three fiscal years thereafter, for carrying out the provisions of Title III.

TITLE IV. (Farm Security Administration.)

1. Directs establishment in the Department of Agriculture of a Farm Security Administration to carry out purposes of Act.
2. Resettlement Projects: Authorizes the Secretary of Agriculture to continue to perform functions invested in him by Executive Order No. 7530, Dec. 31, 1936, as amended by E. O. No. 7557, Feb. 19, 1937, and Act of June 29, 1936 (49 Stat., 2035), as shall be necessary only for completion and administration of those resettlement projects, rural rehabilitation projects for resettlement purposes, and land development and land utilization projects, for which funds have been allotted by the President. The balances of funds available to the Secretary for such purposes, unexpended June 30, 1937, are authorized to be appropriated to carry out said purposes.
3. Authorizes administrative expenses "within the limit of appropriations made therefor."

Act June 16, 1936, authorized: (Agriculture only)

	(1) 1938	1939
Federal Aid Highways	\$125,000,000	\$125,000,000
Forest highways, roads, trails	14,000,000	14,000,000
Public land highways	2,500,000	2,500,000
Secondary or Feeder roads	25,000,000	25,000,000
Grade Crossings	<u>50,000,000</u>	<u>50,000,000</u>
	\$ 216,500,000	\$216,500,000

(1) Apportioned to States January, 1937.

Provided in Budget and Bill = \$150,000,000

Federal aid	{	\$16,000,000	to pay obligations under 1936 authorization	
		78,000,000	" " " " 1937	"
Highways	{	56,000,000	" " " " 1938	"
		<u>\$150,000,000</u>		

Bureau of Public Roads proposes \$11,000,000 more for 1938 obligation and \$3,000,000 for 1939 obligation, to be provided in Deficiency Act January 1938.

Forest Roads: Budget and Bill provide \$11,000,000, of which \$5,500,000 is under 1937 authorization (balance and \$5,500,000 is under 1938 authorization.

Public Land Highways - Budget and Bill provide \$2,500,000 under 1938 authorization.

Secondary or Feeder Roads: Budget and Bill provide \$5,000,000 under 1938 appropriation

Grade Crossings: Budget and Bill provide \$10,000,000 under 1938 authorization.

1. Direct Secretary of Agriculture to refrain from approving projects so that actual cash expenditures will be materially reduced below 1938 appropriations. No deficiencies, of course, to be incurred, as now proposed.

2. Submit for pending, or last, deficiency, legislation repealing authorizations for 1939.

**Funds Made Available to Resettlement Administration
Obligations incurred and checks issued to Mar. 31, 1937**

In thousands of dollars

Purpose	Allocations	Obligations	Checks Issued
Administrative Expenses	\$ 62,960	\$ 55,183	\$ 60,311
Subsistence Homesteads	11,344	10,396	9,795
Suburban Resettlement	26,000	22,072	18,806
Land Utilization (W.P.A.)	44,006	34,863	22,517
Loans and Relief	115,782	78,149	73,852
Land Acquisition	19,459	18,633	14,573
Other, not broken down	<u>136,726</u>	<u>116,753</u>	<u>102,114</u>
Total	<u>\$416,266</u>	<u>\$336,049</u>	<u>\$291,768</u>
Appropriation			
N.I.R.	\$ 19,938	\$ 19,006	\$ 15,592
E.A.A. of 1935	3,389	2,999	2,196
E.R.A. of 1935 & 1936	<u>392,939 (a)</u>	<u>314,044</u>	<u>273,980</u>
Total	<u>\$416,266</u>	<u>\$336,049</u>	<u>\$291,768</u>

(a) In addition \$30,000,000 has been reserved for allocation as needed.

**Resettlement Administration
Cash Expenditures**

July 1, 1936 to April 19, 1937	\$154,845,000
April 20, 1937 to June 30, 1937, Estimate	<u>55,155,000</u>
Budget estimate, revised, for 1937	\$210,000,000 (a)

(a) Exclusive of expenditures of \$30,000,000 to be made in fiscal year 1938 from funds allocated during fiscal year 1937.

I ~~Building houses~~

Construction Program
of satellite cities ~~points~~
to be completed

II ~~Feeding~~ relief cases
grants - to come
out of $1\frac{1}{2}$ billion

III Standard Rehabilitation
New Bill Little II.
\$75. ~~million~~ ^{banded him}
(~~used to buy~~ ^{by seed}
money ^{to}
machinery animals

Farm Tenant
Bought land for
tenants who ^{step} became
farm owners.
now in Title I of new
bill.

Submarginal land
purchase
and new Title 3.

March 29, 1937
11:30 A.M.

Present: Mrs Klotz
Mr. Bell
Mr. Lochhead
Mr. Haas
Mr. White
Mr. Taylor
Mr. Magill
Mr. Seltzer
Mr. Gaston

H.M.Jr: Herbert, one of the things I want - I'd like to have you get, and I want to take over with me - is Eccles' first statement where he said you couldn't do this thing on a non-monetary basis.

Gaston: Uh-huh.

H.M.Jr: Then underline the Fortune article where he talks about gold.

Gaston: You want to take the Fortune itself or a copy of it - of the Fortune article?

H.M.Jr: If you have the article....

Gaston: I have the article on my desk.

H.M.Jr: I mean I'd like to take that over with me to the White House, see?

Now, this is the way I feel about the thing. I mean I've made all my pretty speeches in the family, got it pretty well in my system about Eccles and what he's done. I want some figures which I may or may not want to use. The way I look at it is this, and you people can talk back at me.

There are two things here. There are two entirely different things. One thing is the question of revenues - that's one thing, and it has nothing to do with the market whatsoever; and the other thing is this question of the increase in reserve requirements of the Federal Reserve.

Now, have you got your figures how much the bonds went off?

- 2 -

Lochhead: We have those figures.

H.M.Jr: Get them.

And it gets down to a question of interest rates, and the angle - then you can talk back - the angle I thought I'd take....

(Taylor comes in)

Taylor: Glad to see you.

H.M.Jr: I haven't said much yet, but I was saying there's two distinct things. One is the question of interest rates. That's what - I mean I've had a lot of time on the other things, the question of revenue. I'd rather talk about interest rates first and the question of what angle I should take. I can't escape it. I read Bob Kintner this morning. He's hinting the thing; they expect an answer. And I'm going to try my best to keep from mentioning Eccles. I mean I've talked about him for a week, so - I mean I'm going to try to keep away from that.

But on the other hand, I think the thing I want to say - I'm having lunch with the President and I want to have a dress rehearsal. Does the Treasury want to take the position that this move which the Federal Reserve made to increase excess reserve requirements artificially changed the whole level of interest rates? Now, I'm practicing on you.

After all, the Treasury single-handedly for three years, without any help from anybody, has built up this question of interest rates and the price of bonds. Over a three-year period we haven't had any help from anybody. And every other unit of government in the United States has benefited - I mean every state, every county, and every municipality.

Now, I'll call on these things as I need it. Business requirements, through business loans, do not yet show sufficient increase to drive up interest rates the way they've gone.

Haas: That's right.

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

- 3 -

Haas: Well, we've prepared this....

H.M.Jr: Read it to me.

Haas: I think this - I think you should take time out. I think you should take time to read this whole thing.

H.M.Jr: All right, I'll do that.

(Haas hands memo to Secretary)

The whole thing?

Seltzer: Uh-huh.

Haas: You on different occasions have asked for this and that. It's all there very concisely.

H.M.Jr: As I say, I'm going to try my best to keep off personalities. But it's a question - I mean before we get on this thing - of interest rates. Are we satisfied - do we want to accept this new level of interest rates or do we want to put it up to the Federal Reserve that they should either take steps themselves or ask us to take steps, or do I want to say, "If you don't do that, we will"?

Now, that's all I - we'll come to the other thing last. But as I say, I got it on my train that they're going to ask me about the price of gold, and I'm going to answer: "I'm not a fortune teller." How's that?

Mrs Klotz: Good.

Taylor: Too good.

Gaston: That's too good.

Taylor: Georgia climate is wonderful.

H.M.Jr: Don't you (Mrs Klotz) like that one?

Mrs Klotz: They don't like it.

Gaston: I think it's a swell crack, but I think it's a little bit too definite.

H.M.Jr: What?

- 4 -

Gaston: It's a little bit too definite.

H.M.Jr: Well, think it over.

Mrs Klotz: That's marvelous.

H.M.Jr: I'm not so sure that isn't a good way to handle that.

Bell: All right if you don't smile when you say it.

H.M.Jr: Oh no, I simply say, "I'm no fortune teller."

Magill: I think that's wrong.

Taylor: If you say it fast, it's all right.

Magill: But the pause was a little different.

Haas: That's a good one, I think - quotation marks around "fortune."

H.M.Jr: What's the other one I had for the children? I had one other one; I'll think of it after a while.

"The recent sharp increase in long-term and short-term interest rates is most....." The reason I'm sort of hurrying, getting down to business, is because I want to prepare myself.

"The recent sharp increase in long-term and short-term interest rates is most directly attributable to a combination of governmental actions, concentrated in the space of a few months, which was reasonably interpreted by the market to mean that the government was taking precipitate action to tighten credit conditions.

"(a) On July 15, 1936, the Board of Governors of the Federal Reserve System announced a 50 percent increase in required reserves, to take effect a month later."

Herbert, I also want some copies of what I gave out at Harvard, see?

Gaston: Yes.

H.M. Jr:

"(b) Commencing on November 21, wide publicity was given to an officially inspired intimation that a further increase in reserve requirements would be made shortly."

I actually want what that week-end statement was of Eccles, of November 21. I forget - he gave it out on Saturday, as I remember. I read it once in my press conference.

"(c) On December 22, 1936, the Treasury announced its gold sterilization program.

"(d) On January 31, 1937, the Reserve Board officials announced further increases in reserve requirements, to the maximum permitted by law, to take effect in two instalments, on March 1 and May 1.

"(e) Both preceding and following the discussions and announcements concerning the reserve increase and the gold sterilization program, wide publicity was given governmental efforts to devise practicable methods of discouraging further inflows of 'hot money.'

"2. All of these actions tended in only one direction: To tighten the money and investment markets. The Treasury, through its sterilization program and its efforts to find a tax formula to discourage further inflows of foreign funds, was telling the market that bank reserves would be no longer increased as a result of gold inflows. And the official purpose of the Reserve Board actions was to eliminate some \$3,000 millions of excess reserves, as well as to cut in two the credit-sustaining power of the member bank reserves.

"3. These actions and the official and unofficial statements issued in connection therewith appeared very strikingly to confirm the widely circulated and exceedingly influential predictions of Major L. L. B. Angas. In a pamphlet entitled "Slump Ahead in Bonds," issued in February 1937, Major Angas argued that, the pump having been primed, the Administration was prepared to take stringently restrictive measures to prevent an inflationary boom; and that such measures were imminent. Whether such measures succeeded or

- 6 -

failed, that is, whether the money markets were sufficiently tightened to discourage a boom or whether inflation took hold, a rise in interest rates was inevitable. Recent public utterances by Mr. Eccles, Mr. Wallace, and other Administration officials, intimating that a disorderly boom might be imminent, likewise appeared to confirm the views of Major Angus and his followers.

"4. The actions actually taken have influenced other investment consultants whose forecasts of interest rates are based upon technical considerations. Pell, Kip and Skinner, Inc., for example, use a money-supply measure as a forecaster of prospective bond yields. Each of the actions taken had the effect of reducing the 'money-supply measure' or at least of preventing further increases in it. Moody's Investment Service, which has consistently been most optimistic respecting high-grade bond prices, bases its forecasts most largely upon the net volume of unborrowed bank reserves. The gold sterilization program, by removing the largest source of additional bank reserves, eliminated the chief technical factor making for further rises in high-grade bond prices, on Moody's basis.

"5. Insurance companies and other important non-banking institutional investors, as well as banks, were finally persuaded, in the light of the influences cited above, to go on a 'sit-down' strike, in effect, so far as fresh long-term investments are concerned -- until more generous yields become obtainable. They could see nothing in the immediate situation that was making for lower interest rates, while all the influences cited in the foregoing appeared to be making for higher interest rates. The movement of bond yields in England, where the British Consols had declined in price from a 2.95 to a 3.26 basis between September 4, 1936 and February 25, 1937 (on March 25, 1937, the basis was 3.25), provided strong moral support for the position of such investors, despite the far more advanced stage of the recovery movement in Great Britain and her new armament program."

I take the position, George, that what's happened in the bond market and what is happening on this other thing have absolutely no relation.

- 7 -

Haas: That's right.

H.M.Jr: I mean the stupidity of the financial reporting of the press is - I think it is just unbelievably stupid. I mean they just don't - I mean it shows that everybody in the Treasury has kept their mouth shut, that's all I can say. But to me it is just.... I mean the two things - I don't see they have any relation whatsoever.

"6. Of all the factors, psychological and other, that have been operating in recent weeks to boost interest rates, the actions of the Reserve authorities, in my opinion, have been the most potent. The Treasury gold sterilization program and the official concern over 'hot money' would not, by themselves, have exerted depressing effects upon the prices of short- and long-term obligations, because they related altogether to external influences which they were designed merely to cancel, counterbalance, or equalize. The Reserve Board actions, on the other hand, were definitely restrictive upon the domestic situation. They definitely contracted both the quantity of free reserves, and the power of every dollar of reserves, excess or required, to support credit expansion. And, despite the verbal assurances of a continued easy-money policy, they provided the strongest kind of evidence that the Reserve Board was prepared, at the cost of higher interest rates, to keep a tight control over credit expansion.

"7. In 1936, between January 8 and December 9 (the latter date was one day after long-term Treasury bond prices reached their high), the "other loans" of weekly reporting member banks increased by \$729 millions. Between December 9, 1936 and March 17, 1937 these loans have increased by an additional \$295 millions. These substantial increases in commercial loans have been the natural results of the rising level of business activity. In view of the relatively large volume of excess reserves existing throughout this period, it cannot be said that the loan expansion forced banks to liquidate high-grade bonds. Nevertheless, the increased demand for commercial loans, coupled with the scheduled further increase in reserve requirements on May 1, probably induced some banks to liquidate investments to

- 8 -

provide for future requirements. Such selling was doubtless intensified because, once the decline in bond prices was definitely under way, many banks naturally sought to realize upon their paper profits while such remained.

"It is important to note that the aggregate volume of 'other loans' is.... " What's "other loans"?

Seltzer: That's commercial loans.

H.M.Jr: "....is still at a very depressed level as compared with the pre-depression period. The aggregate amount of 'other loans' of weekly reporting member banks on March 17, 1937 was only \$5,879 millions as compared with \$8,173 millions in March 1925, \$8,521 millions in March 1926, \$8,697 millions in March 1927, \$8,793 millions in March 1928, and \$8,910 millions in March 1929."

Have you got a chart on that?

Haas: There is a chart on that.

Seltzer: Yes

Haas: It's in your book.

H.M.Jr: Yes, but I got that down there. But that one is on a monthly basis. You haven't got it on a weekly basis?

Seltzer: We have a work chart of this on a weekly basis.

H.M.Jr: Have it sent in, will you? Go out and phone to have it sent in.

If you (Magill) have anything, I'm going to stick to this thing until one o'clock. I mean I want to prepare myself. I mean if...

Magill: Well, all I want to do is - I've got Charlie Russell waiting in there on a matter. I'll just tell him....

H.M.Jr: I've got to prepare myself for one o'clock, and then four o'clock - and everything else, I mean.

- 9 -

Magill: Do you want me in here now?

H.M.Jr: Only if you're interested.

Magill: I am interested.

H.M.Jr: I mean I thought when we get on revenue....

Magill: Do you want me to go out and try to finish up with him?

H.M.Jr: Why don't you? We'll be through with bonds and then be on revenue.

Magill: This is a case of trying to hold the fort on trying to save a few million dollars. I don't know whether I'll succeed.

H.M.Jr: Well, why don't you....

Magill: I can wind up with him and be back in ten minutes or so.

(Magill leaves)

H.M.Jr: "Although short-term interest rates were substantially higher in the pre-depression period than they are now, it must be emphasized that the net unborrowed reserves of member banks were then much smaller than they are now." Well, that - you people are getting too technical.

Hass: Skip down to the rates. That's what you asked for - the increase in rates.

H.M.Jr: "The increased reserve requirements have exerted an especially pronounced influence upon the New York banks because of the large balances carried with them by other banks. The raising of reserve requirements therefore affects the New York banks in two ways: First, their cash resources are reduced by withdrawals of bankers' balances needed to meet the increased reserve requirements of their correspondents; and second, their own reserve requirements are increased. During the three weeks ended on March 10, 17, and 24, New York City member banks reduced their holdings of Federal obligations by \$45 millions, \$112 millions, and \$83 millions, respectively." Well, I see according

- 10 -

to this morning's papers that the New York banks sold out over - I think over 300 million dollars worth of bonds. See, you've got too many figures here. "And their holdings of Federal obligations on March 24 were smaller by \$810 millions than on July 1, 1936."

Haas: That's the figure you want.

Bell: That includes your April maturities apparently - exchange. They didn't sell 300 million dollars in the market.

Lochhead: You retired your Treasury bills; your Treasury bills you retired.

H.M.Jr: What I'd like to know - George, make a note - is when - didn't the Comptroller have a call on December 30th?

Bell: Usually does.

H.M.Jr: Let's find out how the banks sold between January 1 and the most recent date we have information - on bonds, what was their position?

Haas: January of this year?

H.M.Jr: Yes. I mean there is no use going back to July. I want to know between January 1 and the most recent date they have information.

This is too much, George. "Since the beginning of 1933, there have been five important declines in the market." You've got too much, George; you've got too much of it here. I've got too much ground to cover. You haven't got it tabled for me.

Haas: There's tables right in the back.

H.M.Jr: Let's lean over and give me - come over here. You've got too much; I can't absorb all that. Now, what are these?

Haas: Those are the yields, see, as of these dates on the top, and here's the recent...

- 11 -

H.M.Jr: Why do you take September 4th?

Haas: That was one of the - September 4, 1936 - well, that was one of the periods when there was an important change in the trend of the bond prices; it was taken at that time.

H.M.Jr: Well, this shows that it went from, in November.....

Haas: Catch it over here.

H.M.Jr: From December to March, from 2.22 to 2.65; that's the yield.

Haas: That's the yield.

H.M.Jr: 2-7/8s went from 2.57 to 2.79; 1-3/8s from one percent to one and a half percent.

Haas: Bills from nine hundredths to 71 hundredths.

H.M.Jr: High grade corporates average - that's from here - from three point naught seven to three and thirty-nine hundredths. High grade municipals, from three to three and a half; that's New York City. And open market paper. All right, I'll get that.

Now, what's this?

Haas: That discusses these changes in rates.

H.M.Jr: Let me talk. I've read a lot of this stuff.

Haas: Some of those sticky issues.

- 12 -

H.M.Jr: George, I think the thing that I get out of this is this table here.

Haas: On the prices, yes.

H.M.Jr: Now let me just ask.... What's this?

Haas: That is in connection with financing.

H.M.Jr: Now let me just talk out loud. I mean I've got this thing. What I want is - I want the other borrowings. Are you going to get what the position was on January first and the most recent?

Haas: Seltzer went out for something else. I'll get that.

(Lochhead shows Secretary some charts)

H.M.Jr: The government bonds this month so far are off 627 million dollars; they're off three percent. And the Government-guaranteed are off a hundred million; they're off 2.65. The Treasury notes are off 62 million. Or a total - the whole picture is 800 million dollars in value.

Now I come back - I come back to the whole thing again. What do we want to - I mean I - I can read this stuff afterwards. Do we want to take the position that this thing has slid off too far, that there is no reason for it, that the business demands of the country for money didn't cause this drop in the price of bonds or the increase in interest rates? I think I want to talk about increased interest rates. Now, do I want to take that position, that I am not satisfied with what's happened?

Taylor: Is this in terms of what you're going to talk to the press about this afternoon?

H.M.Jr: Yes

Taylor: I think that the silent treatment, until you determine what your financing program is, is the only sensible treatment.

H.M.Jr: Well, let me put it the other way. Are you satisfied with what's happened on interest rates?

Taylor: No, but I think you have to adjust whatever your

- 13 -

feeling may be in view of the actuality. In other words, if you make any statement this afternoon saying that you are not satisfied with the position, you will have to know what your financing program is and what effect that will have on it.

H.M.Jr: Well, I know.

Taylor: In other words, I think you're a little premature if you try to do it this afternoon.

H.M.Jr: Well, that's what I want to argue about.

(Seltzer shows charts to Secretary)

Seltzer: Here's your "All Other Loans."

H.M.Jr: Yes, but what were they on January first?

Seltzer: January 1, '36?

H.M.Jr: No, January 1 - all other loans January 1, '37.

Seltzer: '36 it was just....

H.M.Jr: No, '37. No, I want 1937.

Seltzer: Yes. About five billion eight. We can get the exact figure, but we can't read it off the chart.

H.M.Jr: I mean has there been any - there's been no material increase.

Seltzer: Well, there's been some. You can see by the curve going up.

H.M.Jr: Now, is "All Other Loans"....

Seltzer: Commercial loans.

H.M.Jr: I'd like to know what's happened to them. I want the figures that this chart is based on.

Seltzer: You have them in the memorandum for the whole year.

H.M.Jr: No, no, it isn't given the way I want it. I want, starting here, if that is five billion, each week what they were.

- 14 -

Haas: Get the figures the chart is based on.

H.M.Jr: Leave the chart here, but send for somebody and get the figures this chart is based on. I want it run down in a column. Please.

Now wait a minute, let's argue on this thing. And then Herbert gets in this thing. After all, this is my bond market.

Taylor: That's right. I think....

H.M.Jr: Now, I have - I mean we're talking here in the room - I think it was one of the smoothest pieces of deception that I have ever seen that the Federal Reserve Board, through their action, throw the whole bond market out of gear, increase interest rates, and in order to cover up what they have done they give out all of these statements that have nothing to do with it. And never once, in any statement that Eccles has made in the last two weeks, has he mentioned excess reserves. Not once. Not once. There isn't a single thing that he said - non-monetary, labor, gold, this and that - but he's never once mentioned the fact. And that's why I say these people have been so dumb, and he's gotten away with it.

Now, he's talked about everything which is my responsibility but has failed to talk about what is his responsibility. And the more - if I'm wrong I want you fellows to - I say that the increase in the Federal Reserve requirements has thrown this bond market out, and I believe that Eccles didn't know what's happened to it. I think he was taken for a ride. And the thing that I'd like to say is that the New York banks saw this thing and they sold their bonds because they knew what was coming.

And I think honestly that Eccles honestly wants cheap money, but I think the boy was taken for a ride. And I think he's got a brilliant mind and his assistant there - what's his name?

Gaston: Elliot Thurston.

H.M.Jr: He's also got a brilliant mind. And I think that the two of them saw that they made this mistake, saw that interest rates were going up, saw that the thing was piling up, and just pushed this stuff out.

- 15 -

Now, I'm not going to let my mind or my thinking - because I've done nothing but this; I've had no rest - let's forget about Eccles and Elliot Thurston, all personalities. Because after all, when Mr. Jones made his statement about the tax plan I never answered Mr. Jones; I thought "Time will tell."

But this - I've given my life in the last three years to build up this bond market so the United States Government's credit is the highest of any in the world. Now, why should I be satisfied and sit here and keep my mouth shut and say that I am willing to have this thing forced down by this movement?

And furthermore, reading the Guaranty Trust of New York statement, I think that they got - was the most unfriendly and one of the smartest - think they got something they didn't figure. They come out and say this question of prices is a world thing - world stabilization of prices, de facto stabilization.

Now, did the banks figure that this thing was going to go off the way it did? But nevertheless - I mean whether - I want to find out whether some of the smart boys did sell in New York and the country banks didn't.

But I still come back to the thing, do I want to sit here at four o'clock and say everything is lovely as far as the bond market goes and I am satisfied? Now, that's what I've got you here for. Let's go around the room.

Bell: Well, I don't know as you can sit here and say everything is lovely, but it seems to me that you ought to say you haven't any comment to make.

H.M.Jr: Pardon me?

Bell: Say you have no comment to make. I don't think they can take from that any indication that you feel everything is lovely. They know that you don't think the bond market is where it ought to be. But I question getting into this argument with the Federal Reserve Board, which is what you will do if you take issue and say that you are not satisfied and that you are going to take action to remedy this thing. Right at

- 16 -

this time I think I'd.....

H.M.Jr:

Well, I'm not going to answer until I go around the room, see, and anybody can have a rebuttal.

Do you mind before I - I want one thing to help me on this argument. I want Harris to come in.

(On phone) Let me talk to Mr. Harris on the telephone in Mr. Lochhead's room, please. - - Hello, Harris. Harris, get out your pencil and paper. If I wanted to sell a - oh, something around a fifteen or twenty year bond and allow about the usual one point - point to a point and a half profit - what would be the coupon at present, see? And then also if I want to sell a five year note now, what coupon would I have to put on it, figuring the usual - what we have been allowing, about the usual margin, except that it would have to be fairly sweet, you see. Do a little figuring and tell me how much you figure, what the premium would sell, and when you've got that come in, will you? I mean if I want to sell a five year today, what coupon, allowing - well, I would want to allow, I suppose, at least a point on the note and on the bond today from a point to a point and a half. And take something along fifteen to twenty years; supposing I want to sell a fifteen-twenty year bond. When you've got it, will you come in?

Now, that answers it. I mean let's just see what he does on it.

Go ahead.

Lochhead:

Of course, obviously we just brought out a bond issue at par and they're selling below 99. Now, obviously you can't be satisfied with that, and if you are going to be asked if you are satisfied, certainly you're going to say you're not satisfied. The only point is how much you've had a chance to prepare yourself. I mean I don't think there is any reason why you should go out on a limb just because there is a press conference. I think you've got a perfect right to express disapproval or non-approval, of course, of the bond market, but I don't think you have to start going on the defensive or offensive this afternoon; that is, not until you've got a chance to prepare yourself

- 17 -

fully. Of course, I don't know just how far you've gone ahead in preparing, but I don't think there's any necessity of being rushed.

H.M.Jr:

George?

Hass:

I think I can do best by saying what I think the answer should be. Now, the technique of accomplishing that is - I'm not very expert in that.

I think the situation has gotten too tight, and I think the ideal solution will be for a joint action by Treasury and Federal Reserve. And I think you should be very careful not to let the press think that you are thinking in terms of your own immediate interests - that is, the Treasury bond market - because what is more important to the Treasury even is the general situation in the country as a whole, because it is on that you have your revenue base and where you get your tax receipts, and the general economic recovery is contingent upon that. And I'd always talk in those terms rather than in terms of the Treasury.

And the ideal solution - rather, the best solution of it at this time - it seems to me, should be jointly the Reserve and the Treasury, if it can be done that way; and if it can't, well, then I think you've got to step out yourself. But if once the public gets a split between the Treasury and the other, you put more adverse material into the market.

H.M.Jr:

Well, is that - I'm not going to - I don't want to - I want to listen. Harry?

White:

I think that you would be on sound ground if you claim that the raising reserve requirements was a factor in the decline in bond prices. I think you would have a very difficult time successfully defending your position if you attempted to maintain it was the sole factor, because even though it might have been, it is possible to make a very good case for other contributory factors. And I don't think it is necessary to maintain it as the sole factor in order to demonstrate the point which I think might well be demonstrated: that the raising reserve requirements did help to tighten the market.

- 18 -

With respect to what should be done about it, I am inclined to think that nothing should be done right now. I think that there should be a period of watchful waiting. And if sometime within the next couple of months or next month it is propitious, I believe with George here that it would be preferable to take joint action both in the way of increasing - letting some of the gold go in and possibly also buying up securities by the Federal Reserve Bank, in order to give definite indication to the public that it is a monetary matter and that you are not following the lines which it was predicted in some quarters would be followed here: that the moment you had rising prices and what is the usual customary accompaniment of that in the long run, rising interest rates, which is to be expected during a recovery period to some extent, in order to support the bond market the Treasury would take certain actions. I think that must be avoided at all costs. The problem is a monetary one. And I think that you could avoid that implication by getting joint action with the objectives being announced as monetary - of low interest rates.

And I don't think the problem is sufficiently acute with respect to low interest rates to take any action now. And I think it would be bad to take action now because it would be an evidence of support of the bond market rather than a monetary matter, which it might have the appearance of if we postponed action a little bit.

H.M.Jr.:

Wayne?

Taylor:

I think - going back more or less over what I said before, I think the worst thing that could happen to the market is to have you make a statement today, but that the silent treatment is exactly what it needs. It isn't going to help the situation any to have you say, "Well, the bond market would have been at a different level if the Federal Reserve Board hadn't increased reserve requirements." The one thing that the market loves when it wants to go down is to think there is a row going on. And the reason that the market did correct itself somewhat during the past week was because there weren't any statements. Much better tone and very quiet - that's just the way you want it at the minute.

- 19 -

- H.M.Jr: Herbert, you come last. I mean next to last.
- Gaston: Right.
- Seltzer: I have only a general idea of just what we're talking about. Is it in connection with the formal statement?
- H.M.Jr: Any kind of a statement for today, this afternoon, when I see the press.
- Seltzer: I'd rather have no statement by the Secretary, but I agree pretty much with what Harry said, except that I don't believe in any period of watchful waiting, because I think that we ought to go to bat right now with the Reserve Board and lay out the situation and see whether they will go along with us on using some or all of 590 millions of idle money we have around.
- H.M.Jr: But you don't think I ought to say anything publicly?
- Seltzer: No. I think a joint statement would be better.
- H.M.Jr: Do you (Mrs Klotz) want to come before or after Mr. Gaston?
- Mrs Klotz: No, I don't want to come in at all.
- Gaston: I'm very bashful myself. I'm inclined to think this: that if there is prospect of action very soon, it would be best to let the action speak for itself; if there is not prospect of action pretty soon, if we want a "watchful waiting" period such as Harry suggests, I think then that something might be helpful, perhaps to the general effect that you do not think this jump of interest rates, this drop in Federal bonds, was justified by the fundamental market conditions - demand and supply conditions of money.
- Haas: And that is inconsistent with his statement if he says at any future time that the excess reserves was one of the causes of the decline - I mean the increase in requirements - because that is a part of the supply and the demand.
- Gaston: Well, yes. Probably he'd better not treat it from a demand-and-supply feature at all.

- 20 -

H.M.Jr: Well, do you think I ought to say anything??

Gaston: If you're going to do something soon, no.

H.M.Jr: Well, I don't know. I mean all of these boys are perfectly willing to let me take Eccles on alone, which I suggested.

Taylor: Got a lot of back history - recent history - to give you on that and...

H.M.Jr: I don't know whether you've told them this. His own people tell Taylor that they are just as worried as we are.

Bell: What are they worried about?

Taylor: Keeping him off the air.

H.M.Jr: They're just as worried as we are - I mean his own people.

Bell: Worried about him?

Taylor: They are worried about him. Two things: one, keeping him off the air; and the other, the necessity for the Treasury and the Federal Reserve Board working together.

Haas: If they work....

Bell: They want to work....

Taylor: They want to work together.

Haas: We've been together going down; we ought to be together turning.

Taylor: And we've got a financing problem, very definite one.

H.M.Jr: Yes, but that worries me the least. I can sell United States Government securities always at this stage if I price them right. There's no trouble about selling them if I price them right.

Taylor: Well, I think my general feeling would be that you could combine your financing program with the loosening, if you do it artistically. Now, I have every

confidence that you will do it artistically.

H.M.Jr: Well, I'll be very frank with you people. Should we give Eccles a chance to kidnap himself like General Chiang Kai Shek...

Taylor: Uh-huh

H.M.Jr: ...and save his face? I mean is the welfare of the country more important - is that the most important thing to do? I mean if he wants to kidnap himself and try to save his face. Or should we throw out hints publicly that we are forcing him to; that's what it really gets to.

Taylor: Well, what difference does it make to you as long as it finally works out right?

H.M.Jr: Well, I'm human; I'm human. But as I say, I've sat here for four years and I've never criticized - I've never criticized another head of a department or agency in four years. Isn't that right, Herbert?

Gaston: Yes, yes.

Taylor: Well, the minute you go off on a tangent, which it will be, and point to the increase in reserve requirements, you don't look so good.

Lochhead: I don't think that you can keep silent on the general bond prices today.

Taylor: That is something else again.

Lochhead: You just can't keep silent on that. You have to let drop a hint, at least, that you feel that the prices have rushed a little bit too fast, that you don't agree with the prices at this stage. You can't say you agree with prices at this stage, certainly, right after we've brought out a bond issue.

H.M.Jr: Well, supposing all I say is this: "All I can say to you gentlemen is this: that we spent over a hundred million dollars trying to keep it level, so we've done everything we could."

Taylor: (Nods emphatic no)

Haas: I wouldn't do that.

Mrs Klotz: You (H.M.Jr) wouldn't say that.

H.M.Jr: Like to do these things and have them all out here.

Haas: Mr. Secretary, it seems to me if you should decide, irrespective - I'm not considering the question of advisability of your doing it - but if you should decide to say something about another agency which....

(Harris comes in)

Harris: At 1 5/8, five year note, only half a point.

H.M.Jr: No, I have to pay 1 3/4 right now.

Harris: Looks that way.

H.M.Jr: 1 3/4, and last time I paid 1 1/4.

Harris: That's right.

Bell: 1 3/4, that would be...

H.M.Jr: He (Harris) got it; that's only 1/8 point up.

And how about a 15-20 year?

Harris: You can put out a 2 3/4 about the length the last 2 1/2 bond was.

H.M.Jr: I can what?

Bell: 12-17.

H.M.Jr: Can I put out a 2 3/4 17-year?

Bell: Wasn't it 12-17 - '49-'53?

H.M.Jr: Supposing we put out a 15-20.

Harris: 2 7/8. That would be '53-'58.

H.M.Jr: Well, that gives the answer. I mean I'm not going to ask....

- 23 -

Harris: Of course, some of the issues in the market are terribly out of line. The market hasn't evened up.

H.M.Jr: The 2½s are out of line.

Harris: Oh, terribly out of line. They're yielding only 2.60 to maturity.

H.M.Jr: They're selling too high, aren't they?

Harris: Yes, yes; they'd have to go off about three points.

(Harris leaves)

White: Mr. Secretary, I'd like to say that at this time, more than any other ordinary time, the action is not clearly called for. I think that now is a time when delay does not lose anything, and if I had any doubts about it I think this is an occasion for postponement.

H.M.Jr: Well now, did you ask S.E.C. how many issues have backed up? Did you get that for me?

Taylor: George has been working on that. Have you got it, George?

Haas: You were to get it from Landis, weren't you (Taylor)?

H.M.Jr: Yes

Taylor: I'm sorry. I thought it was the other way.

Haas: We muffed that. I went in and saw him and....

Taylor: That's too bad.

Haas: I'm sorry about that thing. I thought it was cleared the other way. I guess Wayne thought it was cleared that way.

I'm disagreed absolutely with Harry's thing about the postponement. The postponement, I think, up to date has created a very unfortunate condition. Now, I'd only advocate postponement until you are positive you have the right answer.

- 24 -

H.M.Jr: I think that the Secretary of the Treasury shouldn't be groping. I think when I talk I better say, "This is what I'm going to do, boys."

(On phone) Get me Commissioner Landis, please.
(Record of conversation follows:)

March 29, 1937.
12:23 p.m.

H.M.Jr: Hello.

O: Chairman Landis is in a hearing; it will take a few minutes to get him out.

H.M.Jr: Get me his secretary or is he on the wire?

O: I have his secretary.

H.M.Jr: Thank you. Hello.

O: Go ahead.

Landis' secretary: Hello.

H.M.Jr: Mr. Morgenthau speaking.

L.S.: Yes.

H.M.Jr: I wonder if you could give me the information I want without bothering Mr. Landis.

L.S.: Yes, I'll be glad to try.

H.M.Jr: I want to find out if I could before I go to see the President....

L.S.: Ah-ha.

H.M.Jr:how many issues have been held up; have not been quoted - I mean like

L.S.: Now Mr. Morgenthau I'd like to have you speak to Mr. Katz - just one moment.

H.M.Jr: Thank you.

(Pause)

O: Hello.

H.M.Jr: They're to get Mr. Katz. When he's there put him on.

O: Mr. Katz - all right.

- 2 -

H.M.Jr: Hello.

O: Mr. Katz.

H.M.Jr: Hello

O: Go ahead.

Katz: Yes sir.

H.M.Jr: This is Mr. Morgenthau speaking.

K: Yes, sir.

H.M.Jr: Mr. Katz, I understand Mr. Landis is in a hearing and I don't want to bother him. Ah - could you let me know - ah - about how many issues have been held up during the last week or two due to market conditions; how many quotations have been held up?

K: Held up by the issuers?

H.M.Jr: Well, I mean - for instance, I know the Argentines were going to get out one the middle of March and they postponed it a month. I mean how many bond issues or stock issues have been held up pending market conditions?

K: Ah - now it will take me a minute or two to check to see if there's anything we have on that that is worth anything.

H.M.Jr: Well, will you - if you've got anything will you call me back?

K: Yes, I will.

H.M.Jr: You know what I want - I want.....

K: I understand, yes.

H.M.Jr: How many different issues have been held up - postponed - due to market conditions.

K: That's right. I'm not sure we'll have anything on that but I'll check it as well as I can.

- 3 -

H.M.Jr: Pardon me? Hello -

K: What's that?

H.M.Jr: I'd like it divided as between refunding and new money.

K: Righto.

H.M.Jr: Please.

- 25 -

(Magill returns)

H.M.Jr: Go ahead, George.

Haas: As I was saying, if you decided to say something - I'm not commenting on the wisdom of the policy - but what you might say is, "Obviously the money situation is too tight. It is perfectly apparent that it is not to the best interests of the....."

H.M.Jr: Hello (On phone)

O: Ambassador Bullitt's secretary is calling.

H.M.Jr: All right. (Has phone conversation, recorded on dictaphone at 12:27 P.M.)

Now, where were we?

Haas: You could on this statement or in side comments say, "Obviously the money situation is too tight for the best interest of the - economic interests of the country. It is perfectly apparent in what's happened in the corporate bond market." Keep it off the Treasury. There's where it started first, and it makes a broader-gauged view of the whole thing. In other words, the Secretary of the Treasury is fundamentally interested in the whole picture, not just in the Governments. And the press, I think, will criticize you severely if you think just in terms of the Treasury. The Treasury can take care of itself if this - or the Treasury bonds would be taken care of by the same device that takes care of the general bond market.

H.M.Jr: How about if I put it like this? "I am only back a day. During my absence I kept in touch three or four or five times a day with the situation. The bond market is only a part of the whole picture. If" - I'll follow the usual policy that I have since I've been here - "if and when we decide that it is necessary to take action, we will announce it immediately to the public, but until that time I have nothing to say."

Taylor: You can add to that, if you want to, that as far as you know, the Administration policy is still a cheap money policy.

Haas: Because otherwise they'll interpret - I think that

something like that is important, because otherwise they'll interpret you as in agreement with what's taken place.

- Gaston: I wouldn't say that so far as you know that is the attitude of the Administration. I would rather say that you personally - to you personally the continuation of easy money policy is desirable, and that you are - and you regard that not merely from the Treasury point of view but from the broad....
- H.M.Jr: All right, Mr. Gaston - "What are you going to do about it?" And you immediately get into all kinds of discussions. "What are you going to do about it?"
- Haas: "Just got back."
- H.M.Jr: I mean "What are you going to do about it?"
- Bell: "Continue to watch the situation." Say that you are not satisfied that this isn't a temporary flurry.
- H.M.Jr: Well, what if you aren't satisfied that it isn't a temporary flurry?
- Bell: Then it will right itself.
- Haas: That gives a lot of information.
- H.M.Jr: I think I ought to do one of two things. I think I ought to say about ten words and say, "Gentlemen, I'm very sorry, I have nothing else to say. Just got back." Or go into a lengthy discussion and....
- White: "Would you say "Just got back"? After all, the Secretary of the Treasury ought not to be away from a problem at any time and....
- H.M.Jr: Well, I can simply say that, following my usual policy, when we are ready to take action we will announce it publicly. And not through any special Goldsmith letters.
- Gaston: That's a very strong foreshadowing of action.
- H.M.Jr: "If and when," I said. If and when. If and when. Because I'm going to see the President. Let's just let that ride. We can have some more time after I come

- 27 -

back from the President.

Now let's talk about revenue.

Have you (Seltzer) got those figures on commercial loans?

Seltzer: Yes.

H.M.Jr: May I have them?

Seltzer: Here they are.

H.M.Jr: "Other Loans," beginning of the year.... What do you know - he writes it out - 82 million - and then tears it in half.

Haas: There's another figure. Will you explain that to the Secretary, Larry?

Seltzer: Yes. Decline in Government bonds, from reports of member banks.

Haas: Those are not the whole System; that's just that series of weekly reporting member banks.

H.M.Jr: Now listen, put it all on one. I can do that. (Writes figures on separate sheet) That gives us "other loans" December 30, 1936, \$5,797 millions; March 17th - wasn't that St. Patrick's Day? - Weekly report of member banks..... Well, that's really nothing - 82 million.

George, make a note of this now. Take that 418 million that they're offering December 30th to March 17th and find out how much of that was in - what districts it took place in. What districts it took place in.

Seltzer: Most all of it is New York.

H.M.Jr: Yes, but I read in the Times that the country districts increased, so if they increased some it shows up all the more for New York.

Now let's talk a minute about revenue.

Haas: Do you want to take that with you, Mr. Secretary?

- 28 -

H.M.Jr: No, no.

Bell: The extra Treasury bill issues that we have been on for the last....

H.M.Jr: Oh, excuse me a minute. (To Mrs Klotz) Graves has a special memorandum on narcotics. I want to see Graves before I see...

Hello (On phone; record of conversation with Mr. Katz follows:)

March 29, 1937.
12:35 p.m.

H.M.Jr: Hello

Katz: Secretary Morgenthau?

H.M.Jr: Talking.

Katz: This is Mr. Katz.

H.M.Jr: Yes.

Katz: I'd like to tell you what our situation is here and ask you what you'd like us to do.

H.M.Jr: Please.

K: Our situation is this. Number One, we have no immediate figures which would be available within the next ten or fifteen minutes.

H.M.Jr: Yes.

K: Two, we could compile the following data: First, issues which became effective but against which - which apparently were never actually offered.

H.M.Jr: Yes.

K: I mean that's within the last week or two.

H.M.Jr: Yes.

K: Two, issues - ah - ah - ah - which were withdrawn from registration even before the registration became effective.

H.M.Jr: Yes.

K: And Three - ah - well, that would be the two things, you see.

H.M.Jr: Well, what I'd like you to do.....

K: Then Three - we could get issues in which - against which delaying amendments were piled and after we assembled all of those.....

H.M.Jr: Yes.

- 2 -

K:there would still be an element of conjecture as to the motive for withdrawal or delay as the case might be.

H.M.Jr: Well, suppose you get all of those things together and, if you don't mind, if you'd ask Mr. Landis if it's all right for you to come over and see Mr. Taylor and explain it directly to Taylor.

K: Righto.

H.M.Jr: Will you do that?

K: Now - ah - ah - how - how soon do you need it? It will take a little time for us to do that.

H.M.Jr: Well, could I have it tomorrow morning?

K: Well, I think - I'll try - I'll do the best I can. Now this much I - I would like to tell you now.

H.M.Jr: Yes.

K: Our Registration Division, while they don't have their data together and while there is a necessary element of conjecture in motive, are satisfied - just one of these judgments that you get in actual contact, you see - are satisfied that the predominant motive for such withdrawals and delays that have occurred in the last week has been uncertainty about the market.

H.M.Jr: But you couldn't give me a lump sum figure?

K: I couldn't - no, I could give you just the figures as to actual delay and then guess as to motives.

H.M.Jr: I see.

K: There's no way of knowing motives if they don't give them to us.

H.M.Jr: Well if you don't mind getting it together and then coming over and see Wayne Taylor tomorrow morning I'd appreciate it very much.

K: Righto, sure.

H.M.Jr: Thank you.

- 29 -

Bell: The extra Treasury bills that we are now offering will end on April 7th. During March, as a result of the extra expenditures and the loss in revenue, the General Fund balance, working balance, suffered about 295 million - almost three hundred million.

H.M.Jr: Due to?

Bell: Due to increased expenditures such as the investments and gold purchases, and then the loss of revenue.

H.M.Jr: Three hundred million.

Bell: About three hundred million dollars.

H.M.Jr: That's the figure I guessed at.

Bell: That's right. If we raise 350 million by Treasury bills right after April 7th - or any other means - we'll go out of April with 589 million and we'll go out of May with 530 million. And then provide for a financing of about 750 million dollars in June and go out of June with a billion, 105 million.

H.M.Jr: Now let me ask you this. April 7th - you mean we sell another fifty million of the June notes on April 7th?

Bell: Yes, sir.

H.M.Jr: On April 7th.

Bell: That's right.

H.M.Jr: Then I don't have to make up my mind until...

Bell: April 7th.

H.M.Jr: April 7th.

Bell: That's right. Or the 14th.

H.M.Jr: So I've got this week and next week. I've got...

Bell: That's - yes, sir, that's right.

H.M.Jr: I've got this week and next week.

- 30 -

Bell: You have a week from next Wednesday to make up your mind what you're going to do after April 7th.

Taylor: You've got one fifty that will be sold regularly as on'schedule.

Bell: Week from Wednesday it comes in on cash, but you have to announce it this Wednesday.

H.M.Jr: But I don't have to make up my mind again until - I don't have to make up my mind this Wednesday.

Taylor: No, you've got a week from Wednesday.

H.M.Jr: All right, I can live a couple lives in that time. All right.

Now let me ask you this question, Mr. Bell. What is the Treasury going to do, seeing the income tax receipts haven't come up to expectations? What are you going to do?

Bell: Do you mean with respect to replacing that revenue?

H.M.Jr: Yes, that's what I mean.

Bell: Well, I don't believe I'd do anything, other than raise it by borrowing.

H.M.Jr: I mean are you going to look for new income to...

Bell: No, I don't...

H.M.Jr: No new taxes?

Bell: I don't think I would.

H.M.Jr: Do you believe in balancing the budget?

Bell: Yes, but I don't believe in killing the goose that lays the golden egg, and I think maybe we can go too far in taxes sometimes. It seems to me we have a pretty good tax base and eventually the revenue will come in.

Haas: Of course, the answer to that particular question is that it isn't completely known.

- 31 -

- H.M.Jr: We'll have Dr. Magill at the press conference. Now, Mr. Undersecretary, what are you going to do about the shortage in revenue?
- Magill: Well, I'd like to start out by seeing what it is, if you don't mind. You may know that; I don't know. You've got a shortage, as far as I can see - I think George will dispute this, but it looks to me as if you're going to come into the end of the fiscal year about 600 million shy from your estimates. Now, of the 600 million shy, I'm counting on only about a hundred or hundred fifty million being from the income tax. But I think pretty clearly the estimates will be off about that much on the income tax.
- H.M.Jr: Well now, the President always asks if you lumped personal and corporate income tax.
- Magill: That's both.
- H.M.Jr: In other words... Oh, that was funny. George looked so sick, and suddenly when you (Magill) said 150 of it is on the income tax - suddenly the color came back to his face.
- Haas: Well, I - there's a story on those that you should have before you.
- Magill: Well now, certainly the greater part of that 600 million deficit is pretty clear - that it is going to be a deficit from the estimates. Now, do you want to run over the items? There's about four or five of them.
- H.M.Jr: No, I'll do that - I didn't allow for that and I'll do it again at three o'clock, depending also on what the President says - I mean what he does say.
- Magill: Now, on the income tax, we now have men out in these principal districts where the deficiencies occurred - deficiencies as against the estimates - going over a considerable number of specific problems which were worked out by a number of us together.
- H.M.Jr: Give me the breakdown of the 600.

- 32 -

Magill: Well, this windfall tax we had in for 82 million, and the deficiency I have down is 81 million.

H.M.Jr: Off...

Magill: Off 81.

H.M.Jr: Off 81.

Magill: The Railroad Retirement tax was in as 135 million and I have it down as off a hundred. That's conservative; it's probably off 135.

Haas: I think that you can take the whole business off.

Magill: No, no. No, I won't. No, I stick to my hundred.

Haas: It's up to the law whether it comes in, and the Court.

H.M.Jr: Minus a hundred. All right. Minus a - now wait a minute, Ros; in the Treasury always figure the worst. If there's two figures, I'd take the worst.

Bell: I take it, Ros, you're expecting to get some tax under the new law.

Magill: Yes. The reason I say off a hundred is it seems to me inevitable that some kind of a law will be passed at this session of Congress on that subject.

H.M.Jr: But the way it looks now??

Magill: The way it looks now it's off a hundred. I think that's fair.

Taylor: Off 135.

Magill: Now, that isn't the way - it's the way it looks to them, but it isn't the way it looks to me. If you want mine, it's off a hundred; if you want theirs, it's off 135.

H.M.Jr: Well, I'll put it down a hundred.

Magill: The gift tax was estimated at 110 and it's off 90. The estate tax was estimated at 305 and I think it's off about 80.

- 33 -

H.M.Jr: How much?

Magill: 80

Seltzer: (Nods no)

Magill: You see, there isn't perfect accord. I'm just giving you my net. The Social Security is down for 325 and I think it's off about 84.

H.M.Jr: Anything else?

Magill: That adds up to 435.

H.M.Jr: 435?

Magill: Now, the income tax, you see, isn't included. I would personally think the tax - income tax would be - would pretty easily be off 150.

H.M.Jr: Give me that sheet that you're reading off, will you please, and have a copy made.

Look, I'll have another chance and I'd like you people to come back at three. By that time I will have seen the President; I'll know what's in his mind.

Dan, anything I should tell the President urgent that we have to do?

Bell: Yes, we've got to start on relief right away. I don't know how urgent the Wagner housing thing is.

Magill: And we've got this Railroad Retirement.

Bell: Yes, Railroad Retirement.

Magill: I wish we could get a word from the President on that.

H.M.Jr: Let me just put down the things that I want to take up with him. Tell him the things we're working on are housing, Railroad Retirement... what else?

Bell: Relief.

H.M.Jr: Well, don't we want to get in on this question of tenancy - land tenant - where we going to get the money for that?

- 34 -

Bell: I don't know.

Haas: That hasn't crystallized, has it, that farm tenancy situation. Has that bill....

Bell: The bill is all up there. The Committee's got a bill which they're going to report.

Magill: On that Retirement, we keep getting it all the time that the President, in some kind of a private conference, has approved the plan, including the rate structure. Now, we have never received any indication I know of from our own channels that the President ever approved the rate structure.

Bell: As a matter of fact, it's been just the opposite. The President told McIntyre while I held the phone one day that he did not approve the scheme but told them to go ahead and work it out.

Magill: Well, the talk is that there was a later conference. What I have been told is there was a later conference between the President and George Harrison and the Railroad Brotherhoods and that the President at that time agreed to the rate structure, which by that time had been published in the papers. Now, if that is so, why, it would be a great help to know it.

H.M.Jr: Well, I talked to him, as you know.

Magill: Yes

H.M.Jr: And when I said it was just a question of rates, he said, "That's all right." I mean I gathered that he didn't seem to have any commitments on rates. But we can always find out.

All right, gentlemen, thank you.

March 29, 1937.
12:23 p.m.

H.M.Jr: Hello.

O: Chairman Landis is in a hearing; it will take a few minutes to get him out.

H.M.Jr: Get me his Secretary or is he on the wire?

O: I have his Secretary.

H.M.Jr: Thank you. Hello

O: Go ahead.

Landis'
Secretary: Hello.

H.M.Jr: Mr. Morgenthau speaking.

L.S. Yes.

H.M.Jr: I wonder if you could give me the information I want without bothering Mr. Landis.

L.S. Yes I'll be glad to try.

H.M.Jr: I want to find out if I could before I go to see the President.....

L.S. Ah-ha.

H.M.Jr:how many issues have been held up; have not been quoted - I mean like

L.S. Now Mr. Morgenthau I'd like to have you speak to Mr. Katz - just one moment.

H.M.Jr: Thank you.

(Pause).

O: Hello.

H.M.Jr: They're to get Mr. Katz. When he's there put him on.

O: Mr. Katz - all right.

- 2 -

H.M.Jr: Hello.

O: Mr. Katz.

H.M.Jr: Hello

O: Go ahead.

Katz: Yes sir.

H.M.Jr: This is Mr. Morgenthau speaking.

K: Yes sir.

H.M.Jr: Mr. Katz I understand Mr. Landis is in a hearing and I don't want to bother him. Ah - could you let me know - ah - about how many issues have been held up during the last week or two due to market conditions; how many quotations have been held up?

K: Held up by the issuers?

H.M.Jr: Well I mean - for instance I know the Argentine were going to get out one the middle of March and they postponed it a month. I mean how many bond issues or stock issues have been held up pending market conditions?

K: Ah - now it will take me a minute or two to check to see if there's anything we have on that that is worth anything.

H.M.Jr: Well will you - if you've got anything will you call me back?

K: Yes, I will.

H.M.Jr: You know what I want - I want.....

K: I understand, yes.

H.M.Jr: How many different issues have been held up - postponed - due to market conditions.

K: That's right. I'm not sure we'll have anything on that but I'll check it as well as I can.

H.M.Jr: Pardon me? Hello -

K: What's that?

H.M.Jr: I'd like it divided as between refunding and new money.

K: Righto.

H.M.Jr: Please.

March 29, 1937.
12:35 p.m.

H.M.Jr: Hello

Katz: Secretary Morgenthau?

H.M.Jr: Talking.

K: This is Mr. Katz.

H.M.Jr: Yes.

K: I'd like to tell you what our situation is here and ask you what you'd like us to do.

H.M.Jr: Please.

K: Our situation is this: No. 1 we have no immediate figures which would be available within the next ten or fifteen minutes.

H.M.Jr: Yes.

K: Two, we could compile the following data: First, issues which became effective but against which - which apparently were never actually offered.

H.M.Jr: Yes.

K: I mean that's within the last week or two.

H.M.Jr: Yes.

K: Two, issues - ah - ah - ah - which were withdrawn from registration even before the registration became effective.

H.M.Jr: Yes.

K: And three - ah - well that would be the two things, you see.

H.M.Jr: Well what I'd like you to do.....

K: Then three - we could get issues in which - against which delaying amendments were piled and after we assembled all of those.....

H.M.Jr: Yes.

- 2 -

K:there would still be an element of conjecture as to the motive for withdrawal or delay as the case might be.

H.M.Jr: Well suppose you get all of those things together and, if you don't mind, if you'd ask Mr. Landis if its all right for you to come over and see Mr. Taylor and explain it directly to Taylor.

K: Righto.

H.M.Jr: Will you do that?

K: Now - ah - ah - how - how soon do you need it? It will take a little time for us to do that.

H.M.Jr: Well could I have it tomorrow morning?

K: Well I think - I'll try - I'll do the best I can. Now this much I - I would like to tell you now.

H.M.Jr: Yes.

K: Our Registration Division while they don't have their data together and while there is a a necessary element of conjecture in motive satisfy just one of these judgments that you get in actual contact, you see, are satisfied that the predominant motive for such withdrawals and delays that have occurred in the last week has been uncertainty about the market.

H.M.Jr: But you couldn't give me a lump sum figure?

K: I couldn't - no I could give you just - the figures as to actual delay and then guess as to motives.

H.M.Jr: I see.

K: There's no way of knowing motives if they don't give them to us.

H.M.Jr: Well if you don't mind getting it together and then coming over and see Wayne Taylor tomorrow morning I'd appreciate it very much.

K: Righto, sure.

H.M.Jr: Thank you.

March 29, 1937.
12:27 p.m.

H.M.Jr: Hello.

O: Ambassador Bullitt's Secretary is calling.

H.M.Jr: All right.

O: Go ahead.

H.M.Jr: Hello.

Bullitt's
Secretary: Hello.

H.M.Jr: Yes.

B.S. Is this Mr. Morgenthau?

H.M.Jr: Talking.

B. S. I'm very sorry to disturb you. This is Mr. Hawkins, Mr. Bullitt's Secretary speaking. Mr. Bullitt is with Mr. Roper at the moment and he would like to see you right after - any time after lunch. He'll hold the whole afternoon for you between one and five.

H.M.Jr: I see.

B.S. And he asked me to call you up and find out when you could receive him. He's leaving for Paris tomorrow morning.

H.M.Jr: Ah-ha. Well now - ah - ah - I have a Press Conference at four. You don't suppose Mr. Bullitt could come right after that?

B.S. He could come right after that if you like, yes.

H.M.Jr: Ah - 4:30?

B.S. 4:30 would be fine for him.

H.M.Jr: That would please me.

B.S. His next engagement is 5:30. Will that give you enough time.

H.M.Jr: 5:30

B.S. His next engagement is 5:30, yes.

H.M.Jr: Oh yes, I think that would be plenty of time.

B.S. All right, sir, thank you very much.

H.M.Jr: Goodbye.

B.S. Goodbye.

March 29, 1937
3:00 P.M.

Present: Mrs Klotz
Mr. Lochhead
Mr. White
Mr. Haas
Mr. Gaston
Mr. Magill
Mr. Taylor
Mr. McReynolds
Mr. Bell
Mr. Oliphant
Mr. Upham

H.M.Jr: In answer to your (Magill) question, the President has never discussed rates on Railroad Retirement with anybody, and he said he's perfectly willing to leave it to us to work it out. Has no suggestions. When we have something....

(McReynolds comes in)

Hello, Mac.

McR: How do you do, sir.

H.M.Jr: How are you?

McR: Glad to see you back.

H.M.Jr: Glad to see you. You look pretty well.

McR: Feeling fine.

H.M.Jr: So that's that.

Magill: Well, I haven't been made out a liar yet.

H.M.Jr: No, and as to that..... Hello (On phone; has short conversation, unrecorded)

(Oliphant, Bell and Upham come in)

Oliphant: How are you?

H.M.Jr: Oh, pretty good.

Oliphant: How's the President?

H.M.Jr: He's fine. I'm played out; he played me out. I just started a report of what I picked up from him.

- 2 -

On the Railroad Retirement thing - I'll repeat that. He hasn't talked rates to anybody and is perfectly willing to leave it to us to work it out. No particular interest - I mean showed no interest.

And so if we're going to have a meeting, I want it one of two places: either in the office or on the Hill - a joint meeting of the two tax Committees. I'll go up there or they can - I mean I'd call up whoever it is. Do they have a clerk? The joint committee on taxation - do they have a clerk?

Upham: Chief of Staff.

H.M.Jr: Well, you work it out anyway, and I think maybe it would be better to leave it to them. They can have it there or here. I'll suit their convenience and I'll set aside tomorrow afternoon. We'll hold it tomorrow afternoon.

Magill: Shall I call the chairmen?

H.M.Jr: Yes.

Magill: Tell them you'll be glad to see them tomorrow afternoon, either place, at their convenience.

Bell: Do you have Cabinet tomorrow?

H.M.Jr: Never do. Not since - Hoover's no longer President. He had Cabinet on Tuesday.

Bell: I forgot. Well, you have Cabinet Tuesday and Friday, don't you?

H.M.Jr: No. They used to have Executive Council as long as Frank Walker was around.

That takes care of that.

Housing.

Magill: That's fine. I'm awfully glad to get that word.

H.M.Jr: I gathered you would be.

- 3 -

Haas: You just about needed it, didn't you, Ros?

H.M.Jr: Fresh shock troops that we bring in - see, they've got to get their baptismal fire. We old veterans have been four years in the trenches.

Magill: It was a pretty good baptism.

H.M.Jr: You're not through yet, and you haven't won yet. Now, housing. If and when we've got something, he wants to see us, and not before. What shape is that in, Bell and Mac?

McR: Well, I've got a draft - separate memorandum on two ideas. I talked to Danny a little bit this morning and told him what I was putting in the draft. I haven't seen the final draft. The boys worked over the week-end.

H.M.Jr: You're not ready then, which is good. All right, we'll pass you.

McR: I can have it ready most any time you want it.

H.M.Jr: No, you're passed. The next thing - relief, Dan. The President wanted the Governors down here Saturday or Sunday or Monday, and I said, "Please make it Monday."

Bell: Governors?

H.M.Jr: Yes, Lehman and the rest of them. Got to answer them. So I think I would - I hope to have an appointment with the State Department at ten; if I go, you (Taylor) go with me, by the way - so supposing at eleven you (Haas) bring in that study that you made.

Haas: That Daggett made.

H.M.Jr: Pardon me?

Haas: Daggett made it.

H.M.Jr: Now, who's interested in that besides - Bell is, anybody else?

- 4 -

Haas: Daggett's been the only one worked on it in our shop.

H.M.Jr: Well, this has to do with relief, hasn't it?

Haas: Uh-huh.

H.M.Jr: All right, that's that. And Mac usually sits in on relief. What?

McR: Yes, I usually do.

H.M.Jr: All right, eleven o'clock.

McR: Eleven o'clock tomorrow?

H.M.Jr: Yes.

Now, farm tenant. The President says he's going to maybe get them together, and I said, "I'm a glutton for punishment." He doesn't think that Bankhead and Jones know what it's all about and he's got to talk to them and educate them. I asked somebody to do it; have you (Haas) got it?

Haas: No.

H.M.Jr: No? I pass you.

Haas: Don't pass me yet. I think there's a memorandum on my desk or on my stenographer's desk. The boys had difficulty in finding out which was the Administration's bill. They called up Bill Myers; he was a little vague too. So in order to have something they selected what seemed the most plausible one and analyzed it.

H.M.Jr: You're passed.

Bell: They haven't got any Administration bill, besides, on it.

H.M.Jr: Well, we'll do that; I want to go into that. When you're ready you'll let me know?

Haas: Sure.

- 5 -

H.M.Jr: I think if we do Railroad Retirement tomorrow afternoon and relief tomorrow morning - preliminary meeting on relief - that's about all I can swing tomorrow. So that brings you over to the next day on....

Haas: Might want Miss Lonigan on that relief.

H.M.Jr: All right. And he said before these Governors come down, we'll have a dress rehearsal with Harry; so just as soon as we know where we're at, I thought I'd ask Hopkins over here.

Bell: All right.

H.M.Jr: The President is not particularly worried about the prices of bonds. He said he told me on March 18 - May 18 - the price of bonds were going to go down.

Haas: What?

H.M.Jr: The price of bonds were going to go down.

Haas: If he knew what Eccles was going to do, he certainly did.

H.M.Jr: This is swell; if anybody tells this, I'll shoot him. He said, "Now, you take myself." He says, "My bonds paid off. I got five thousand dollars in the bank. I'm not going to buy your bonds and only get a 2½ percent interest." He says, "I'm going to wait until I get a better interest rate." He says, "There's millions like me." He says, "I'm not going to buy your bonds when they're only around 2½."

Mrs Klotz: He's on your side of the fence, isn't he?

H.M.Jr: Oh yes, wonderful; he's priceless. I swear, if we could only tell him - he says - well, I'll tell you (Mrs Klotz) later. Make a note: what he asked me to do. I'll answer him.

He says, "I'm not going to buy any of this stuff. It's ridiculous." He says, "Now listen, we've got to plant the seed. From 2 3/4 to 3 percent is about right." He says, "Maybe 2½."

- 6 -

Bell: Are you going to announce to your press conference that the Administration doesn't favor easy money?

Haas: Easy at five percent.

H.M.Jr: I say, "Why don't you buy our baby bonds?" He says, "That doesn't fit my class at all."

(Hearty laughter)

Bell: That would make a good story too.

H.M.Jr: Isn't he marvelous?

Well, I reaffirm my idea; he had not seen either of the Eccles statements. And - oh yes - oh, he figured that we were off 150 million dollars on our income. I told him that was right, but I said with the other additions it was 600. He says, "Oh, your people just don't know what they're talking about." He said, "I won't accept those figures." He says, "My figures are 150 million. I just won't accept those figures."

Gaston: That makes everybody feel happier.

H.M.Jr: He says, "How much do you feel we're going to get nicked on farm tenancy?" I said 200 million. "My figure is 35."

So I said, "Well, we make swell partners, don't we?"

Now Dan, this is going to wipe the smile off your face. He says, "Now Henry, remember we said one hundred million dollars over. Congress goes on, let's say for argument, until July first, and then we're off a hundred fifty million dollars on our revenue. We're out 250 million dollars."

Bell: Just a small matter, huh?

H.M.Jr: Yes. So somebody has gotten this thing in his head, and you and I have got to keep at it and at it and at it. And we'll have to, when I go over there again - I mean you fellows will have to get together on this and present the picture. We'll have to, I think, prepare a document to him in the form of a revision

- 7 -

of the revenue estimates, which normally comes from you, doesn't it, Bell? Huh?

Bell: Yes, it usually goes through the Budget to the President if you are submitting it to the President.

H.M.Jr: Yes, a formal revision. What?

Bell: Yes.

H.M.Jr: Because he's got things... He repeated to me what he said down at Warm Springs, that with the farm tenancy bill and the others it would be a couple of hundred million dollars over in the estimates, but they won't spend but 30 or 40 million of it. So he said, "Your net balance - you won't have to borrow any money and it's just on the books, that's all. It's just an appropriation."

Bell: That's what hurts.

H.M.Jr: Now, nobody can breathe it, but I want to give the background so you know what we've got to work on and how he feels. I mean I - again I know nobody's going to break my confidence here. But we've got to prepare here a formal document and submit it to him.

So I explained to him that we were checking in the districts and so then - this is a very interesting story. He said, "Well, how did that figure ever get out?" "Well, a man formerly with the Treasury who has gone into private business gave it to the Wall Street Journal." He said, "Well, anybody like that who gives out inside information - shouldn't he be prosecuted?" So I said, "Mr. President, that man has no legs." "Oh," he said, "I'm sorry. Forget it." Interesting.

Gaston: Very easy for a fellow to take just the daily Treasury statement and just come to the same result.

H.M.Jr: But we've got to do a job, and the only way to do a job is to prepare a very, very careful document and give us the reason why. And there's no particular hurry. I mean I think I'd say - oh, I'd make a date - oh, two weeks, Dan?

- 8 -

Magill: Well, our agents are supposed to report every night, but they're supposed to be back in the course of four or five days.

H.M.Jr: Do you - we bring that to you, Dan, and then you transmit it? How is that done?

Bell: Well, during the budget preparation, I get the formal estimate from the Treasury as part of the budget picture.

H.M.Jr: But you submit it?

Bell: Ordinarily the Director of the Budget, and the Act requires the Director of the Budget to get estimates. But I wouldn't quarrel about it. I mean if you want to submit it....

H.M.Jr: No, no. Listen, it's all one family. But the formal way is to prepare here for you - give it to you, then you send the document to him.

Bell: I think probably the whole budget picture ought to be presented again. I have an idea that in connection with the hearings on the relief bill you're going to be asked for new estimates.

H.M.Jr: Now, on the relief bill. Might as well have the good and the bad, the sad and the funny. A billion and a half, with no pledge for the last three years. Same statement - private employment, so forth and so on.

Bell: Of course, a billion and a half is out the window now if the estimates of revenue don't come up to expectation.

H.M.Jr: Well, they have nothing to do with each other. A billion and a half is based on the needs of the unemployed.

Bell: Excuse me.

H.M.Jr: But I'm just telling you, that's the kind of message he has in mind. And I think you're right. I think that when he considers this whole question of relief... Last September we got a lot of supplementary estimates.

- 9 -

Bell: That's right after Congress closed.

H.M.Jr: What I want to do is - I would say certainly this month we ought to give the President a new picture on revenue formally, so that he knows and we discharge our responsibility. Don't you think so?

Bell: Yes, sir, and that ought to include the whole budget picture.

H.M.Jr: I think it ought to include the whole budget picture. Let me see what else. But the only thing that I - the only thing I can see that is really pressing - there's going to be pressure on us - I mean for the immediate thing out of these four things it is relief. Now, on the financing I told him we had until next Wednesday, see? And in view of my talk with him I think at the press conference I'll just keep my mouth shut.

But what else is there - I mean that we've got other than the stuff that keeps coming along? Have you got anything, Herman, concerning me?

Oliphant: We're working on that - those foreign credits, but that, you said, wouldn't be acute before Wednesday or Thursday.

H.M.Jr: No.

Oliphant: We haven't heard from State Department, have we? You sent that memorandum over a week ago Friday.

H.M.Jr: Well, I'm asking Mr. Hull to see me at ten tomorrow morning.

Oliphant: I sent you in another copy of that today.

H.M.Jr: Have you?

Oliphant: The one you signed and sent to him two weeks ago.

H.M.Jr: You sent it in today?

Mrs Klotz: You may have; I haven't gotten it.

- 10 -

Oliphant: It had a little slip on it addressed to the Secretary.

Mrs Klotz: I'll get it. I haven't got it.

Oliphant: Is that what you're seeing him about?

H.M.Jr: No. No, it's not.

Oliphant: I see.

H.M.Jr: This thing, Bank of Manhattan - well, I don't think anybody can stop them from talking.

Lochhead: Of course, the Federal has had more inquiries the last two weeks than they have had in the last year.

H.M.Jr: I think instead of trying to solve all the problems of the world at the four o'clock press conference - I think they'll just have to do the best they can, that's all. I think our work is cut out for us on estimates. I mean I don't want to repeat myself, but I think we ought to get together, give the Director of the Budget the necessary information so he can make a formal revision of the budget estimates, both as to receipts and expenditures.

Magill: Do you want one of us to get that stuff together in a memorandum to him?

H.M.Jr: Well, I would say - I think it should clear from Magill to Bell. I mean I don't want to be formal, but on the Treasury side I'll hold you (Magill) responsible and you let it clear from you to Bell. Is that agreeable to you, Bell?

Bell: It's agreeable.

H.M.Jr: What?

Bell: It's all right with me.

H.M.Jr: Isn't that all right with you, George?

Haas: Oh yes. I think that's the proper....

H.M.Jr: Is that - I mean so we can get it here and give it to them.

- 11 -

- Magill: You're satisfied to get it in a couple of weeks?
- H.M.Jr: Yes. I mean I'll take it earlier, but I think that - I mean that's subject to just one revision, and that is if the President rushes us on relief. Now, he did say when we saw....
- Magill: Well, we can give you a pretty good story on it right now, as a matter of fact. The income tax, I think you'd say, is up in the air at the moment and you can't tell that. But these four or five miscellaneous taxes I was speaking of this morning - we can tell you the story on that right now.
- H.M.Jr: Well, I tried to tell it to him and he just wouldn't listen. But that's all right; he's done that before. I've had to go back to him six times on a thing like that.
- Haas: He wonders how you could be off 600 million. You see, if a thing is tied up in litigation and a....
- Magill: It's a simple story on all of them except the estate tax, and George and I will have to get together on that.
- H.M.Jr: We'll get together, and I think what Dan will want to - let's say he accepts the figure of 600 million, and then to that should be attached an explanation by the Treasury. This is the first time he got it; naturally, it was a shock to him and he just brushed it aside.
- Magill: I'd like to have you just have the gift tax in mind. How you going to tell how many gifts are going to be made in the course of the next year? Now, we estimated 110 million. Returns are due on March 15th; we've got about 20 million. So it's just as obvious as anything could be that you're 90 million off.
- H.M.Jr: As I say, this has happened to me many times before, and we get unpleasant news and he likes to brush it aside. Then you go back with him two or three times and he accepts it. But I had nothing but just that little piece there.

- 12 -

Magill: Well, all of them, I'd say, except the estate tax, are substantially just what I've told you - just a one-sentence explanation of why it is the way it is, and it's just that way. The estate tax - you can't tell, but that might live up to the estimate.

Oliphant: Lot of it tied up in the Supreme Court and likely to change very quickly. Be able to change today.

H.M.Jr: Let me get Brother Eccles. I'll have a talk with him, if you fellows want to listen.

(On phone) Chairman Eccles, please.

McR: Of course, your income tax revenue is very difficult on account of your extensions.

Magill: Well, I was just looking over those extensions. They're very interesting. For the...

O: Chairman Eccles.

H.M.Jr: (On phone) Hello. (Conversation recorded on dictaphone at 3:35 P.M.)

Gaston: Just you and Marriner and the dictaphone?

Mrs Klotz: I was going to - I had the same thought.

Gaston: I wrote out something. I don't suppose it will be what you want to use. (Hands papers to Secretary) That other is just a little memorandum on the income tax.

H.M.Jr: I think we'll just sit tight. I've got Bullitt coming in at 4:30.

Mrs Klotz: Do you want to see Graves right after this?

H.M.Jr: I'll see him right after press conference.

March 29, 1937.
3:05 p.m.

H.M.Jr: Hello

John
Fahey: Henry.

H.M.Jr: Yes.

F: I'm sorry. I was all tied up on the 'phone when you called me.

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

F: I don't know how important this is but I thought I ought to report it to you.

H.M.Jr: Yes.

F: I'm told that the - your Bank of Manhattan people in New York, who I understand make some silver purchases for you, told some of their intimates out at a meeting which was held there on either Friday or Saturday that an important policy of the Treasury was being developed with the purpose of bringing down the price of the pound and that the Treasury was going to buy gold at \$30. and sell it at \$35.

H.M.Jr: Ah-ha.

F: And their expectation was that the effect would be to reduce the pound in foreign exchange and also the price of commodities.

H.M.Jr: Yes.

F: I know that he talked about it. One thing about it that struck me was rather peculiar; that an institution that is supposedly buying for the Treasury in silver should be discussing things of that kind with anybody.

H.M.Jr: They have no silver purchases for us.

F: They haven't?

H.M.Jr: No.

F: Ah - have they been purchasing at any time?

H.M.Jr: No.

F: Oh they haven't.

H.M.Jr: Well I say not in the last six months.

F: Oh I see.

H.M.Jr: Not in the last six months.

F: Ah-ha. Well anyway that - they're talking that kind of thing.....

H.M.Jr: No, they haven't bought any silver for us and I'm quite sure they don't buy - we don't use them for gold either.

F: Yes, well anyhow they - that's

H.M.Jr: What they do is they represent a French private banking house.

F: Ah-ha.

H.M.Jr: But they don't - they haven't done any business for us.

F: Yes, well anyway there's the story. They were talking.....

H.M.Jr: What was it - officers of the bank?

F: What?

H.M.Jr: Officers of the bank?

F: Yes, sure.

H.M.Jr: They were.

F: Yes.

H.M.Jr: Well they.....

F: They had confidentially - they discussed this thing with Eichtroberger who is the head of the Callahan Lead and Zinc outfit of Wallace, Idaho, and some other mining operations and they're rather close to him and they consult him on matters of the metal prices and that sort of thing.

H.M.Jr: Well I'm awfully glad to get it but this - they don't - they're not - we're not using the Bank of Manhattan at all.

F: Yep.

H.M.Jr: So some fellow was going liberally on his imagination; he may have been reading Eccles' story in Fortune.

F: Well I didn't see that.

H.M.Jr: Well -

F: I understand there was one.

H.M.Jr: Yes. Well thanks awfully anyway. I appreciate your trying to.....

F: But anyway these fellows were giving inside information on what the Treasury's policy was going to be concerning gold operations.

H.M.Jr: Well I guess it wasn't very inside.

F: Well they thought it was.

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

F: All right, Henry.

H.M.Jr: But we haven't - we haven't used them on silver or gold I know for six months.

F: Yes, well the result of it was that out of some of this stuff some of them were wildly telephoning the other side over to London on the hushing of stock market prices and commodity prices and what the effect of any such policy.....

- 4 -

H.M.Jr: Well anytime you get anything like that pass it along because.....

F: Yes, I certainly will.

H.M.Jr:and I'll tell you I appreciate it because - but.....

F: I don't know whether these things are of any significance or not but you can depend upon it that anything that seems to have any - of any significance at all I'll promptly report it to you.

H.M.Jr: I appreciate it very much.

F: Good luck.

H.M.Jr: Thank you.

F: Goodbye.

March 29, 1937.
3:35 p.m.

H.M.Jr: Hello

O: Chairman Eccles.

H.M.Jr: Hello

Eccles: Oh Hello Henry.

H.M.Jr: How are you?

E: Oh I'm pretty good, how are you?

H.M.Jr: About the same.

E: I called - I called this morning and I just wanted to report to you that I'd gotten back yesterday afternoon.....

H.M.Jr: I see.

E:and that at any time at your convenience I'd like to drop over and have a chat with you about several matters.

H.M.Jr: Well are you coming over for lunch tomorrow?

E: Be glad to.

H.M.Jr: Well supposing - I think maybe you and I better have lunch alone, what do you think?

E: Well I think so.

H.M.Jr: What?

E: I think so.

H.M.Jr: O.K.

E: That will be fine.

H.M.Jr: All right.

E: At one o'clock.

H.M.Jr: Yes.

E: All right then.

H.M.Jr: All right.

E: Ah - George Harrison is in town and I was just having a chat with George and Ronald here.....

H.M.Jr: Yes.

E:discussing this whole question of the capital market and the government bond market and so forth so that I'll be in a position tomorrow to discuss with you the latest on that at least from their point of view.

H.M.Jr: Good. Well I think if you and I sit down tomorrow why.....

E: Well I'll be glad to do that. I'd like to do it as a matter of fact.

H.M.Jr: All right Marriner.

E: Fine.

H.M.Jr : Goodbye.

E: Goodbye.



DEPARTMENT OF STATE
WASHINGTON

March 29, 1937.

Dear Henry:

Apropos some talks I have been having over the last few weeks, I prepared the attached memorandum which you may possibly find of interest.

Sincerely yours,

Herbert Feis

Enclosure:
Memorandum on
Economic Improvement
in this Country.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

RECEIVED DEPARTMENT OF STATE

10 8 AM 31 MAR 31

RECEIVED DEPARTMENT OF STATE
OFFICE

TO GUARD AGAINST UNSATISFACTORY INTERRUPTION OR TERMINATION OF THE COURSE OF ECONOMIC IMPROVEMENT IN THIS COUNTRY.

A Hasty and Tentative Memorandum.

I.

Some of the Influences Shaping the Current Course of Improvement.

Some of the main conditions which have stimulated and formed the basis for the continuing economic improvement in this country are as follows:

(a) The assured and easy monetary and credit situation - reflected in low interest rates and availability of adequate credit supplies.

(b) The urgent unsatisfied needs of consumers which accumulated during the depression, and even more significantly the great amount of postponed capital expenditures by industrial, transport and power industries which will be required to meet expanding demand and utilize, under conditions of competition, new technical processes.

(c) Deficit government financing. This has drawn upon credit availabilities and at the same time created new credit availabilities.

(d) The comparatively satisfactory relationship established by the prices of agricultural and industrial products.

(e) Record-breaking volume of new gold production, which not only has contributed to creation of the credit situation but also created direct purchasing power.

More

- 2 -

More recently, the rate and course of improvement has been substantially affected by

(a) The marked rise in security prices - reflecting in part the influences previously cited, and in part fear of competitive inflation.

(b) Widespread speculation in the commodity markets influenced by the same factors.

(c) Increased governmental expenditures throughout the world for armaments, military supplies, and reserve stocks of materials.

One of the joint and interesting effects of delayed capital expenditure and armament expenditure has been to concentrate particularly heavily on certain raw materials and finished products, such as scrap iron, iron ore, steel, copper, lead, zinc, rubber, tin.

II.

What are the Potential Dangers to be Guarded Against?

It is generally proven beyond the powers of the human mind - so complicated is the system - to foresee with precision just in what form the maladjustments will express themselves. But certainly the following are among the aspects to be watched with great care:

(a) A general price movement may be generated of a cumulative character, which would bring it about that once
the

the great surge of rising expenditure for capital replacement and rearmament lays, the current flow of consumers' purchasing power will not suffice to maintain the improved rate of economic activity.

(b) Marked changes in relative prices of different commodities, resting upon temporary or artificial bases, may come about, and these would result in making any halt in activity more serious when it occurred.

Many changes in the relative prices of different commodities or groups of commodities are normal, natural, and frequently the agency through which the economic system adjusts itself to a proper working relationship by influencing the direction of flow of capital and labor. No government short of a communistic one can hope to attempt control of the movement of relative prices in general, nor should it try. However, there may come about as a result of temporary or arbitrary influences changes in relative prices that themselves must be temporary. Against these the Government may try to guard and throw its influence.

The directions in which price divergences of an extreme character may arise are:

(1) In the prices of certain raw materials subject to immediate special demand. Up to a point, such price change may have a good effect by stimulating needed production of a volume that can steadily be used. Beyond that point it ultimately would have an upsetting effect.

(2)

(2) Favorable demand circumstances may give monopolistic, or semi-monopolistic industries an opportunity to advance prices too rapidly. This is especially true of industries producing capital goods. Here the problem is one of not getting expansion production commensurate with the needs of the whole economic situation.

(3) In certain branches of production very powerful trade unions by securing wage advances or working conditions out of line with the general economic situation, may force price revisions which likewise will prevent expansion production sufficient to fit the needs of the whole economic situation and permit improvement to continue.

(4) The relation between the prices of agricultural and industrial products has been accepted by this Government, for a variety of reasons, as a special problem. I believe the general aim of the Government has been to try to bring about such a regulation of the supply of agricultural products to demand which will be deemed most satisfactory judged on the one hand in the light of the total income of the producers of farm products, and on the other by the needs and income of the consumers of farm products. Too great refinement of policy is impossible, but in general the renewal of too serious and too rapid a divergence in one direction or another from present price relationships

in this field would give rise to difficulties.

(c) The rate and direction of creation of new capital goods.

Renewal of investment for productive new capital plans is itself a sign of recovery and one of the reasons for continued improvement. Unquestionably (especially when new technical processes are taken into account) in many fields the country's capital equipment has fallen below what might be required to meet steady and normal demand under improving economic conditions, for example, in the housing field. Consequently, increased investment in new capital goods in the immediate future is to be welcomed; it may be even said to be an essential of continued economic improvement in the near future.

However, the course of new capital investment must be kept under close observation with the purpose of guarding against investment in some directions - by which is meant the provision of capital plan beyond what will prove to be steadily needed requirements. This might come about either because of an exceptional demand for a short period, e.g., resulting from a boom in the purchase of certain military supplies, such as airplanes, or as a consequence of abnormally low interest rates.

But unfortunately as far as I know economic analysis has not yet provided a very satisfactory guide for judgment in
this

this matter.

(d) The securities market may reach an excessively high level.

I will not attempt to indicate what could be considered a healthy level for the securities market under any given set of circumstances. For one thing, the question of whether the Government will find it desirable to, or be in a position to maintain interest rates at present low levels over a long period of time would in itself be an important factor in that judgment. However, this much is certain. That a level of security values which constantly mounts on the supposition that share corporate earnings will constantly mount is certain to prove a false supposition (outside possibly a very few monopolistic fields). Satisfactory earnings sustained over a period of years itself tends to produce an expansion of competition and production which, in turn, moderates per share earnings - even if depression does not intervene.

Important changes in the value of stocks and bonds must have in this country an extremely important effect on the level of economic activity. Abrupt and serious declines immediately affect the spending and investment practices of the whole country. Since such decline would only come when and as other factors were already operating to turn improvement into depression, its effects might well be to turn what would merely be a temporary recession into a real and protracted depression.

(e)

(e) Deterioration in the character of banking assets. This requires no elaboration.

III.

Some of the Possible Ways in which the Government may Guard against the Dangers.

In order that governmental policy and action may adequately deal with the matters reviewed in the foregoing sections, there is need of careful and continuous inter-departmental study. It is the lack of such continuous and coordinated study and action which itself prompts this memorandum.

I believe that the following would be among the possible lines of policy that would have to be brought, among others, under consideration.

(a) Harmonization of budget policy with the trend of economic conditions.

This involves study of both the volume of expenditure and the objects of expenditure. It likewise involves decisions as to whether government expenditures are to be covered through taxation or borrowed.

I believe that the possibilities are varied. The amount of public expenditure, its direction, and the means of raising government revenues may well be the primary and simplest

-8-

simplest instrument which the government can use in behalf of balanced and permanent economic improvement.

It must be realized, however, that the fiscal policy must, to some extent, have to be shaped by other considerations, for example, the need to finance certain reforms.

Special attention might well be given to the bearing of certain of our tax policies such as the capital gains tax and undistributed profits tax upon the problem of economic fluctuations. It is possible that in their present forms these tax arrangements will have certain undesirable outcome which could be avoided without sacrificing the underlying purpose of these forms of taxation.

(b) Monetary policy.

A certain, though limited, measure of influence can be exerted over the available volume of liquid capital, and thereby indirectly over the course of interest rates (in the short run), over new capital investment, over movements in the prices of securities, and over speculative commodity purchases.

Attention would also have to be given to the matter of gold movements in and out of the country and the effects of the Silver Purchase Act.

(c) Government policies which affect the course of wage changes in industry and of the prices of agricultural products, and the coordination between the two.

The

- 9 -

The extent of government influence upon the course of wage changes, (and no less important as an economic element in determining unit cost of production, the length of the working week) is decidedly limited.

How extensive that power may be in regard to the price of agricultural products is at the present moment uncertain, because of the uncertainty of governmental powers to regulate the supply of agricultural products.

The technical problems involved in the decision as to what may be healthy movements in each of the two fields and a healthy relationship between the two, is so elaborate that not even a summary discussion of them is attempted here.

(d) Possible action having direct bearing upon security prices.

In this field attention would have to be given to banking and fiscal policies affecting interest rates, excess reserves, the use of credit in the security markets, the effect of sudden movements of foreign capital, and tax policy.

(e) Monopolistic price situations in industry.

(1) In a case of industries where the monopoly (or price regulation) has no public sanction, the Government should seek to prevent the establishment of monopoly prices which affect expansion.

(2)

- 10 -

(2) In the branches of production where the Government participates in or gives its sanctions to a certain measure of price regulation, as in agriculture, the railroads, and shipping, the price regulation policy should be wisely flexible and coordinated with the rest of the price structure.

(f) Tariff and commercial policy.

This can be used somewhat to influence all aspects of the economic situation.

The foregoing is merely a very skeleton presentation of the many branches of governmental action which inevitably play their parts in determining the cost of business activity. Each decision in these fields may contribute towards steady improvement or made for ultimate instability. I have merely sought to call attention to these fields of government action and not to indicate the nature of the policies that would seem to be advisable under either current circumstances or prospective circumstances. That is what needs most complete and continuous consideration.

EA:HF:DJW

RECEIVED 21 MAR 3 1941

RECEIVED 21 MAR 3 1941
OFFICE

RB

GRAY

Paris

Dated March 30, 1937

Rec'd 3:38 p. m.

Secretary of State

Washington.

418, March 30, 5 p. m.

FROM COCHRAN.

Following politically quiet Easter holidays, Paris exchange market today was active with French control acquiring both sterling and dollars in good amounts. Belga still offered. French rentes up .50 to 1.50 francs and share market satisfactory. Day to day funds easy.

Lombard Street Editor of LONDON FINANCIAL NEWS today recommends that the French Government lower the value of the franc to its legal limit of 43 milligrams of gold which "would enable it to revalue once more the gold reserve and the difference between 43 and 49 milligrams would yield a profit of some 7 milliard francs. This sum together with the franc assets of the stabilization fund would strengthen the cash reserves of the Treasury sufficiently to rule out any fears of a Treasury crisis pending the increase of revenue through higher prices and better trade".

WILSON

HPD

March 30, 1957.

Mr. Lyle C. Wilson, Manager,
Washington Bureau,
United Press Associations,
National Press Building,
Washington, D. C.

Dear Lyle:

I am acknowledging for the Secretary your letter of March 25th, enclosing copies of correspondence on the subject of Pierre Denoyer's story of March 4th in Le Petit Parisien and the United Press dispatch on the subject from Paris.

I think the point made by Denoyer was that the United Press dispatch conveyed a wrong impression because of its failure to pick up two qualifying sentences in his dispatch as printed in Le Petit Parisien. These are the last two sentences in the dispatch as quoted in Heinzen's letter, which were substantially as follows: "But what can the American Government do? Its good will is limited by laws which restrict considerably its possibilities of action."

The Secretary naturally didn't want to put any newspaper men on the spot, but obviously he couldn't let the phrase "unequivocal assurances" stand on the record without qualification.

Yours very truly,

Herbert E. Gaston,
Assistant to the Secretary.

MR. MORGENTHAU'S OFFICE TO-

Mr. Magill
Mr. Gibbons
Miss Roche
Mr. Taylor

Mr. Oliphant
Mr. Gaston
Mr. McReynolds

=====

Mr. Allen
Mr. Anslinger
Mr. Bartelt
Mr. Batchelder
Mr. Bell
Mr. Berkshire
Mr. Birgfeld
Mr. Broughton
Mr. Bryan
Miss Chauncey
Mr. Davis
Miss Diamond
Miss Flanagan
Mr. Graves
Mr. Greenberg
Mr. Haas
Mr. Hall
Mr. Hanna
Mr. Harper
Mr. Heffelfinger
Mr. Ireby

Mr. Belvering
Mr. Hester
Mr. Julian
Mr. Kent
Mr. Kilby
Mr. Lochhead
Miss Lonigan
Mr. Murphy
Mr. O'Connoh
Miss O'Reilly
Adm. Peoples
Miss Reynolds
Mr. Rose
Mr. Ryan
Mr. Schoeneman
Mr. Sloan
Mr. Smith
Mr. Spangler
Miss Switzer
Mr. Thompson
Mr. Upham
Adm. Waesche
Mr. Wilson

United Press Associations

INCORPORATED IN NEW YORK
GENERAL OFFICES
NEWS BUILDING NEW YORK CITY

WASHINGTON BUREAU.
NATIONAL PRESS BLDG.
L. C. WILSON, MANAGER

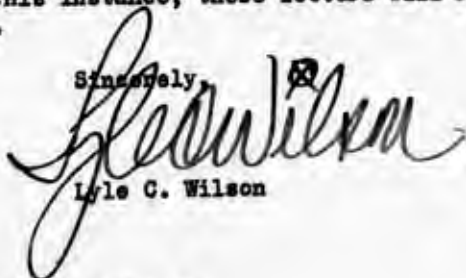
March 25, 1937

Dear Mr. Secretary:

Here are copies of a couple of letters relating to the incident in which Denoyer apparently placed too favorable a light upon your conversations with the French Ambassador. They are from Ralph E. Heinzen, manager of the United Press Paris bureau, to Earl J. Johnson, General News Manager in New York, and to Denoyer, New York and Washington correspondent of the Le Petit Parisien.

I hope you will find time to read these two letters, because if there is any doubt in your mind as to the absolute accuracy of the United Press report in this instance, these letters will remove that doubt.

Sincerely,



Lyle C. Wilson

Secretary of the Treasury
Department of the Treasury
Washington, D. C.

C O P Y

282

UNITED PRESS ASSOCIATIONS

General Offices
News Building New York City

Paris Bureau

Paris, March 17, 1939

Mr. Earl J. Johnson, General News Manager
United Press Associations
New York City

Dear Earl:

I received from Pierre Denoyer, the New York and Washington correspondent of Le Petit Parisien, a bitter complaint concerning our story out of Paris on March 4 which cited his despatch from Washington. He also enclosed a clipping from the NY Herald-Tribune of March 4 concerning a press conference in which Morgenthau discussed this same story.

I think there is no doubt that Denoyer carried a story at the request of Bonnet, the French Ambassador, to the effect that Bonnet had convinced the American authorities to back up France in the monetary crisis. Evidently the story was intended for home consumption, and on the strength of the story there was a rise on the Bourse. The French press was convinced that Washington would help and would at least close its eyes if American bankers subscribed milliards of francs to the French loan.

Denoyer evidently did not think the story would bounce back on him, but we cited it in a despatch and said that the reaction of the Bourse had sent up French Rentes two points. Then Morgenthau got after Bonnet and Denoyer and the latter tried to argue that his story had been badly handled.

I am enclosing a copy of a letter which I am sending in answer to Denoyer. As I point out to him, he left out of his story the "joker" in the Morgenthau statement: that the United States would give its "unequivocal support" to France "AND WE WOULD CONTINUE TO DO ALL WE COULD AND STILL LIVE WITHIN AND UP TO THE SPIRIT OF OUR EXISTING LAWS". Denoyer struck out that phrase, when he wrote his story.

It might be worth while for our Washington office to give a copy of this letter and my copy of my letter to Denoyer to Morgenthau. Denoyer and Bonnet tried to put something over. It would be bad policy if they tried to put the blame on us, and if I know my Frenchmen, I'm willing to bet that Denoyer did try to do that.

Cordially,

(Signed) Ralph E. Heinzen

UNITED PRESS ASSOCIATIONS

General Offices
News Building New York City

Paris Bureau

Paris, March 16, 1937

M. Pierre Denoyer,
"Le Petit Parisien",
229 West 43d Street,
New York City.

Dear Pierre:

I am sorry that any despatch of ours caused you the slightest trouble, because you know, Pierre, that I have a personal and professional admiration for the job you are doing in New York, but I must beg to differ with your flat accusation that our despatch was "erroneous" and "hasty".

I have gone over our files, have had recopied for you the sections of our despatch of March 4th which apply to your story, and I have checked back over our files of the Petit Parisien. I must insist that our story, as it left here, was a perfect translation and interpretation of your despatch as published and of the reaction it caused on the Paris bourse where records will show that on a wave of optimism that morning Rentes shot up 2 points.

Your despatch as published read:

"Les Autorités américaines suivent de nouveau soigneusement la situation financière et monétaire de la France. La politique des trois grandes démocraties inaugurée par l'accord tripartite de septembre dernier n'étant pas un vain mot pour elles, elles sont disposées à faire tout leur possible pour aider la France dans ses difficultés actuelles.

"M. Morgenthau, Ministre des Finances américain, en a donné une assurance non équivoque à M. Georges Bonnet, notre nouvel ambassadeur, dans la visite de courtoisie que celui-ci lui a faite au début de la semaine. Mais que peut faire le gouvernement américain?

"Sa bonne volonté est limitée par des lois qui réduisent considérablement ses possibilités d'action."

When we picked up your story --- which I might add was reprinted by Agence Economique et Financiere at 9 a.m. and influenced the Bourse greatly --- we sent:

"Entire board (Bourse) followed suit on cabled story Washington correspondent petit parisien that secretary treasury had given Bonnet quote unequivocal assurances unquote that unistates ready do everything possible aid france out present difficulties".

You know French and English as well as I do; I submit to your opinion whether my office's translation of your story was accurate or not. Perhaps your story was mishandled by the Petit Parisien cable desk. Those things will happen. There is no doubting the fact that the bourse did strengthen on the optimistic news from America, and I note in the New York Herald Tribunes which arrived today a series of daily front page stories out of Washington citing congressional opposition to any American aid to France.

Agency work, as you say, is difficult but the United Press has made its reputation on the care of its writers and the accuracy of its news report. That is why, although we file in haste, we always try to get it straight so that we do not have to repent in leisure. In this case, I feel sure you will agree, our quotation from your story was letter-perfect.

I am terribly sorry you had trouble with Mr. Morgenthau. We of the UP have had trouble at times with some of the French politicians who have gone through the various Ministries. It always is difficult to defend one's motives, especially when it concerns a story published 3,000 miles away. You can be sure we will check and double-check on any translation we ever may make from any of your cables, for I would regret very much if the United Press, inadvertently, was the cause of any trouble for you.

I note from the Herald-Tribune clipping which you sent me that M. Morgenthau said that the interpretation of your despatch concerning the conversation between Bonnet and himself was "entirely erroneous". His recital of what they talked about does not conform exactly to the story as it appeared in the Petit Parisien here. The Petit Parisien said specifically that the United States was disposed to do all it's possible to aid France in her present difficulties. M. Morgenthau added a phrase which contains the stinger: "and still live within and up to the spirit of our existing laws". He must have smelled Sorah creeping up on him in the Senate. That phrase was not in the Petit Parisien story, and that fact I believe explains why M. Morgenthau said that the Paris interpretation was "erroneous".

As I read our story and read your text, I cannot see the slightest grounds for your accusation of "hasty" and "fantastic". We followed your text word for word in a direct translation, and we said as you hinted: that the Johnson Act would prevent France getting a loan in America. There surely is nothing fantastic in that. There is nothing "fantastic" in reporting the fact that your telegram as reproduced over here caused some traders on the Bourse to bull the market.

By now your troubles must be ended, so no doubt you will be able to read again your story and ours and reverse your verdict: "Erroneous and hasty".

Cordially,

(Signed) Ralph E. Heinzen

United Press Associations

714 NATIONAL PRESS BLDG. WASHINGTON, D. C.

285



Secretary of the Treasury
Department of the Treasury
Washington, D. C.

Secretary

To: Secretary Morgenthau

From: Dr. Burgess

Government bonds were quiet and lower today. Treasury bonds sold off moderately in the forenoon and declined again in the final hour, the market apparently being affected in the latter instance by a news ticker story. At the close long Treasury bonds were down generally 12/32 to 14/32 on the stock exchange. The short and intermediate Treasury bond quotations were down generally 4/32 to 13/32. There was rather a wide spread at the close between the bid and asked. Guaranteed bonds declined 8/32 to 10/32. Government bond turnover on the board was \$2,080,000. In the Treasury note market, which was only slightly lower most of the day, the 1939 through 1941 maturities declined rather sharply in the last half hour to make these issues generally 3/32 to 4/32 down from yesterday's close; other maturities finished generally unchanged to 1/32 down.

In the domestic bond market high grade bonds held firm and quiet all day. Second grades were steady most of the day, advancing slightly on some increase in volume in the last half hour. We are informed that the \$24,000,000 Panhandle Eastern Pipe Line 4 1/2% 15-year bonds offered today at 97 1/2 were not well received; they were quoted this afternoon less 2, less 1 "going away" or, say, 95 1/2 bid - 96 1/2 asked.

Foreigns held steady for the most part and trading was dull. Canadians and Australian bonds were slightly higher; Italian 7s were off 1 point.

No purchases for Treasury today.

March 30th

Ambassador Bullitt called on me yesterday afternoon. He said he wanted to tell me what he proposed to tell Premier Blum and Foreign Minister Delbos when he returned to France.

First he was going to tell them that the sentiment here in favor of the Johnson Act was stronger than ever. Second, that if they wished to pay part of their war debt we would, of course, accept partial payment but that they should not expect that by making a partial payment they would free themselves from coming under the Johnson Act. The only way they could do this would be by making a full payment on their war debt. Furthermore, that there was a growing sentiment in this country that we would just as leave not have the war debts paid at this time as we felt it was an insurance policy to keep Europe from going to war.

He asked what he could do to help us in regard to narcotic smuggling in France. I had Harold Graves in who informed him that if he could have special French police appointed for Havre and Marseille, to cooperate with the Treasury, it would be very helpful.

* * * * *

This morning I called on Mr. Hull and gave him a copy of the memorandum from Mr. Chamberlain which was delivered to me by hand at Sea Island Beach last Friday. I showed this memorandum to the President yesterday. I told Mr. Hull that I suggested that we do one of two things; either that he answer directly or that he prepare a draft for me to use in answer to Mr. Chamberlain. I said whatever course he decided on would be entirely agreeable to me.

I gave Mr. Hull a copy of my letter to him of March 10th about the proposed Neutrality Act and asked him if he could not give me an answer to this. Third, I told him that for a number of years the State Department had asked Commissioner Anslinger to go to the Annual Narcotic Meeting at Geneva and we would be glad to send Mr. Anslinger again if we were invited to do so.

At noon I lunched with Marriner Eccles; very friendly. He assured me that he was going to write no more articles - he was through. He was quite apologetic about the whole thing that had been happening in the last couple of weeks. I told him that the important thing was that the Treasury and Federal Reserve must cooperate. I told him that I thought that possibly the New York bankers had taken him in. I told him that between now and the first of July we need 300 million more money.

- 2 -

In regard to the open market, Eccles said there were three things that the Federal Reserve could do:

- (1) They could announce that an additional increase in excess reserves on May 1st would not apply to the country banks.
- (2) They could start open market operations concentrating on the purchases of bills.
- (3) They could ask us to deposit some more gold certificates from our sterilized gold.

I told Eccles that we really ought to make up our mind by next Wednesday but that it was not imperative and I wanted to see him again several times this week.

GROUP MEETING

March 31, 1937
9:30 A.M.

Present: Mrs Klotz
Mr. McReynolds
Mr. Haas
Mr. Upham
Mr. Lochhead
Mr. Bell
Miss Roche
Mr. Taylor
Mr. Gibbons
Mr. Gaston
Mr. Magill
Mr. Oliphant
Dr. Viner

H.M.Jr: This thing in the Washington Herald, that we're going to organize a bureau in Washington - what about it, Mac?

McR: That's based on a statement of one witness at one hearing - a friend of Danny Bell's, one of his proteges up there, Mr. Buck. Danny ought to explain about it. Didn't you (Bell) know - did the boys tell you what Buck said?

Bell: Yes

McR: He was talking about Danny's organization; he was talking about the accounting organization in the Treasury, and they got him totally confused.

Bell: Got what confused?

McR: I say they got him totally confused, so the boys tell me, and he didn't know - didn't realize just what he was saying, and of course they capitalized....

Magill: Is he that Buck from the Institute of Public Administration?

McR: Yes

Bell: Yes

H.M.Jr: Well - I mean...

McR: There's been no breath of criticism of anything with

- 2 -

respect to Treasury except that one instance, as far as I've heard.

H.M.Jr: Well, right after this meeting, Gaston, will you get together - and I don't want to see this for the next three years, that the Treasury is the worst organized department in Washington. If it is, I'd like to know it; if it isn't, I'd like to know. But there's no reason why I should sit here and have to take this. I mean I'd like to have an explanation; tell the press what it is - either we are or we are not.

Bell: Is that in the paper?

H.M.Jr: Yes.

Gaston: Of course, it is mixed in with a lot of other terrible misinformation.

H.M.Jr: Well, I'd like to have a formal written statement, a release given out what this is. I'll leave it to you (Gaston) to handle, will you please? I'd like you to handle it today.

Gaston: Yes.

H.M.Jr: I mean if it involves Danny Bell I imagine he'd like to have a chance to - I mean I don't want to say, "No, the Treasury is all right, but the criticism is all about Bell's shop," but let's fix it so it takes care of both of us, Bell's organization and the Treasury.

Bell: Well, I understand the testimony actually given is not really as bad as made out to be. Buck just slipped, and when he came down to the Treasury that afternoon he was actually sick at having made the statement. He made a statement and couldn't correct it.

H.M.Jr: Well, I'm very serious about this, Herbert. Will you go into it right away?

Gaston: Yes, I'll go into it right away with Dan and Mac. Of course, we're dealing with testimony before a supposedly secret hearing - hearings of the Committee.

H.M.Jr: Get a statement from Mr. Brownlow. It isn't secret

- 3 -

when it's in the Hearst paper.

Bell: That's Byrd, I think, giving it out.

H.M.Jr: Well, there are certain times we have to sit here and take it. This is not one when I'm going to take it. Understand?

Gaston: Yes

H.M.Jr: What?

Gaston: Yes

H.M.Jr: I mean I'm just not going to take it. .

McR: You see, the background - Buck is a smart enough fellow, but Buck's criticism lies in the lack of jurisdiction of the Treasury with respect to certain accounting matters. And he didn't, I have no doubt - had no idea of saying that the Treasury wasn't doing as well as it could under the existing authority in law, but they jockeyed him into the position of making a direct criticism without limitation.

Bell: He said it was partly - due partly to the law and partly to inefficient personnel, as I....

H.M.Jr: (Looking at article) Well, he (Bell) is correct and it shocks me. But I'm a little bit fed up on taking things and I'm not going to take this, Herbert, see?

Gaston: Yes.

H.M.Jr: Huh? So if you'll get together with Bell and Mac after this - will you please?

Gaston: Yes, I'll do that.

H.M.Jr: O.K. I mean you (Bell) don't want it any more than I do, do you?

Bell: No, I don't want it, but then I thought maybe there might come an opportunity of correcting the thing perhaps before the Committee.

- 4 -

H.M.Jr: Oh yes, but in the meantime every - you'll see Paul Mallon and Drew Pearson and every other fellow pick it up and you'll see it everywhere for the next two weeks; but if Gaston corrects it, he may be able to stop it.

Bell: I think he....

Viner: Yes, Buck, you see - if Buck....

Bell: He'll write a letter, I think.

H.M.Jr: Well, I'm serious. You very seldom hear me say this. What?

Gaston: Yes

H.M.Jr: And I'm just not going to take it, see?

Gaston: Yes

H.M.Jr: O.K.

George, this morning at seven o'clock I read this - from six to seven - and it is one of the best reports that's come my way. I'm tickled to death with it. There is just this: if - which I'd like to have and I don't know....

Haas: He was very fresh in that, but he was the best man I had available.

H.M.Jr: Oh, he did a beautiful job. (To Viner) Selective Federal Purchasing and Allocation of Federal Projects from the Standpoint of Employment and Cost of Materials.

But this thing which I'd like - I don't know whether you get this from Dan or where, but I'd like to have it pretty fast. Look over my shoulder. - - Now, you've left out the agricultural benefit payments.

Bell: That's being corrected.

H.M.Jr: No, but there is this one table here I need. Let me see where I've underlined it.

Haas: Towards the end there.

- 5 -

H.M.Jr: Here it is, this table 22. Do you mind looking at this, Dan? - - Because I'd like to have this if I could. I'd like to have '38, you see? Same way.

Bell: Uh-huh.

H.M.Jr: See, and then if you could include in this thing three-A - I call it three-A, but it's really..... That could be sort of squeezed or extended and folded over. That oughtn't to take very long. I mean what the allocation is now.

Now, does that mean from March 1 to June 30?

Bell: That's an estimate...

H.M.Jr: And is that their estimate?

Bell: ...based on the budget.

H.M.Jr: That they will spend a billion and a half.

Bell: That's based on the budget estimates.

H.M.Jr: And they are still....

Bell: No change in those estimates.

H.M.Jr: Well, when this sheet 22 is fixed up - do you suppose I could see you people this afternoon on that? I mean do you think you could fix this up for me and be back by 3:30?

Haas: Well, we could, I think.

Bell: Yes, we could fix that up. It's the state breakdown that's harder.

H.M.Jr: No, just that. Just this sheet 22.

Bell: I think so.

H.M.Jr: Huh?

Bell: O.K.

- 6 -

H.M.Jr: We'll say 3:30.

Bell: All right.

H.M.Jr: Does that interfere with any....

Bell: I don't think so.

H.M.Jr: I mean I can adjust it.

Bell: No, I have one at 2:30 and yours is 4.

H.M.Jr: I have one at 4. What?

Bell: That's all I have.

H.M.Jr: Huh?

Bell: 3:30 is all right with me.

H.M.Jr: Now, who wants to shoot something at me? I mean I want to get working with Jake Viner here, hear what he's learned from the Sage of Palo Alto.

Viner: I can tell you about the weather, that's all.

H.M.Jr: Who wants to shoot something at me?

Magill: I've got these estimates from Crum. Do you want any comment on it?

H.M.Jr: I don't think at this time. Do you want to give them to me?

Magill: (Hands papers to Secretary) The whole story is here.

H.M.Jr: Thanks.

Herbert?

Gaston: No, I have nothing.

Gibbons: Nothing pressing.

H.M.Jr: Got over your cold?

Gibbons: Fine.

- 7 -

H.M.Jr: Do you recommend Havana?

Gibbons: It's a great place.

H.M.Jr: You've lost a little weight, haven't you?

Gibbons: No, I took on two pounds. I think it's the change of complexion.

H.M.Jr: But you're all right?

Gibbons: I'm fine.

H.M.Jr: Good. Wayne?

Taylor: (Nods negatively)

Roche: I have nothing, sir, except we hope to have five minutes with the State Health Officers Conference next week.

H.M.Jr: Next week is a life time.

Roche: Next week's a long time off. I was putting in my bid way ahead.

H.M.Jr: Dan?

Bell: I have nothing.

H.M.Jr: I'm rushing you now, but you can stay after this is over.

Haas: I just have one question. Whom did you want copies of this to be sent to?

H.M.Jr: People who are going to be at the Thursday night meeting.

Haas: Admiral Peoples has one. I'm going to send one to Danny and the Treasury - but outside maybe Lubin would want to get one.

H.M.Jr: Yes. Lubin and Ezekiel.

Haas: And Gill?

- 8 -

H.M.Jr: Gill.

Haas: Those three.

H.M.Jr: (Nods yes) And tell Ezekiel to show it to Louie Bean; he's coming also.

McR: Those bills don't relate to the equipment here in the Treasury at all. Down at Fort Hunt.

H.M.Jr: Well, we'll take those that...

McR: Tollaksen's here now.

H.M.Jr: Well, how much of that stuff is permanent?

McR: It's all permanent as far as I know.

H.M.Jr: Well, hold it for a while.

McR: The other thing costs nine hundred dollars.

H.M.Jr: I'm not going to spend nine hundred dollars.

McR: Your trouble isn't wiring. You can have what you've got there with the old equipment, just as it is now. And Bob said he'd rather have the old one and the...

H.M.Jr: Well, chuck the new one out. Nine hundred dollars is money.

McR: But about this - it has no relation....

H.M.Jr: But before I pay that I'm going to spend a little time on it. Anything else, Mac?

McR: Nothing, except I got a letter from Disney transmitting a letter from one of his constituents who wants to know what there is in this idea of abolishing the Comptroller of the Currency and having it taken over by F.D.I.C. And I proposed - I acknowledged it, or Mrs. Klotz acknowledged it. I got it with the acknowledgment when I got back and I started to write a letter in my own name telling him that that was a question that might be considered at some time, but was not under consideration at any time, and there was no information on it. I think that's all you can tell

- 9 -

the Congressman, but - because it is true; as far as I know, there is no present consideration involving the change in the banking set-up.

H.M.Jr: Abolish what office?

McR: Comptroller of the Currency.

H.M.Jr: Is Herbert Gaston starting that again?

McR: I don't know.

H.M.Jr: I think I should let Herbert answer the letter.

Gaston: I thought that was all covered up.

McR: Well, is there any objection to my just telling him that he is just - that at the present time there is no...

H.M.Jr: There is no such plan in existence.

Viner: He's confused hopes with realities.

McR: Down in Oklahoma they thought that was being done.

Upham: Of course, that suggestion is made in the Byrd Committee report, which has not been made public. Maybe he heard about that.

H.M.Jr: Is everybody else happy? All right.

March 31, 1937.
10:30 a.m.

George

Harrison: And - but I think no worse than we probably had reason to anticipate after the last hour yesterday and I have to go over the market transactions after the market is closed.

H.M.Jr: Yes.

H: This report of Duffield's didn't help any.

H.M.Jr: No - ah - ah - I - I - well of course its water over the dam but it was unbelievably stupid to let it go. I mean he gave us - not me - but he gave somebody here a chance to ask him not to print the story, see and they didn't tell him not to print it.

H: Well I - my feeling about that is that whether there was reason to tell him not to or not it seems to me the article is misleading.

H.M.Jr: Yes.

H: I don't think its an accurate statement.

H.M.Jr: Yes.

H: That you'd gone jargon. You may not want to use them but you've got funds.

H.M.Jr: Yes. Well -

H: And coming at this time it was really unfortunate frankly.

H.M.Jr: Well I - I think it was - I go further - I think it was unbelievably stupid.

H: Yes.

H. M.Jr: And - ah - but its like all of those things. I mean I don't think we can do anything to correct it, do you think so?

H: Oh I don't think I would attempt to correct it at all. I think the less said about it the better. The whole trouble is all these papers always are getting us in trouble.

H.M.Jr: Yes.

H: And my own reaction would be to let it rock along.....

H.M.Jr: Yes.

H:and if there is any difference in the facts that you want to get out you can get out in a press statement or we can get out less formally than you here because we're never quoted.

H.M.Jr: Yes.

H: If you want to give us anything that you want to get out.

H.M.Jr: Yes.

H: I wouldn't know how to handle that now because I haven't got the definite facts myself.

H.M.Jr: No. Well I don't.

H: Burgess said that he's already done something that he thinks will take care of it.

H.M.Jr: He will.

H: Yes.

H.M.Jr: Well of course I just got here. I haven't seen - most of the federal trust funds used in bond buying - I don't know. We'll watch the thing and see how she goes along but I just want to let you know I'm here.

H: Yes, well now when Burgess came in first with the report - ah - about what the market was doing - about three minutes or five minutes past where in some cases the bids were considerably down and others where there was no better offers on one side or the other - my immediate reaction as I felt it was last night that we shouldn't throw ourselves open to an attack by trying to guess what the bids should be until the market has shown itself and indicated what it was going to do.

H.M.Jr: Well then...

- 3 -

H: And before - yes, before we put in any bids I thought we better let the thing adjust itself or settle down.....

H.M.Jr: Have you no bids in now?

H:and then we called - I called Wayne immediately because Burgess had been operating through him during your absence.....

H.M.Jr: Yes.

H:just to make sure he checked on that.

H.M.Jr: Yes.

H: We've got some bids in now however.

H.M.Jr: Well you better tell Burgess now that I'm back he better work directly with me.

H: All right, well I'll tell him. I didn't know how you wanted to do that.

H.M.Jr: Yes, well where is Burgess.

H: Right here. (Laughs)

H.M.Jr: What? Oh your on the wire.

Burgess: Yes (Laughs)

H.M.Jr: Oh you rascal you.

B: (Laughs)

H.M.Jr: Well now listen. If I was handling this thing I'd certainly have bids under the market the way we always do.

B: Well I just- I just put some in. I - we held off for a few minutes watching it and then - there weren't enough bids so we put it in. I was reluctant to go in because the minute you're in they begin to play against you and it sometimes is worse than not being in.

H.M.Jr: Well how much have you got in now?

- 4 -

B: Well we - we're just putting in bids on things there aren't bids on.

H.M.Jr: I see.

B: Small bids - just so there will be bids there.

H.M.Jr: Well I think I'd personally if it was my decision - I think that we always ought to have bids in even if they're little bids - but something.

B: Well if the market doesn't do it.

H.M.Jr: Yes. No I said if there are no bids you.....

B: Yes, that's right.

H.M.Jr: No, I think you always - if the market doesn't put a bid in I think we should.

B: Well I agree with that in general although there are times when putting a bid in really reduces the price because there's no bid there; there's no sale takes place.

H.M.Jr: Yes, but that's unusual.

B: It doesn't register a lower price. That happened, for example, oh two weeks ago when they were just chasing us over the lot.....

H.M.Jr: Yes.

B:and we suddenly pulled out.

H.M.Jr: But Burgess that's - that's an unusual situation.

B: Yes. Well they're (laughs) they're all apt to be.....

H.M.Jr: No, but I mean nobody - no one has a pattern how to.....

B: No.

H.M.Jr:handle the thing 365 days of the year.

B: There's no - there's no sure cure on this.

- 5 -

H.M.Jr: Well have you - have you talked to the Federal Reserve Board?

B: I've been too damned busy this morning.

H.M.Jr: Ah-ha. Well I - I wish you'd keep calling me and I'd like with a thing as bad as this.....

B: Yes.

H.M.Jr:I'd like to handle it myself.

B: All right.

H.M.Jr: I'd like to handle it myself.

B: First rate.

H.M.Jr: So - and is Harrison watching it too?

Harrison: Yes.

B: Yes, I've been in here with him several times this morning.

H.M.Jr: Well if - if the thing doesn't get better within the next half hour would you call me again?

H: All right, we'll do that Henry.

H.M.Jr: I tell you - as a matter of fact if you could call me at five minutes to 11 I'd appreciate it.

B: All right, very good.

H.M.Jr: Thank you.

B: First rate.

H.M.Jr: Thank you.

B: Goodbye.

H.M.Jr: Goodbye.

March 31, 1937.
11:12

H.M.Jr: Hello

O: Dr. Burgess.

H.M.Jr: Hello

B: Hello

H.M.Jr: Burgess?

B: Yes.

H.M.Jr: Well what's happened?

B: Just a fraction better right now.

H.M.Jr: What?

B: Its just a shade better; its held fairly steady for about ten minutes.....

H.M.Jr: No.

B:and now its - one or two of them are a thirty-second better.

H.M.Jr: Have you bought anything?

B: We bought a little over a million.

H.M.Jr: Ah-ha.

B: We've got - we're seeing that bids are in on the board.....

H.M.Jr: Yes.

B:and then we're going to pick up a block over the counter once in a while when there's some offered.

H.M.Jr: Ah-ha, but a little bit better?

B: Just a - just a fraction - I wouldn't say it was too much.

H.M.Jr: Ah-ha.

- 2 -

B: But - its not an avalanch here at all.....

H.M.Jr: Yes.

B:on this fairly active trading and some offerings - its not an avalanch yet.

H.M.Jr: Ah-ha, all right, I'll call you a little later again.

B: Very good.

H.M.Jr: And if anything happens, one way or the other, you call me.

B: Very good.

H.M.Jr: Thank you.

March 30, 1937.
11:40 a.m.

H.M.Jr: Hello

O: Dr. Lubin. Go ahead.

H.M.Jr: Hello - hello Lubin, Morgenthau talking.

L: How are you sir?

H.M.Jr: I'm fine.

L: Did you have a good vacation?

H.M.Jr: Oh, I've had better ones.

L: (Laughs)

H.M.Jr: Vacations and bum bond markets and high interest rates don't go together .

L: I guess there's something in that.

H.M.Jr: Ah - Lubin - I've got Haas and Bell here and some others; we're going over our preliminary studies that we're making on what I call "Selective Spending" and they tell me that you people are going to have something more on us - for us soon?

L: Yes, we're getting up some materials now.....

H.M.Jr: Yes.

L:on certain types of construction for that.

H.M.Jr: That's right.

L: Yep.

H.M.Jr: When do you think you'll have that?

L: Well now - can you wait just one second while I call my - the man that is doing it and.....

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

L: Fine.

(Pause)

- 2 -

L: Ah -

H.M.Jr: Hello

L: Mr. Secretary.

H.M.Jr: Talking.

L: Mr. Byer, who is in charge of that, is up on the Hill now but the man who is doing the work for him is going to call me back in two or three minutes.....

H.M.Jr: Yes.

L:and I can let you know definitely.

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

L: I sure will.

H.M.Jr: Because I'll tell you - these Governors are coming back here Monday.....

L: Monday.

H.M.Jr:and Hopkins and I and Bell are going to have to have something for the President.

L: Well now if that's the case I'll give it to you Saturday. I mean I'll put a night staff to work.

H.M.Jr: Oh no. I'll tell you what I want to do if I can - if I get Hopkins. I thought I'd like to have a meeting at my house Thursday night and show what we've got and show what you people have and let's see what Hopkins has got and put everything on the table.

L: Yep.

H.M.Jr: If - if I can get a meeting Thursday night.

L: Well now I'll tell you - we'll give you enough by Thursday so that you'll have something to work with.

H.M.Jr: Fine. Well I'll - I'll see if I can get the people together.

L: Yep.

- 3 -

H.M.Jr: Thank you.

L: All right and I'll call - shall I call you or shall I call Haas?

H.M.Jr: Well he's here in my office.

L: All right I'll call back in a few minutes.

H.M.Jr: Call me.

L: Yep, fine - swell.

March 30, 1937.
11:45 a.m.

H.M.Jr: Hello
O: Mr. Hopkins
H.M.Jr: All right.
O: Go ahead.
H.M.Jr: Hello
Hopkins: Hello Henry.
H.M.Jr: How are you?
H: Fine.
H.M.Jr: Have a good rest?
H: Grand.
H.M.Jr: Good for you.
H: Feel fine.
H.M.Jr: Harry, I lunched with the President yesterday.....
H: Yes.
H.M.Jr:and I asked him which of the things he wanted me to work on first.....
H: Yes.
H.M.Jr:and he gave me a green light on this work that we were supposed to do in connection with the return of those six Governors.
H: Yes.
H.M.Jr: So he said he'd have them back Saturday or Sunday and I said, "Can't you make it Monday....."
H: Yes, that would be much better.
H.M.Jr:to give us a chance". So he said he would.
H: Yes.

- 2 -

H.M.Jr: Now this is what I'd like to do. Our boys have got a lot of stuff together.....

H: Yes.

H.M.Jr:working with Lubin.....

H: Yes.

H.M.Jr:and I wondered if you were free Thursday night.

H: Sure.

H.M.Jr: What?

H: Well now wait a minute - Thursday - Thursday - yes I think I am.

H.M.Jr: What?

H: I think I am.

H.M.Jr: Well can you say definitely?

H: Well hold the wire a second.....

H.M.Jr: All right.

H:and let me see what I've got.

H.M.Jr: All right.

(Pause)

H: Yes.

H.M.Jr: What?

H: Yes Henry.

H.M.Jr: Well now will you bring anybody with you that you want.....

H: Yes.

H.M.Jr:and we'll show what - what we've got.....

H: All right.

H.M.Jr:and if you want to get a preliminary look at it.....

H: Yes.

- 3 -

H.M.Jr:to see what - along what lines - send anybody over - George Haas has got the stuff.

H: All right.

H.M.Jr: Now I'm going to see if I can get Lubin there.

H: Yes, all right.

H.M.Jr: And I'm going to ask Wallace to be there.

H: Yes.

H.M.Jr: See?

H: He's gone away to-day.

H.M.Jr: Has he?

H: He is going. I'm going over to see him now about something else.

H.M.Jr: Well I'll ask him who he wants to send.

H: Yes.

H.M.Jr:because he - we've got to have him in on this picture.

H: Yes, and then he's got to be in on the resettlement.

H.M.Jr: Could I let you know a little later about the time?

H: Yes, Henry.

H.M.Jr: What?

H: Will it be at your house?

H.M.Jr: It will be at my house if that's agreeable to you.

H: Yes, that's fine.

H.M.Jr: Or would you rather have it.....

H: Oh no.

H.M.Jr: What?

- 4 -

H: I'd rather have it at your house if its all right with you.

H.M.Jr: Yes, Thursday night.

H: All right, Henry.

H.M.Jr: And now I'll call - and if your man wants to see along the lines we're working why let him come over to Haas.

H: Well I think he'd better because I've got a lot of stuff up on that - while I've been away they've been working on it all the time.

H.M.Jr: Well - ah -

H: And we better - ah - exchange some information on it.

H.M.Jr: Yes, then I've - the President.

H: I'll have Gill see Haas.

H.M.Jr: Yes, and the President's supposed to see you and me Saturday and Sunday to have a dress rehearsal.

H: Well that's fine - that's fine, Henry.

H.M.Jr: And then we go right from that.....

H: Yes.

H.M.Jr:onto the.....

H: All right.

H.M.Jr:next year's appropriation.

H: I'm going to see the President to-day some time.

H.M.Jr: Well then remind him that he said he'd see Bell, you and me Saturday and Sunday.

H: Fine.

H.M.Jr: All right, Harry.

H: All right, Henry, old boy.

H.M.Jr: Goodbye.

H: Goodbye.

March 30, 1937.
11:49 a.m.

O: Operator.

H.M.Jr: Secretary Wallace.

O: Right.

H.M.Jr: Hello.

O: Secretary Wallace is on his way from the White House to his office.

H.M.Jr: Well when he gets there I want to talk to him.

O: All right.

H.M.Jr: And then see if Miss Perkins is there.

O: Right.

H.M.Jr: I want to talk to Miss Perkins.

O: Right.

H.M.Jr: Hello

O: Secretary Perkins.

H.M.Jr: Thank you.

H.M.Jr: Hello

Perkins: Yes.

H.M.Jr: Henry talking.

P: Hello Henry.

H.M.Jr: How are you?

P: All right.

H.M.Jr: Francis if you've got a minute I want to tell you what we're working on here in the Treasury.

P: Yes.

H.M.Jr: Ah - there are two things - (1) the six Governors are coming back again and the President gave Bell, Hopkins and me a job to do to see whether there could be any money taken from certain States to give to them and if so why, see?

P: Yes.

H.M.Jr: Now we've got that study going and then we're in on our next year's appropriation for relief.

P: Yes.

H.M.Jr: And we've been working with Lubin, see?

P: Yes.

H.M.Jr: And he's been very helpful.....

P: Yes.

H.M.Jr:and I just talked to him and he says he's going to have some more figures on which industries are short on labor, you see?

P: Yes.

H.M.Jr: Now I'm getting - arranging for a meeting at my house Thursday to which I'm going - and I wondered if to go into this thing whether you'd care to come or whether you'd want to send Lubin.

P: Yes, I'd like to very much.

H.M.Jr: You would like to.

P: Yes I would.

H.M.Jr: Are you.....

P: we've got to be quite realistic about.

H.M.Jr: Yes. Are you free Thursday night?

P: Yes - yes.

H.M.Jr: Well would you hold it?

- 3 -

P: I will, Henry.

H.M.Jr: And - ah - ah - I don't know just what time and I could call you up about.....

P: Oh yes, just let me know later.

H.M.Jr: And you'll bring Lubin.

P: Yes, oh yes, indeed I will.

H.M.Jr: He's been working with Haas.....

P: Yes.

H.M.Jr: ...and I really think we're getting somewhere.

P: That's good - that's fine.

H.M.Jr: Right.

P: Fine, thanks, goodbye.

H.M.Jr: Goodbye.

March 30, 1937.
12:20 p.m.

H.M.Jr: Hello

O: Secretary Wallace returned but he brought Mr. Charley and Mr. Hopkins with him and they're with him now but he can talk to you if you don't object to them being there.

H.M.Jr: I'd like to talk to him.

O: All right, I'll get him.

H.M.Jr: Hello.

O: Secretary Wallace.

H.M.Jr: Hello.

Wallace: Hello Henry.

H.M.Jr: How are you?

W: Fine.

H.M.Jr: Henry, I'm calling up for this reason. I'm trying to get together Hopkins and yourself and Frances Perkins for Thursday night to talk about relief expenditures, see - hello.

W: Yes, Henry. I'll tell you - I'm going to be out of town on Thursday night.

H.M.Jr: Oh.

W: Don't get back until Monday of next week.

H.M.Jr: Well -

W: Now - ah - could - ah - should I send Will Alexander to that?

H.M.Jr: Ah - yes - is he the fellow?

W: Well - I - I don't know exactly what you have in mind.

H.M.Jr: Well we 're going to talk about general relief and general expenditures - the whole picture.

W: Gosh I would like to be in on that - the whole picture.

- 2 -

H.M.Jr: Well - ah - we won't settle it Thursday night.

W: Yes.

H.M.Jr: Don't you want to send your economist?

W: I'd rather think I'd prefer to, yes. I think I'd like to send either Louis Bean or Zeke.

H.M.Jr: Well you can send both if you want to.

W: How is that?

H.M.Jr: Send both.

W: Well that will be fine. Now where will it be?

H.M.Jr: Well I'll get in touch - it will be at my house but what time yet I don't know.

W: Ah-ha.

H.M.Jr: See?

W: Yes. Harry - Harry Hopkins is right here with me now.

H.M.Jr: Yes, he says he's - he's coming.

W: Oh he's coming?

H.M.Jr: Yes.

W: Well that's fine.

H.M.Jr: He knows about it.

W: Yes, that's fine.

H.M.Jr: Is that Louis B-e-a-n-e?

W: B-e-a-n, yes.

H.M.Jr: B-e-a-n.

W: Yes.

H.M.Jr: Ah - I'll get word to them. It will be Thursday night. I haven't been able to fix a time yet but Hopkins says he's ready and Miss Perkins says she's coming.

- 3 -

W: Well I think this is fine.

H.M.Jr: But we've done a lot of work and if your people - if Ezekiel or Bean want to find out what we've got so that they could prepare themselves, Haas has got everthing.

W: All right, I'll tell them.

H.M.Jr: And he's been working with Lubin.

W: Well they both know him very well.

H.M.Jr: So if Bean and Ezekiel want to prepare themselves for Thursday they can get in touch with George Haas.

W: Yes.

H.M.Jr: But this is - ah - getting ready for our - the relief appropriation and the general - what I call - I call "Selective Spending" - that's what I call it.

W: That's fine.

H.M.Jr: What?

W: That's fine.

H.M.Jr: I mean - and we've got the costs of material and where - which states have unemployed; which haven't and that whole picture.

W: Some of these days I'd like to see us take hold of it on a little broader basis if you have the time.....

H.M.Jr: Yes.

W:and in this case I think Herbert Feis ought to be in also - ah - as well as Harry Hopkins.

H.M.Jr: Not for Thursday night though.

W: No, not for Thursday night.

H.M.Jr: No but you're talking now about the world picture.

W: Well its not altogether the world picture. Its the policy of government expenditures and certain other governmental activities as they relate to capital flow and ironing out the business cycle and so on.

H.M.Jr: Well - ah - I'm with you on that and let's have another meeting on that.

W ; It happened at - it happened that was brought up in another connection and found Feis entirely - extraordinarily interested.

H.M.Jr: Oh did you.

W: And I - it seemed to me that he really ought to be in on that broad conference when it comes.

H.M.Jr: Well why not let's next week to try and have another one then but somebody would have to work up the stuff, you see?

W: Yes.

H.M.Jr: We're working up this stuff.

W: That's fine.

H.M.Jr: But if you could work up the other why.....

W: All right, I'll tell you - we'll - we'll get around to that and see if we can have it next week or the week thereafter.

H.M.Jr: Why don't you prepare what you have in mind on that?

W: All right - Harry - Henry, we'll do that.

H.M.Jr: Good.

W: All right. .

H.M.Jr: Thank you.

W: Goodbye.

H.M.Jr: Goodbye.

March 31, 1937.
10:30 a.m.

George
Harrison: And - but I think no worse than we probably had reason to anticipate after the last hour yesterday and I have to go over the market transactions after the market is closed.

H.M.Jr: Yes.

H: This report of Duffield's didn't help any.

H.M.Jr: No - an - ah - I - I - well of course it's water over the dam but it was unbelievably stupid to let it go. I mean he gave us - not me - but he gave somebody here a chance to ask him not to print the story, see, and they didn't tell him not to print it.

H: Well I - my feeling about that is that whether there was reason to tell him not to or not it seems to me the article is misleading.

H.M.Jr: Yes.

H: I don't think it's an accurate statement.

H.M.Jr: Yes.

H: That you'd gone jargon. You may not want to use them but you've got funds.

H.M.Jr: Yes. Well -

H: And coming at this time it was really unfortunate frankly.

H.M.Jr: Well I - I think it was - I go further - I think it was unbelievably stupid.

H: Yes.

H.M.Jr: And - ah - but it's like all of those things. I mean I don't think we can do anything to correct it, do you think so?

H: Oh I don't think I would attempt to correct it at all. I think the less said about it the better. The whole trouble is all these papers always are getting us in trouble.

H.M.Jr: Yes.

- 2 -

H: And my own reaction would be to let it rock along.....

H.M.Jr: Yes.

H:and if there is any difference in the facts that you want to get out you can get out in a press statement or we can get out less formally than you here because we're never quoted.

H.M.Jr: Yes.

H: If you want to give us anything that you want to get out.

H.M.Jr: Yes.

H: I wouldn't know how to handle that now because I haven't got the definite facts myself.

H.M.Jr: No. Well I don't.

H: Burgess said that he's already done something that he thinks will take care of it.

H.M.Jr: He will.

H: Yes.

H.M.Jr: Well of course I just got here. I haven't seen - most of the federal trust funds used in bond buying - I don't know. We'll watch the thing and see how she goes along but I just want to let you know I'm here.

H: Yes, well now when Burgess came in first with the report - ah - about what the market was doing - about three minutes or five minutes past where in some cases the bids were considerably down and others where there was no better offers on one side or the other - my immediate reaction as I felt it was last night that we shouldn't throw ourselves open to an attack by trying to guess what the bids should be until the market has shown itself and indicated what it was going to do.

H.M.Jr: Well then

- 3 -

H: And before - yes, before we put in any bids I thought we better let the thing adjust itself or settle down.....

H.M.Jr: Have you no bids in now?

H:and then we called - I called Wayne immediately because Burgess had been operating through him during your absence.....

H.M.Jr: Yes.

H:just to make sure he checked on that.

H.M.Jr: Yes.

H: We've got some bids in now, however.

H.M.Jr: Well, you better tell Burgess now that I'm back he better work directly with me.

H: All right, well I'll tell him. I didn't know how you wanted to do that.

H.M.Jr: Yes, well where is Burgess?

H: Right here. (Laughs)

H.M.Jr: What? Oh, you're on the wire.

Burgess: Yes (Laughs)

H.M.Jr: Oh you rascal you.

B: (Laughs)

H.M.Jr: Well now listen. If I was handling this thing I'd certainly have bids under the market the way we always do.

B: Well I just - I just put some in. I - we held off for a few minutes watching it and then - there weren't enough bids so we put it in. I was reluctant to go in because the minute you're in they begin to play against you and it sometimes is worse than not being in.

H.M.Jr: Well how much have you got in now?

- 4 -

B: Well we - we're just putting in bids on things there aren't bids on.

H.M.Jr: I see.

B: Small bids - just so there will be bids there.

H.M.Jr: Well I think I'd personally if it was my decision - I think that we always ought to have bids in even if they're little bids - but something.

B: Well, if the market doesn't do it.

H.M.Jr: Yes. No I said if there are no bids you.....

B: Yes, that's right.

H.M.Jr: No, I think you always - if the market doesn't put a bid in I think we should.

B: Well I agree with that in general although there are times when putting a bid in really reduces the price because there's no bid there; there's no sale takes place.

H.M.Jr: Yes, but that's unusual.

B: It doesn't register a lower price. That happened, for example, oh two weeks ago when they were just chasing us over the lot.....

H.M.Jr: Yes.

B:and we suddenly pulled out.

H.M.Jr: But Burgess that's - that's an unusual situation.

B: Yes. Well they're (laughs) they're all apt to be.....

H.M.Jr: No, but I mean nobody - no one has a pattern how to.....

B: No.

H.M.Jr:handle the thing 365 days of the year.

B: There's no - there's no sure cure on this.

- 5 -

H.M.Jr: Well have you - have you talked to the Federal Reserve Board?

B: I've been too damned busy this morning.

H.M.Jr: Ah-ha. Well I - I wish you'd keep calling me and I'd like with a thing as bad as this.....

B: Yes.

H.M.Jr:I'd like to handle it myself.

B: All right.

H.M.Jr: I'd like to handle it myself.

B: First rate.

H.M.Jr: So - and is Harrison watching it too?

Harrison: Yes.

B: Yes, I've been in here with him several times this morning.

H.M.Jr: Well if - if the thing doesn't get better within the next half hour would you call me again?

B: All right, we'll do that, Henry.

H.M.Jr: I tell you - as a matter of fact if you could call me at five minutes to 11 I'd appreciate it.

B: All right, very good.

H.M.Jr: Thank you.

B: First rate.

H.M.Jr: Thank you.

B: Goodbye.

H.M.Jr: Goodbye.

March 31, 1937.
11:09 a.m.

H.M.Jr: Hello

Yes.

H.M.Jr: Taylor, I just talked to Harrison and Burgess and I told them as long as the market was as bad as this I'd handle it myself. I wanted to tell you that.

Taylor: Yes.

H.M.Jr: And they say that this Duffield story has caused tremendous havoc and thats whats the matter right now.

T: Apparently.

H.M.Jr: Yes, but - ah - of course what I - I - I'd just like to know where he got that information from.

T: Well he - where he said was from the individual agencies.

H.M.Jr: Well I don't - I don't believe it. I don't believe it and I've asked Gaston to check up on it. I mean I'm not questiong your word.

T: Yes.

H.M.Jr: I'm questioning his and I didn't want to say anything because other people were present but I'm terribly sorry that the story was published.

T: So am I.

H.M.Jr: Yes - and - ah - but its too late. Unless this thing keeps on I may have to say something I don't know. We'll watch it.

T: Yes, you're watching it then?

H.M.Jr: I'm - I'm going - I told them that I'd watch it.

T: O.K.

H.M.Jr: Thank you.

March 31, 1937.
11:12 a.m.

H.M.Jr: Hello

O: Dr. Burgess.

H.M.Jr: Hello

B: Hello

H.M.Jr: Burgess?

B: Yes.

H.M.Jr: Well, what's happened?

B: Just a fraction better right now.

H.M.Jr: What?

B: It's just a shade better; it's held fairly steady for about ten minutes.....

H.M.Jr: No.

B:and now it's - one or two of them are a thirty-second better.

H.M.Jr: Have you bought anything?

B: We bought a little over a million.

H.M.Jr: Ah-ha.

B: We've got - we're seeing that bids are in on the board.....

H.M.Jr: Yes.

B:and then we're going to pick up a block over the counter once in a while when there's some offered.

H.M.Jr: Ah-ha, but a little bit better?

B: Just a - just a fraction - I wouldn't say it was too much.

H.M.Jr: Ah-ha.

- 2 -

B: But - it's not an avalanche here at all.....

H.M.Jr: Yes.

B: on this fairly active trading and some offerings - it's not an avalanche yet.

H.M.Jr: Ah-ha, all right, I'll call you a little later again.

B: Very good.

H.M.Jr: And if anything happens, one way or the other, you call me.

B: Very good.

H.M.Jr: Thank you.

March 31, 1937
11:39 A.M.

H.M.Jr: Hello.

O: Mr. Bell. Go ahead.

Bell: Hello.

H.M.Jr: Dan?

B: Yes

H.M.Jr: Will you have someone analyze that hundred million dollar wheat insurance bill for me?

B: Yes, I'll have that done now.

H.M.Jr: And let me know how much it's going to cost us - if it would mean a hundred million plunks right out.

B: It'll mean - well, they've got a provision, as I recall, unless it's been changed, to invest; and I asked the Agriculture people if they would put in all of the financing provisions subject to the approval of the Secretary of the Treasury.

H.M.Jr: Yes.

B: And they said they would.

H.M.Jr: Yes.

B: I'm asking that to be looked over this morning as soon as they get a copy of the bill that was passed yesterday and see what was changed.

H.M.Jr: Well, will you....

B: I think you ought to have control over the investment, as to whether or not they will invest a hundred million dollars.

H.M.Jr: Yes

B: Going out of the Treasury, just putting up the bonds, we'd have to borrow in order to make it investment.

- 2 -

H.M.Jr: Well...

B: They said they'd change - they'd try to change it.

H.M.Jr: When do you think I - I could see that? When do you think you could go over it with me?

B: Ah - well, I think probably this evening if we can get a copy of it; sometimes they're not available immediately.

H.M.Jr: Well, will you - will you follow through on it?

Bell: Yes, yes.

H.M.Jr: Thank you.

B: Right.

March 31, 1937
12:03 P.M.

O: Chairman Eccles.

H.M.Jr: O.K.

O: Go ahead.

H.M.Jr: Hello?

Eccles: Ah - good morning, Henry?

H.M.Jr: Hello, Marriner, how are you?

E: I just wanted to check up with you on this market situation.

H.M.Jr: O.K.

E: Seems to be a little better the last fifteen, twenty minutes, half hour.

H.M.Jr: That's what they told me.

E: Ah - the - do you have any suggestions?

H.M.Jr: No, the only suggestion I had was that - I told them this morning I thought we ought to keep orders in under the market at all times if - if - so that there's never any particular issue which has no order, you know?

E: Yes.. Yes.

H.M.Jr: This morning they sat back and waited a while, saw the thing go down the first hour, then they put their orders in. I don't know if I'd have been there whether I would have handled it just that way. But I think it makes a very bad impression that certain issues have no orders under them, you know?

E: Yes

H.M.Jr: But since then they have put the orders in. That's the only thing that I've got. But it's awfully hard if you're not right on the firing line to know how to handle it.

E: Yes. It - it - it of course depends on, I suppose, the -

- 2 -

the amount of - of stuff you get.

H.M.Jr: Yes

E: In other words, there's been times - for instance, last week, the week before - when the minute you put - put orders in they just loaded you; they covered you right up.

H.M.Jr: Yes

E: And of course the minute you pulled them out, why, it helped to dry the market up.

H.M.Jr: Yes

E: So it depends, I suppose, on that condition. But I - I was talking to George a little while ago, and - ah - I - I told him that.. Of course, the market had a pretty bad break not only the last half hour last night but this morning and went down to new lows, and it seemed to me that they were under the general - the general situation was not such as to warrant, necessarily - I mean fundamentally - the present prices. And that - that we had a 34 billion dollar volume of securities without the guaranteed issue, and - and it seemed to me that around these levels that somebody ought to have it out - ought to - ought to show some - show their hand and - and to run this market.

H.M.Jr: Yes

E: That - that after all if you don't you - you give the operators and the dealers - you put it into their hands and let it - and they operate it for their interests.

H.M.Jr: Well, I - I've - I've felt that they were a little bit - ah - "gun-shy" up there in New York here recently.

E: Well, of course, these - if - if the market can come back of its own accord.....

H.M.Jr: Yes

- 3 -

E: ...there isn't any question but what - but what it's better, and the investor - the big investors are going to possibly feel more like going in than they feel - than if they feel that "Well, it's a supported market and after all it's only temporary and we'll wait."

H.M.Jr: Yes

E: I mean that at- - that's the other side of the story.

H.M.Jr: Yes

E: So George seems to think that possibly it has - it has hit bottom and that this - this strength that it's showing now is - is - is a result of other investors, it's - it's coming back of its own accord.

H.M.Jr: Yes

E: Now if it doesn't, it - it seems to me that it's worth while considering a - us showing our hand again and - and - and seeing just - just how - how many - how much selling there would be, see, if we were really strongly in the market.

H.M.Jr: Yes

E: And it's worth testing it out, I think.

H.M.Jr: I should think so. I mean I - I....

E: If it doesn't come back of its own accord.

H.M.Jr: Yes

E: Well, I was just thinking along that line and thought I would - thought I'd check with you. Of course, we can tell better the way the thing develops during the day.

H.M.Jr: That's right.

E: And if - if you have any ideas about it, if you'd let me know I'll be glad to discuss it with the other two members of the Executive Committee here, you see...

H.M.Jr: All right.

- 4 -

Eccles:there's three of us here and we can get ahold of George on the phone up there and - and if you're not satisfied at all with the way it's being handled we'd like to get your viewpoint.

H.M.Jr: No, I wouldn't go that far.

E: Well, if you have any suggestions then.

H.M.Jr: O.K.

E: Be glad to get your viewpoint on it.

H.M.Jr: All right, thank you.

E: All right, goodbye.

March 31, 1937
12:55 P.M.

O: Go ahead.

H.M.Jr: Hello?

Burgess: Hello, sir.

H.M.Jr: Hello, Burgess.

B: Well, they started to slip a little again.

H.M.Jr: They have?

B: Yes, not much, just a few - a couple thirty-seconds.

H.M.Jr: Pardon me?

B: A couple of thirty-seconds.

H.M.Jr: Uh-huh.

B: They aren't down yet to the lows of the morning.

H.M.Jr: You got any orders in?

B: Yes, we've got orders in.

H.M.Jr: Uh-huh.

B: The - the problem is nobody's buying. There's not so much selling, but it's -

H.M.Jr: Yes

B: - everybody's holding off on buying.

H.M.Jr: Yes. I see. Well, I'm going out to meet the Canadians now and....

B: All right, sir; well, I'll - I'll stay with your market.

H.M.Jr: Keep the home fires burning while I'm out.

B: That's right, yes.

H.M.Jr: All right.

B: Yep, yep.

H.M.Jr: Goodbye.

B: O.K.

Wednesday
March 31, 1937
3:05 p.m.

HMJr: Hello.

Treasury
Operator: Dr. Burgess -

HMJr: Hello

W. Randolph
Burgess: Hello, sir.

HMJr: Burgess -

B: Yes

HMJr: How did the market finish?

B: Well, it finished about the way it was for the last hour.

HMJr: Yes

B: It skidded off there for a while -

HMJr: Yes

B: But there weren't many buyers around.

HMJr: Yes

B: That's the trouble.

HMJr: Yes. What's the gossip?

B: Well, it was quiet, relatively quiet. A number of people making offerings and very few people buying. That seems to be the answer.

HMJr: I see. How much did you do?

B: What's that?

HMJr: How much did you do?

B: Well, I haven't got the final figures. It's about seven.

HMJr: About seven?

B: Yes

-2-

H.M.Jr: That cleans us out then?

B: That cleans you out and goes a little more for us.

HMJr: Yes. Well, if I get any ideas I'll call you,
either tonight or tomorrow.

B: All right, sir.

HMJr: Good night.

B: Good night.

Wednesday
March 31, 1937
3:50 p.m.

336

HMJr: Hello -

T.O.: Governor Harrison - Go ahead.

George
Harrison: Hello

H.M.Jr: Hello, George

H: Hello, Henry

HMJr: Yes

H: Well now, I called you up a little early just to
chin with you.

HMJr: Oh -

H: I understand Burgess has talked to you since then.
So he gave you the closing.

HMJr: Well, very briefly, yes.

H: Yes. And -

HMJr: I've got nothing to say.

H: What's that?

HMJr: I have nothing. I say, I have nothing I want to
say.

H: Oh well, all right.

HMJr: Unless you have.

H: No, I don't know. I don't know what - I don't
know what else is here for me to do. Do you have
any suggestion of anything else we should do?

HMJr: No. You'll be spending your own money tomorrow.

H: What's that?

HMJr: You'll be spending your own money tomorrow.

H: Yes, I know. But still, I'd be interested to know
if you have.

-2-

HMJr: Well, I don't know what to say at this time. I mean, I mean, it's quite evident what we're doing isn't getting the results and the next move is up to Federal Reserve. I mean, if they want to take care of the Bond Market this way, I mean I feel that's all right. And if it gets to a point I'm not satisfied I'll say so.

H: Yes

HMJr: But right now it's the Federal Reserve System that's taking care of the Bond Market.

H: Yes

HMJr: And - -

H: Well, you know, this is what I think, that - what I want to know is, now, for instance you felt while you were away and told me so when you came back, you thought so far as the handling of it was concerned we had handled it all right.

HMJr: On the day-to-day basis.

H: Yes

HMJr: Yes

H: And you were very nice about that.

HMJr: Yes, and I've repeated that again and that's perfectly true.

H: And now I give that - that's my responsibility up here at this end. And if you have any dissatisfaction with that I'd like to know. It helps us if we do know.

H.M.Jr: Oh - Well, on the day to day basis, I mean, one day I mean I think you handle it just the way I might handle it, but you might be wrong and I might be right -

H: Yes.

HMJr: - or vice versa.

-3-

H: Oh, sure -
you can see things that you might have done differently.

HMJr: On the - but taking it over a period since the first of March, I mean I say I'm satisfied.

H: Yes

HMJr: On the day to day basis. But, there are certain fundamental things back of that which have nothing to do with our relationship as Treasury and fiscal agent, -

H: Yes

HMJr: - that I'm not satisfied with.

H: Yes. Well, have you told Marriner those?

HMJr: Yes.

H: Huh?

HMJr: Oh yes, we got together yesterday.

H: Yes

HMJr: And, but I mean that's a different relationship.

H: Yes

HMJr: And that's why I say that - if there's going to be a move that move is up to the Federal Reserve System, that's what I meant.

H: I see.

HMJr: Do you get the difference?

H: Yes, well I - well, that clears my mind a little, because I thought you -

HMJr: No, over the run of events as acting as our agent I'm entirely satisfied.

H: Yes

HMJr: Entirely satisfied. But -

-4-

H: Well, if you - and I hope you'll always let me know if there's anything why you're not, because -

HMJr: I'll let you know in three seconds.

H: (Laughs)

HMJr: Or just as quick as you can answer the phone - that goes always both ways.

H: And if there's any views that you've got on anything else that's within my jurisdiction I'd always like you to let me know too.

HMJr: Well, if I have something to say then I'll ask Marriner and get together the Open Market Committee and I'll say it there.

H: Yes. Well, that's first rate.

HMJr: What?

H: That's the best way.

HMJr: Yes

H: Goodbye.

HMJr: Thank you.

H: First rate.

Wednesday
March 31, 1937
5:38 p.m.

340

HMJr: Hello, Julius?
Julius
Adler: Oh, Henry -
HMJr: Yes
A: I was talking to Mrs. McCormick today, -
HMJr: Yes
A: And she'll be very glad to arrange to come
down there, any day.
HMJr: Yes
A: Will you tell me, did the higher up want to
see her?
HMJr: Well, I didn't know that, but I can find out.
A: Well, that's what we didn't know.
HMJr: No, this was for myself.
A: Yes.
HMJr: But, I could ask him.
A: Well, I'll tell you, Henry, she'll - she'll
come, well, you let me know what day, she'll
take some midnight train and come down and spend
the day there.
HMJr: Well, I'll ask him, I mean, do I take it -
A: Well, I think she is, but I'm not thinking it.
I just didn't know whether that's what you had
in mind.
HMJr: No, I didn't. If I had I'd have said so with you.
A: Yes
HMJr: Well, I'll be talking to him in the morning and
I'll ask him.
A: Well, let me know what day, will you?

-2-

HMJr: I'll give her, I'll try to give her a couple of days notice.

A: Mr. Hull is going to be in town Monday.

HMJr: Yes

A: And I'd plan^{ned} to take her over to see him then.

HMJr: I see. On Monday - she'd come here anyway Monday?

A: No, I say he is going to be in New York Monday.

HMJr: Oh, in New York Monday.

A: He's speaking here Monday night.

HMJr: Oh, I see.

A: And I've had some correspondence with him.

HMJr: I see.

A: We're going to see him Monday afternoon.

HMJr: I see. No, this was for myself, but if - I'll ask the President if he wants -

A: Well, I mean - we'll leave it like it is. But you just let me know which day.

HMJr: O. K.

HMJr: No, I just - the reason I was tied up here was Senator Harrison and Bob Doughton on this railroad retirement thing for an hour and a half and I couldn't get to the phone.

A: Yes

HMJr: But, thank you very much for calling.

A: Right, and you let me know.

HMJr: Yes

A: Goodbye

HMJr: Goodbye.

Wednesday
March 31, 1937
5:40 p.m.

342

HMJr: Hello

Treas.

Operator: Chairman Eccles - Go ahead.

HMJr: Hello, Marriner.

Marriner

Eccles: Hello - yes, Henry, I just wanted to check up and see how you're feeling how this market closed today. Have you got any suggestions?

HMJr: Well, I don't feel very good, but I - I haven't got anything definite. I mean, on the day to day thing they're handling it all right, but I don't think it's going to do the trick.

E: Well, - I don't know, it doesn't look like it.

HMJr: Would you want to walk down in the morning?
Or don't you - ?

E: Yes, I'll be glad to, if you'd like to do that.
I don't have anything special though to -

HMJr: I haven't crystallized my thoughts yet either.

E: Yes. Well, I tell you, now this is what -
of course you talked to Harrison and Burgess
after the market closed -

HMJr: Yes, but I didn't get anything out of them.
I didn't say anything to them.

E: Yes. Well, the very - I talked to - I
talked to them for, oh, I guess fifteen or twenty
minutes and as I get the picture the - they
went in much more aggressive the last hour or
so and there was a lot of - the minute they
began sticking their neck out why they got a lot
of bonds.

HMJr: Yes

E: That is, they got - they got some. The market
hadn't completely dried up, apparently, you see.
It appeared that it had but when they started to
supporting it, even on the way down, why it -

-2-

they got - they got considerable, so it ended up with seven million altogether. Now, their thought was, and - that in the morning that they'd put bids in at slightly below the market which they didn't do this morning.

HMJr: I know.

E: And - and try to steady it and follow it - if it goes down a little bit more follow it down. But keep it a little more orderly than it was this morning.

HMJr: Yes

E: And - and see what - see what that'll do.

HMJr: Yes

E: Now, then I think tomorrow why - if it doesn't hold where it is or come back why I think we've got to get together pretty soon and -

HMJr: Well, let's leave it until you have an idea, or I have an idea. But I - I just - I feel this way tonight, that just the day to day - I mean buying seven or ten million dollars isn't going to do the trick.

E: Yes

HMJr: See?

E: Well, - well, I think that certainly it hasn't done it.

HMJr: No.

E: But that unfortunate newspaper thing, I don't know what - how serious that was. It may be that -

HMJr: Taylor called you up on that.

E: Yes

HMJr: Yes

E: Well, I - it was just one of those things that do happen and I can understand how it

-3-

happened and I certainly don't blame anybody.
It's - under these conditions we all make
mistakes.

HMJr: Yes

E: And - but the - the effect of that thing,
I don't know - I don't know whether the
market would have gone where it has if it
hadn't been for that or not.

HMJr: I don't know either.

E: But a question of a few days more I don't believe
is going to make very much difference now. And I
think, now - Viner will be here when?

HMJr: He's here today and tomorrow.

E: Oh, I see.

HMJr: Working and he hasn't got any answers yet either.

E: Isn't he going to stay longer than that?

HMJr: Well, he can come back. - He can come back, but
he's got an engagement Friday I think, in Cincinnati.

E: And he'll go over to Cincinnati and then right back
here?

HMJr: If he can - he can be back -

E: Well, I think - I hope he can come back and
stay around for a while.

HMJr: I think he can come back Monday. I'll be seeing
him tonight.

E: Do you think I'll get a chance to see him before he
goes?

HMJr: I'll tell him to see you.

E: Tell him I would like to - I would like to chat
with him a little.

-4-

HMJr: I'll do that.
E: All right, then. Fine.
HMJr: Good night.
E: Goodbye.

MEMORANDUM

346

March 31, 1937

To: Secretary Morgenthau
From: Dr. Burgess

Treasury bonds were about 1/8th of a point lower and quiet at the opening and moved downward thereafter in moderately active but orderly trading. Slight improvement appeared around 11:30 but the decline was resumed early in the afternoon and closing Treasury and guaranteed bond quotations were off 8/32 to 16/32, only slightly better than the lows of the day. Four long bonds fell to new lows. Sales of government bonds on the board amounted to about \$4,500,000 compared with \$2,060,000 yesterday. Treasury notes were lower following the trend of the rest of the market and closing quotations were 2/32 to 7/32 down from yesterday.

Both high and second grade domestic bonds opened small fractions off from yesterday and declined moderately during the forenoon. The market was more or less steady thereafter and both groups finished small fractions to about 1/2 point down from yesterday. The market was not very active. Panhandle Eastern Pipe Line 15-year 4% bonds which were offered at 97 1/2 and which did not move very well yesterday were quoted today at 97 1/4 bid - 97 3/4 asked.

Foreign bonds were rather dull with small gains in certain groups. Germans, Italians, Polish and some Latin-American bonds showed fractional gains; the rest of the market was unchanged.

Purchased today \$7,973,000 miscellaneous Treasury bonds, of which \$2,500,000 are for Treasury account.

Marseille, France,
March 31, 1937.

MEMORANDUM FOR THE SECRETARY:

Subject: Narcotics--Europe.

Am down here at Marseilles for a few days looking into the narcotic situation and informer situation. This is a hot port, and our Paris office had not done anything about it so far. I find that narcotics have moved here in a big way in the past. At one time, the French knocked off over two tons of opium (Turkish) here at one crack. Also that they have made other seizures of 50 kilos, 100 kilos, etc. One seizure made was approximately 50 kilos of heroin. The Consul General here is a good egg and anxious to help. (Hurley is his name. He was formerly at Nassau and attended our liquor conference at Jacksonville in 1934.) I am lining him up to operate on his own account. However, I hope to be able to get one of our narcotic men from Paris down here for stay, to personally push the informer proposition.

Will go back to Paris tomorrow night. Wait is now on leave and I hope to have some new ideas in operation by the time he gets back. Scharff is showing up to be a good man and will do well by us. He also is an example to the other narcotic men, none of whom except Beers impresses me as having much on the ball in the way of initiative or imagination. I am also interested in developing Stuhldreher and Christides as possible. They are both pretty helpless as yet, with nothing to recommend them except a few language qualifications. Language is a help, but it is no good without natural ability and adaptability. Experience and balance are also valuable assets to keep in mind when selecting agents. We don't want any tourists over here or white collar guys. We want Customs agents or similar material with guts and talent for skullduggery.

In that connection, I can use any number of such men over here right now. I would like to put an agent in every principal port in Europe with instructions to get information, specific information which will lead to seizures. If that Alcohol Tax man from New York we talked about (as I remember the name is Bernstein) can be sent, shoot him over immediately. Also any others suitable you can dig up. (No more untried material, however, or catch-as-catch-can such as Stuhldreher and Christides.) I don't care if the newcomers are not language experts. The only language I consider absolutely necessary is French. Also, I would rather have one good

man, such as Bill Dunigan, even though he knows no languages, than six dubs, who may have happened to have had foreign ancestors or family connections which resulted in language qualifications. By the way, how about Bill Dunigan. I could use him over here in a big way. Bill is an ex-soldier who "fit" the war here and knows a little French as I recall. Drinking French, but O. K. as a basis. I can use him if he has forgotten all of it. He is the type we need.

Am keeping my eye on the alcohol situation also while over here.

Best regards,

Respectfully,

THOMPSON.

P.S. The Fabre Steamship Line (French) should be watched in our ports. Their ships make New York and Providence, R. I. Recommend watching Providence. Of course, the American Export ships and the Dollar round-the-world ships touch here and should be watched as usual.

The Paris office is getting better organized as regards narcotics. Scharff, as inexperienced as he is in Europe and just learning the ropes, is showing the boys a good example in line of proper direction of operations.

I hope to pry one or two men of the regular Customs staff (valuation men) out of Wait for the Narcotic staff.

March 31, 1937

MEMORANDUM FOR THE SECRETARY:

Report of conference between Secretary Morgenthau,
Senator Harrison, Congressman Doughton, Mr. Bell and
Mr. Magill.

The general budgetary situation was first discussed. In response to the Secretary's question, I detailed my confidential estimates of the apparent deficiencies in the revenues for the current fiscal year, substantially as follows:

Gift taxes.....	\$90 million
Windfall taxes.....	81 "
Estate taxes.....	80 "
Social Security taxes.....	82 "
Income taxes.....	150 "
Railroad Retirement taxes.....	100 "
	\$583 million

I outlined the discussions which I had had, since the conference in Senator Harrison's office a week ago, with Messrs. Altmeyer and Latimer. Mr. Altmeyer has advised me that there is "no differential" in favor of railroad employees under the Social Security Act and consequently the proposed tax rate is insufficient according to Mr. Latimer's own calculations. Mr. Latimer himself does not contend very strongly for this differential, and states that his own actuary can not put a figure upon it. Mr. Latimer's figures are further based on the assumption that railroad men, in good health, will retire at an average age of 70, whereas all of the actuaries agree that 67½ years is a much more likely assumption. Mr. Latimer's main argument is that the plan will not show a deficit for perhaps 20 years. If his assumptions as to the average age of retirement are incorrect, the effect will be either that the younger employees will have to pay heavily increased tax rates in the future, or the Treasury will have to make up a large deficit amounting to at least \$30 million a year.

The Secretary inquired what the effect of the agreement would be upon the Budget for the present year. Mr. Bell and I stated that we would lose about \$100 million in revenue, which is in the Budget. In addition, we would assume a liability of \$40 million for the next fiscal year (under the present private pension plans); besides about \$45 million now in the Budget for the railroad retirement allowances.

The Secretary stated that he did not see how the Treasury could accept a loss of this amount under the present conditions, and called attention to the weak Government bond market of the last two weeks. He said that the President had told him that he had not approved the rates

- 2 -

in the railroad retirement agreement. Mr. Doughton confirmed this conclusion and reported that in a conversation with the President today, the President told Mr. Eddy of the Railroad Retirement Board and himself that the rates in the proposed tax bill were too low.

Senator Harrison said that he was afraid that the bills would be introduced in Congress anyway and passed, and if the President vetoed them, we would have the unfortunate situation of the railroad brotherhoods opposing the Administration.

The Secretary then suggested, as a possible compromise, that the proposed agreement be put into effect on July 1, 1937, the railroads agree to pay the taxes due under the existing Act, and to withdraw the injunction suits. Senator Harrison asked whether this would not be objectionable to the brotherhoods. I pointed out that men retiring at this time would receive greater allowances under the proposed compromise, since the present retiring act is more generous than the proposed act. Senator Harrison then suggested that the railroads might be willing to reverse the rate schedule paying 7 percent for the present year, and then reducing the tax by 1/4th of 1 percent each year until 5 percent is reached. I suggested that this arrangement might be satisfactory if there were inserted in the bill a provision for a report by the Secretary of the Treasury and the Railroad Retirement Board showing exactly the state of the reserve fund, it being understood that the tax rates should be modified if it appeared that the plan was operating at a deficit. Senator Harrison said he thought such a provision would be necessary.

Mr. Doughton then suggested that Senator Harrison ought to be the diplomat to discuss the two proposed compromises with Mr. George Harrison, representing the brotherhoods, and Mr. John Pelley, representing the railroads. This arrangement was agreed to and the Senator said he would talk to the two men at the earliest opportunity.

Following the conference, Senator Harrison made a statement to the newspaper men substantially, as follows:

"We discussed things in general, among them the railroad retirement proposal. We analyzed it from every angle, including its fiscal relationship with the Federal Government. No conclusions were reached but we are hopeful that something can be worked out agreeable to everybody."

REPORT ON PRESS INTERVIEW OF SENATOR
HARRISON AND REPRESENTATIVE DOUGHTON
IN SECRETARY MORCENHAU'S OFFICE,
MARCH 31, 1937:

Sen. H.: Gentlemen, we have just had a meeting here and we were discussing things in general. Among the things in general was the railroad retirement proposal-- just analyzing it from every angle, including its fiscal relationship with the Government, and there's no conclusions reached yet. It's still subject to further study and analysis.

Q. What are you hung up on?

Sen. H.: Nothing in particular. Just trying to get full information.

Q. On the tax rate?

Sen. H.: Well, the tax rate is one of the features of the proposal.

Q. What do you think about the possibility of action this session?

Sen. H.: Well, it's hopeful that there can be something worked out that will be agreeable to everybody.

Q. What do you say about taxes, Senator? I mean, other taxes.

Sen. H.: Other taxes? Well, there hasn't been a complete study made yet on these March 15 returns to say anything definitely about it. I think, generally

- 2 -

speaking, miscellaneous taxes will be extended,
don't you think so, Bob?

Rep. D.: Undoubtedly.

Q. For one or two years?

Rep. D.: That will be determined by the committee.

Sen. H.: There was no discussion of that at this conference.

Rep. D.: At least one year.

Q. When is that bill coming up?

Sen. H.: It has got to originate in the House.

Q. When do you expect the extension bill to come
before the committee?

Rep. D.: Some time at an early date, I think. We don't
want to be behind. The Senate is ready to adjourn
and we don't want to be behind. They've got their
calendar clear over there.

Sen. H.: The easiest thing in the world is these bills
introduced in the Senate touching revenue.

Rep. D.: We sent one back today.

Sen. H.: What was it?

Rep. D.: I don't remember.

Sen. H.: Well, fellows, there isn't anything else I can say
on this conference. Maybe the Secretary would like
to say something.

Rep. D.: Always glad to see you, boys.

- 3 -

H.M.Jr.: Good bye!

Q. Did you mean that for us?

H.M.Jr.: Yes, good bye!

March 31, 1957.

FOR THE SECRETARY'S FILES:

On January 27, 1957, Assistant Secretary Taylor held a conference with representatives of Great Britain, France, The Netherlands, Switzerland, and Belgium, at which time he read to them the statement containing the Treasury's proposition with respect to the transfers of earmarks of gold between the club members under the monetary arrangements. Replies were received from each of the countries indicating their willingness to authorize the transfers of earmarks in accordance with the above-mentioned statement of the United States Treasury.

See also

BKS. 52-53

In order to give the Federal Reserve Bank appropriate authority to carry out the arrangements thus entered into and to make the transfers of earmarks, it was deemed advisable to issue a new gold license to the Federal Reserve Bank of New York. A draft of such license and of a letter of instructions to be sent by the Treasury to the Federal Reserve Bank was discussed with Messrs. Harrison, Knoke, Logan and Tiebout, all of the Federal Reserve Bank of New York, at conferences held at the Federal Reserve Bank on March 19 and 20, 1957. The Federal Reserve Bank approved the proposed new license and the letter to be sent to it designating the various countries for whom transfers of earmarks could be made. At such conferences a memorandum interpreting certain aspects of the proposed license was prepared and was approved by the Treasury and Federal Reserve Bank. An attached memorandum dated March 24 indicates the advice given to the Federal Reserve Bank concerning the filing of reports.

On March 20, the proposed license and other papers were sent to Secretary Morgenthau at Sea Island, Georgia, who approved them and forwarded them on March 22 to the President at Warm Springs. On March 23 the President approved the issuance of the license and on March 24 the papers were returned to the Treasury through the White House. On March 24, 1957, the license and letters to the Federal Reserve Bank were sent to it and letters were sent to the various countries advising them that appropriate authority had now been given to the Federal Reserve Bank of New York to make transfers of earmarks of gold in accordance with the aforementioned arrangements.

March 31, 1937.

FOR THE SECRETARY'S FILES:

On January 27, 1937, Assistant Secretary Taylor held a conference with representatives of Great Britain, France, The Netherlands, Switzerland, and Belgium, at which time he read to them the statement containing the Treasury's proposition with respect to the transfers of earmarks of gold between the club members under the monetary arrangements. Replies were received from each of the countries indicating their willingness to authorize the transfers of earmarks in accordance with the above-mentioned statement of the United States Treasury.

In order to give the Federal Reserve Bank appropriate authority to carry out the arrangements thus entered into and to make the transfers of earmarks, it was deemed advisable to issue a new gold license to the Federal Reserve Bank of New York. A draft of such license and of a letter of instructions to be sent by the Treasury to the Federal Reserve Bank was discussed with Messrs. Harrison, Knoke, Logan and Tiebout, all of the Federal Reserve Bank of New York, at conferences held at the Federal Reserve Bank on March 19 and 20, 1937. The Federal Reserve Bank approved the proposed new license and the letter to be sent to it designating the various countries for whom transfers of earmarks could be made. At such conferences a memorandum interpreting certain aspects of the proposed license was prepared and was approved by the Treasury and Federal Reserve Bank. An attached memorandum dated March 24 indicates the advice given to the Federal Reserve Bank concerning the filing of reports.

On March 20, the proposed license and other papers were sent to Secretary Morgenthau at Sea Island, Georgia, who approved them and forwarded them on March 22 to the President at Warm Springs. On March 23 the President approved the issuance of the license and on March 24 the papers were returned to the Treasury through the White House. On March 24, 1937, the license and letters to the Federal Reserve Bank were sent to it and letters were sent to the various countries advising them that appropriate authority had now been given to the Federal Reserve Bank of New York to make transfers of earmarks of gold in accordance with the aforementioned arrangements.

RM/mw
3/31/37

March 31, 1937.

FOR THE SECRETARY'S FILES:

On January 27, 1937, Assistant Secretary Taylor held a conference with representatives of Great Britain, France, The Netherlands, Switzerland, and Belgium, at which time he read to them the statement containing the Treasury's proposition with respect to the transfers of earmarks of gold between the club members under the monetary arrangements. Replies were received from each of the countries indicating their willingness to authorize the transfers of earmarks in accordance with the above-mentioned statement of the United States Treasury.

In order to give the Federal Reserve Bank appropriate authority to carry out the arrangements thus entered into and to make the transfers of earmarks, it was deemed advisable to issue a new gold license to the Federal Reserve Bank of New York. A draft of such license and of a letter of instructions to be sent by the Treasury to the Federal Reserve Bank was discussed with Messrs. Harrison, Knoke, Logan and Tiebout, all of the Federal Reserve Bank of New York, at conferences held at the Federal Reserve Bank on March 19 and 20, 1937. The Federal Reserve Bank approved the proposed new license and the letter to be sent to it designating the various countries for whom transfers of earmarks could be made. At such conferences a memorandum interpreting certain aspects of the proposed license was prepared and was approved by the Treasury and Federal Reserve Bank. An attached memorandum dated March 24 indicates the advice given to the Federal Reserve Bank concerning the filing of reports.

On March 20, the proposed license and other papers were sent to Secretary Morgenthau at Sea Island, Georgia, who approved them and forwarded them on March 22 to the President at Warm Springs. On March 23 the President approved the issuance of the license and on March 24 the papers were returned to the Treasury through the White House. On March 24, 1937, the license and letters to the Federal Reserve Bank were sent to it and letters were sent to the various countries advising them that appropriate authority had now been given to the Federal Reserve Bank of New York to make transfers of earmarks of gold in accordance with the aforementioned arrangements.

EM/mw
2/21/37

March 22, 1937

The President,

The White House.

My dear Mr. President:

Further reference is made to the matter of transfers of earmarks of gold which I have heretofore discussed with you.

There is enclosed a copy of a statement handed by the Treasury to representatives of Great Britain, France, Switzerland, Belgium and the Netherlands, and copies of replies received from all of such countries indicating their willingness, on the basis of reciprocity, to authorize transfers of earmarks of gold in accordance with the Treasury's statement.

There are also enclosed a proposed letter of instructions to the Federal Reserve Bank of New York and a proposed license giving it the necessary authority to make the transfers of earmarks of gold in accordance with the foregoing arrangements. If you approve of the issuance of the enclosed license to the Federal Reserve Bank of New York, I shall appreciate it if you will signify such approval by signature of the notation at the foot of this letter.

Faithfully yours,

(signed) Henry Morgenthau, Jr.
Secretary.

Approved:

(signed) Franklin D. Roosevelt

The White House.

BE/CVG/mcu 2/19/37

MAR 24 1937

Dear Sirs:

There is enclosed the original of license No. NY-18-1 on Form TGL-18, dated March 24, 1937, which has been issued to you by the Secretary of the Treasury with the approval of the President. This license supersedes license No. NY-18-1 on Form TGL-18 issued to you on February 5, 1934, and amended on March 23, 1934.

Until further notice the following countries and the central banks thereof are designated pursuant to paragraph No. 2 of the enclosed license:

Great Britain
France
Switzerland
Belgium
The Netherlands

This designation may be modified, supplemented, or withdrawn from time to time in the discretion of the Secretary of the Treasury.

Very truly yours,

(Signed) *H. Morgenthau* H. Morgenthau, Jr.

Secretary of the Treasury.

Federal Reserve Bank of New York,

New York, New York.

Enclosure

MAR 24 1937

Dear Sirs:

Reference is made to license No. NY-18-1 on Form TGL-18 issued to you today.

Until further notice you are advised that this Department will not consider that you have incurred any liability under said license if you rely on the correctness of representations of a foreign government or a foreign central bank (including the Bank for International Settlements) that particular gold is the property of the institution for whose benefit the earmark of such gold is, or is to be, created, unless you have reason to believe that such gold belongs to another institution.

Very truly yours,

(Signed) Wayne C. Taylor
Acting Secretary of the Treasury.

Federal Reserve Bank of New York,
New York, New York.

BB/mcm
3/24/37

SPECIAL
FORM TOL-18
TREASURY DEPARTMENT
Office of the Secretary

360

License No. NY-18-1

LICENSE TO TRANSPORT, IMPORT, MELT AND TREAT,
EXPORT, EARMARK AND HOLD IN CUSTODY FOR
FOREIGN OR DOMESTIC ACCOUNT

(Granted under authority of Section 34 of the Provisional
Regulations issued under the Gold Reserve Act of 1934)

Federal Reserve Bank of New York
.....
(Name of licensee)
New York, New York
.....
(Address of licensee)

MAR 24 1937
.....
(Date of issue)

Sirs:

1. You are hereby licensed to transport, import, melt and treat, and export gold now held by you under earmark for any foreign government or foreign central bank or sent to you after January 30, 1934 from abroad by any foreign government or foreign central bank, or delivered to you for account of any foreign government or foreign central bank by the United States or pursuant to a license granted by the Secretary of the Treasury, and to earmark such gold and to hold it in custody for any foreign government or foreign central bank. Gold received by you for earmark hereafter must be the property of the institution for whose benefit the earmark is created.

2. You are also hereby licensed to transfer earmarks of gold between the treasuries, exchange equalization or stabilization funds, or fiscal agencies of such countries, or such

central banks, as may be designated from time to time by the Secretary of the Treasury. Gold transferred by you hereunder must be the property of the institution for whose benefit the earmark has theretofore been created and must become the property of the institution for whose benefit the earmark is to be created.

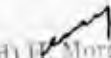
The phrase "foreign central bank" is used herein to denote any foreign bank performing the functions of a central bank, including the Bank for International Settlements.

Reports of the disposition of the gold herein licensed to be held shall be made on Form TGR-18.

This license is not transferable and is subject to the provisions of the Gold Reserve Act of 1934 and the regulations issued thereunder.

This license supersedes license No. NY-18-1 on Form TGL-18, issued to you on February 5, 1934, and amended on March 23, 1934.

Issued with the approval of the President:

(Signed)  H. Morgenthau, Jr.
Secretary of the Treasury.

This license may be terminated, revoked or modified at any time in the discretion of the Secretary of the Treasury.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 24, 1937.

TO Mr. Oppen
FROM Mr. Bernstein

The license on Form TGL-18 (NY-18-1) which is about to be issued to the Federal Reserve Bank of New York provides that "reports of the disposition of the gold herein licensed to be held shall be made on Form TGL-18." This is identical with the provision in the license which the Federal Reserve Bank has been holding up to the present time. You will recall that in November, 1935, the Federal Reserve Bank of New York inquired as to whether it should file such reports and said that Laylin had previously advised the Federal Reserve Bank that it would not be necessary for the bank to file such gold reports; and that we advised the Federal Reserve Bank that the status quo might continue and that the Treasury would not ask the bank for such reports although, of course, the Department reserved the right at any time to ask the bank for a full report and information respecting gold transactions under such license. Do you approve of my informally advising the Federal Reserve Bank in reply to an inquiry from it that the present situation of not filing reports may continue subject to the terms above mentioned?

Bernstein

Approved:

Samuel C. Chalcraft
S. W. H.

On March 30, 1937, over the telephone, I advised Mr. Knoke in accordance with the above memorandum.

EB

MAR 11 1957

My dear Mr. Chalkley:

I beg to acknowledge receipt of your letter of February 26, 1957, and enclosure, in which you indicate your country's willingness, on the basis of reciprocity, to authorize transfers of earmarks of gold in accordance with the statement handed to Mr. Bewley at the conference of January 27, 1957. Appropriate authority has now been given to the Federal Reserve Bank of New York to make transfers of earmarks of gold in accordance with said statement and with respect to all of the countries referred to therein.

Sincerely yours,

(Signed) Wayne C. Taylor
Acting Secretary of the Treasury.

Mr. H. O. Chalkley,
Commercial Counselor,
Embassy of Great Britain,
Washington, D. C.

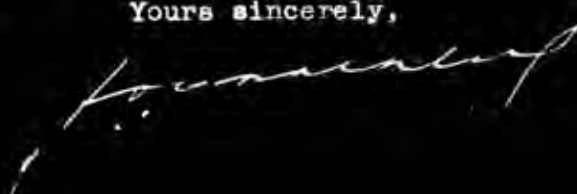
BRITISH EMBASSY,
WASHINGTON, D.C.

February 26th, 1937

Dear Mr. Taylor,

Referring to our telephone talk
of February 24th and as Mr. Trentham is still
away ill I have pleasure in enclosing the
reply which we have now received by telegraph
from London to the statement which you handed
to Mr. Bewley on January 26th.

Yours sincerely,



Mr. Wayne C. Taylor,

United States Department of the Treasury,
Washington, D.C.

AIDE MEMOIRE

His Majesty's Government in the United Kingdom thank the United States Treasury for their statement and have the honour to inform them that in corresponding circumstances it is the practice of the United Kingdom authorities to transfer earmarked gold without conditions or restrictions.

His Majesty's Government welcome the statement and understand the United States Treasury would be glad of any comments they wish to offer. As a general principle His Majesty's Government regard it as desirable that gold should be able to change hands freely and accordingly in their view it would be helpful if the new procedure were extended to countries other than those mentioned in the October and November announcements. In particular His Majesty's Government suggest that it would be desirable that favourable treatment should be extended to the Bank for International Settlement as regards dealings in gold.

BRITISH EMBASSY

WASHINGTON, D.C.

February 25th, 1937.

MAY 24 1937

My dear Mr. Appert:

I beg to acknowledge receipt of your note of February 9, 1937, in which you indicate your country's willingness, on the basis of reciprocity, to authorize transfers of earmarks of gold in accordance with the statement handed to Mr. Saint at the conference of January 27, 1937. Appropriate authority has now been given to the Federal Reserve Bank of New York to make transfers of earmarks of gold in accordance with said statement and with respect to all of the countries referred to therein.

Sincerely yours,

(Signed) Wayne C. Clegg

Assistant Secretary of the Treasury.

Mr. Jean Appert,
Financial Attache,
Embassy of France,
80 Exchange Place,
New York, New York.

BB/mem
5/24/37

Le 9 Février 1937.

En réponse à la note du 26 Janvier 1937 relative aux transferts d' "earmarks of gold" remise par Mr. Wayne C. Taylor, Assistant Secretary to the American Treasury à l'un de ses représentants, l'Ambassade de France a l'honneur de faire connaître que le Ministère des Finances français et la Banque de France approuvent les propositions contenues dans cette note.

Ils se rallient également à l'extension éventuelle des dispositions prévues par la note aux autres pays qui pourraient ultérieurement adhérer aux principes de la déclaration tripartite du 25 Septembre 1936, suggestion qui a fait l'objet d'une remarque verbale de Mr. Wayne C. Taylor au moment de la remise de la communication du 26 Janvier 1937.

C

7. a.

AMBASSADE
RÉPUBLIQUE FRANÇAISE
AUX ETATS-UNIS
L'ATTACHÉ FINANCIER

NEW YORK
20 EXCHANGE PLACE

February 9, 1937.

In answer to the note dated January 26, 1937, referring to transfers of earmarks of gold, which was handed by Mr. Wayne C. Taylor, Assistant Secretary of the United States Treasury to one of its representatives, the French Embassy wishes to advise that the French Ministry of Finance and the Bank of France approve the proposals contained in the said note.

They agree also to the eventual extension of the proposals outlined in the note, to those countries which may subsequently adhere to the principles stated in the tripartite declaration of September 25, 1936, as was suggested verbally by Mr. Wayne C. Taylor when delivering the note of January 26, 1937.

10

MAR 24 1937

My dear Mr. Peter:

I beg to acknowledge receipt of your letter of February 25, 1937, in which you indicate your country's willingness, on the basis of reciprocity, to authorize transfers of earmarks of gold in accordance with the statement handed to you at the conference of January 27, 1937. Appropriate authority has now been given to the Federal Reserve Bank of New York to make transfers of earmarks of gold in accordance with said statement and with respect to all of the countries referred to therein.

Sincerely yours,

(Signed) Wayne C. Taylor

Acting Secretary of the Treasury.

The Hon. Marc Peter,
Legation of Switzerland,
Washington, D. C.

BB/mem
3/24/37

Legation of Switzerland
Washington, D. C.

H 2-4

February 25, 1937.

My dear Mr. Taylor,

Referring to the conference of January 27, 1937, and the telephone call of yesterday, I have the honor to inform you that my Government is well satisfied with the decision of the Treasury Department in respect to the treatment of earmark gold of the members of the tri-partite monetary agreement, as announced to them by you in the above mentioned conference.

My Government directs me to give you the declaration that the reciprocity of a liberal treatment of earmark gold is guaranteed by Switzerland, since there exist no restrictions for the traffic of gold in my country and no special permit is necessary in order that gold deposits may be brought into or taken out of Switzerland.

Sincerely yours,

Handwritten signature
Minister of Switzerland.

FE/SS
Mr. Wayne C. Taylor,
Fiscal Assistant Secretary,
Treasury Department,
Washington, D.C.

MAR 24 1937

My dear Baron:

I beg to acknowledge receipt of your letter of March 13, 1937, in which you indicate your country's willingness, on the basis of reciprocity, to authorize transfers of earmarks of gold in accordance with the statement handed to you at the conference of January 27, 1937. Appropriate authority has now been given to the Federal Reserve Bank of New York to make transfers of earmarks of gold in accordance with said statement and with respect to all of the countries referred to therein.

Sincerely yours,

(Signed) Wayne C. Taylor
Acting Secretary of the Treasury.

Baron van Breugel Douglas,
Legation of The Netherlands,
Washington, D. C.

ED/new
3/24/37

ROYAL NETHERLAND LEGATION.

Washington, D.C.

13 March 1937.

No.1012.

My dear Mr. Taylor:-

Referring to our telephone conversation of to-day and to the note you gave me on January 27, 1937, concerning the transfer, on the basis of reciprocity, of earmarks of gold between the competent agencies of the Netherlands and the United States, I have the honor to inform you that having submitted your questions to the Netherlands Government this Legation has now been informed by cable that the principle of reciprocity has been agreed to and that a letter from my Government is under way.

This Legation will not fail to inform you of any further remarks in that letter which may be of interest to you.

In the meantime I remain

Very sincerely yours,

C. v. Breuningen

Counselor of the Netherland Legation.

Wayne Chatfield Taylor
Assistant Secretary of
Treasury
Department of the Treasury
Washington, D.C.

Dear Mr. Ambassador:

I beg to acknowledge receipt of your reply of March 2, 1937, by which you indicate the willingness of your country and the National Bank of Belgium, on the basis of reciprocity, to authorize transfers of earmarks of gold in accordance with the statement handed to you at the conference of January 27, 1937. Appropriate authority has now been given to the Federal Reserve Bank of New York to make transfers of earmarks of gold in accordance with said statement and with respect to all of the countries referred to therein.

Your reply as translated states, "This authorization, to extend only to the metal which is the property of the giver of the order, * * *." It is assumed that you did not intend thereby to depart from this Department's statement that the authority would also be limited to such gold as is to be the property of the institution for whose benefit the earmark is to be created.

It is also assumed that in your reply you meant to refer to the announcements of the Secretary of the Treasury of October 13 and November 24, 1936.

Sincerely yours,

(Signed) Wayne C. Taylor

Acting Secretary of the Treasury.

His Excellency
The Belgian Ambassador,
Embassy of Belgium,
Washington, D. C.

BR/asm 3/24/37

En réponse à la note verbale remise par Monsieur Taylor, Assistant Secrétaire du Trésor, le 26 janvier 1937, l'Ambassade de Belgique à Washington a l'honneur de communiquer au Département du Trésor américain ce qui suit.

Le Gouvernement du Roi interprète de la manière suivante la question posée: Le Trésor américain se déclare disposé à autoriser sur la base de la réciprocité le transfert d'un dossier à l'autre chez la banque Fédérale de Réserve à New York, de l'or qui est "earmarked" près de cet institut, pour le compte des organismes visés dans les déclarations du Secrétaire du Trésor américain du 13 et du 24 octobre 1936, ainsi que pour le compte des banques centrales intéressées.

Cette autorisation, qui ne s'étendrait qu'au métal appartenant en propre au donneur d'ordre, serait révoquant en tout temps y compris pour tout transfert non entièrement exécuté au moment de la révocation.

Si tel est bien le cas le Gouvernement du Roi et la Banque Nationale de Belgique marquent leur accord sur la proposition. En outre la Banque Nationale de Belgique se déclare disposée à admettre dans les mêmes conditions les

transferts de l'espèce, chez elle même du dossier
d'un institut sous celui d'un autre.

WASHINGTON, le 2 mars 1937.



THE BELGIAN EMBASSY

No. 834

In reply to the verbal note resitted by Mr. Taylor, the Assistant Secretary of the Treasury, on January 28th, 1937, the Belgian Embassy in Washington has the honor of communicating the following to the American Treasury Department.

His Majesty's Government interprets the question put as follows: The American Treasury declares itself disposed, on a reciprocal basis, to authorize the transfer at the Federal Reserve Bank of the gold earmarked with this institution from one dossier to another, for the account of those organizations endorsed in the Secretary of the Treasury's declarations of the 15th and 24th of October, 1936, and also for the account of the interested central banks.

This authorization, to extend only to the metal which is the property of the giver of the order, is to be revocable at any time for all transfers inclusive of transfers not completely executed at the moment of revocation.

If such is really the case His Majesty's Government and the National Bank of Belgium indicate their assent to the proposition. Further the National Bank of Belgium declares itself disposed to accept, under the same conditions, the transfer of specie lodged with it from the dossier of one institution to that of another.

Washington, March 2, 1937.

March 20, 1937.

Messrs. Knoke, Tiebout and Bernstein understood Mr. Oppen's answers to the inquiries indicated below to be as follows:

1. If the Federal Reserve Bank continues to earmark gold belonging to the British Equalization Fund as follows:

"Bank of England X"

and the Bank of England has advised the Federal Reserve Bank that gold earmarked under such a designation belongs to the British Equalization Fund, will the United States Treasury consider such earmarking a violation by the Federal Reserve Bank of the new license NY-18-1 which it is proposed to issue to the Federal Reserve Bank.

2. If the Federal Reserve Bank earmarks gold belonging to Poland as follows:

"Bank for International Settlements - X"

and the Federal Reserve Bank is advised by the Bank for International Settlements that the gold thus earmarked belongs to Poland, will the United States Treasury consider such earmarking a violation by the Federal Reserve Bank of the new license NY-18-1 which it is proposed to issue to the Federal Reserve Bank.

The answer to both questions is "no" as long as the Federal Reserve Bank has no reason to believe that the gold belongs to ~~foreign~~ institutions other than, in the first question, "British Equalization Fund" and, in the second question, "Poland".

Q NO well.
AZ 3/22/37

THIS STATEMENT WAS READ at a meeting held January 27, 1937, to the following representatives of foreign governments, by Mr. Taylor:

Mr. Bewley - Great Britain
Mr. Saint - France
Baron van Breugel Douglas -
The Netherlands
Mr. Leonard- Belgium
Mr. Feer - Switzerland

Mr. Livesey of State Dept. and
Mr. Lochhead of the Treasury
were also present.

The United States Treasury is prepared, on the basis of reciprocity, to authorize transfers of earmarks of gold between the treasuries, exchange equalization or stabilization funds, or fiscal agencies, referred to in the announcements of the Secretary of the Treasury of October 13 and November 24, 1936, as well as the central banks of such countries.

This authority would be revocable at any time with respect to any transfer not fully consummated at that time. Both with respect to earmark and to transfers of earmarks, the authority would extend, in accordance with present regulations of the Federal Reserve Bank of New York, only to such gold as is the property of the institution for whose benefit the earmark is created.

The United States Treasury would appreciate being advised as to the attitude of the governments and institutions concerned on the foregoing proposal.

1/26/37

all
handed
to reps.
5 countries
and explained
verbally.